Bootstraps and Beltways:

The State's Role in Immigrant Community Banking

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by
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Abstract

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Alethia Elizabeth Jones

2005

This research addresses how government policies affect immigrant integration, specifically in the banking industry. I studied occasions where government policy targeted the unregulated world of informal immigrant banking. Informal banking relies on trust, norms and networks to keep agreements, instead of laws, courts, or written contracts. The network of social ties that structure this type of economic activity furnishes an ideal opportunity to investigate if immigrants activate their social ties for political ends and how public policies affect the viability of these social ties. An historical, comparative study of immigrants in the banking sector will help to illuminate the political and policy dynamics that mark the intersection of immigrant self-help efforts (bootstraps) and government (beltways).

By tracing policy decisions that targeted Eastern European *unincorporated banks* in 1917 and Haitian *essos* in 1998, I assessed how immigrants with equivalent levels of social capital influenced and are affected by new laws that created neighborhood banks and new approaches to mortgage underwriting. Both cases served as local examples of policy changes that occurred across the nation. In addition, I examined the political coalitions that created new community banking policies during the New Deal and in the civil/consumer rights era of the 1960s and 1970s.

Examining the political development of community banking institutions illuminates how policy designs that determine financial services constitute a hidden dimension of the state's role

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in incorporating immigrants. Government intervention lowered barriers to bank ownership and services, which increased working class access to cheap sources of credit, an important move in overcoming inequalities immigrants face in accessing loans from mainstream organizations. However, instead of ethnic interest groups or civic engagement by immigrants who used informal banking playing a prominent role, advocates rooted in public interest and social welfare issues spearheaded these changes. The new licensing and regulatory regimes created to govern neighborhood banks and mortgage underwriting ushered in new bottom-up, community-based financial institutions responsive to immigrant needs. As a result, community-oriented neighborhood banks and mortgage underwriting became a means to transform informal practices from a liability (that justified economic discrimination and exclusion from formal banking) to an asset (that served as a resource for creating more democratic and inclusive banks).

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Chapter 1

Bootstraps or Beltways?

Immigrant Self-Help And Government Intervention

Immigrant integration into US society is primarily understood to occur via private, voluntaristic associations and individual choices, with government playing a background role. The classic image hails from Horatio Alger stories of determined individuals who pull themselves up by their bootstraps. More contemporary accounts emphasize the role of social networks and group resources in structuring migration, settlement and mobility (Cummings 1980; Light and Gold 2000). Whether referred to as integration, incorporation or the much maligned term, assimilation, immigrant life in the Untied States is often characterized as largely a family and group process, albeit one of enduring public interest.

This research project examines how government matters when immigrant self-help and self-reliance form the dominant modes of social and economic incorporation. The effect of public policies on immigrant social ties becomes a primary consideration because of the centrality of those ties in structuring immigrant life, especially as the source of key benefits not provided for by the state. Deepening our understanding of the means by which government policies affect immigrant self-help illuminates another dimension of the state's role in immigrant incorporation.

This project seeks to understand the political import of immigrant social networks based on an examination of how these networks respond when they are under public scrutiny. Immigrant self-help is too broad a category to meaningfully investigate. Financial transactions furnish one of the clearest examples of the "bootstrapping"

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immigrant who use the advantages of the liberal, market economy to obtain economic mobility. Informal banking in particular presents a case of social capital in action because it relies on "trust, norms and networks" (Putnam 1993) to solve collective action problems. This form of self-help exists among many groups and permits comparative study. Though types of informal banking vary, they share the fact that they are socially embedded financial transactions among immigrants where shared norms of participation and social obligations govern transactions. Since economic livelihood is a foundational activity, immigrants' use of the funds derived from their labors shape much of their experiences. Informal banking practices stands in contrast to that of the world of government regulated formal banks. The research presented here addresses the core issue of government policies affecting immigrant integration, specifically in the banking industry.

Although research exists on the sociological and economic dimensions of informal banking, this study examines them comparatively with explicit attention to the role of public action. On several occasions public rules explicitly targeted informal banking and furnish the entrée point for investigating the political dynamics that created these decisions and the effects of these policies on immigrant social networks. I investigate two policy decisions that targeted immigrants explicitly. In 1917 the Illinois state legislature passed a law requiring Eastern European *unincorporated banks* which were concentrated in Chicago to adopt state banking charters. In 1998 the Miami office of Fannie Mae, a Government Sponsored Enterprise, officially recognized that funds raised through Haitian *essos* can be included in formal mortgage underwriting formulas and processes. The cases allowed me to investigate whether immigrants who were

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equivalent in their possession of social capital used their social ties to mobilize to affect the policy process. Although situated within the subject of credit and wealth inequalities, my research questions and findings focus on the politics of immigrant social networks. How are immigrant social networks political? Do immigrants use their networks to engage in political mobilization to protect their interests, either through ethnic interest groups or civic participation? How does public policy affect the economic and social resources embedded in the social networks within immigrant groups? Are there patterns across groups in how their social networks are targeted, responded to and affected by policy changes?

Given the presumptions of pluralist and civic participation theories, I expected to find that immigrants actively articulated their interests and sought to shape policies, especially given that their economic practices were at issue. I found a curious bifurcation between the policymaking process and the impact of policies in immigrant communities. Immigrants played a background role in the creation of new legal and policy infrastructures, but they utilized the new organizations as owners and customers. Seemingly punitive policies proved popular. Under the new laws, immigrants pursued new paths into formal banking that employed their social ties, when their social ties and informal practices were previously marginalized.

These laws lowered barriers to bank ownership and banking services and increased working class access to cheap sources of credit, an important move in overcoming inequalities in homeownership, small business development and other mechanisms of mobility. Shifts in organizational boundaries made informal practices a resource in the formal sector rather than a liability by re-organizing the private sphere in

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ways compatible with immigrant informal banking networks. Hence, the structure of service delivery proves deeply political, but immigrants do not always lead the political campaigns to alter those structures. In short, self-help is not the absence of the state but a specific policy design that relies on group resources for its full realization. But the attention to immigrant entrepreneurship and political interest groups limits our ability to detect the state's presence and perpetuates the myth of self-help as the means to overcome endemic inequalities.

Bootstraps: The Centrality of the Immigrant Private Sphere

Immigrant self-help can take a variety of forms. Through social organizations based on their village of residence in their countries of origin, family societies, and other social and cultural resources, immigrants can create a world that is largely self-sufficient which scholars termed institutional completeness (the classic statement comes from Chicago School scholars Park 1921; Thomas and Znaniecki 1958 [1927]). In the past, mutual aid societies, fraternal organizations and burial clubs provided camaraderie as well access to sickness, death and unemployment benefits to members. Today's immigrants utilize memberships in religious institutions, hometown societies and social and athletic clubs that furnish opportunities to socialize as well as learn a means to learn about jobs and events of interest. Self-help also includes ethnically-based charities that fund orphanages, hospitals and other social services as well as employment in the ethnic economy, where bosses and co-workers are members of the same ethnic group.

At an operational level, the centrality of social networks in understanding immigrant life has structural, cultural and societal sources. Compared to other Western industrial immigrant-receiving nations, the US is a quintessentially liberal state. Its heavy

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reliance on private organizations and immigrant networks as the principal means for immigrant integration constitute a decidedly minimalist approach to state intervention (Soysal 1994). The structural dimension of self-help is seen in the family reunification system which remains the primary mode of legal migration to the United States. A family member with permanent legal status sponsors the migration of other members of the nuclear family. The law holds the sponsor responsible for ensuring that newcomers do not become a "public charge" reliant on public welfare or state-funded resources which makes family members responsible for helping new arrivals to obtain housing, jobs and meet other needs (Fix and Zimmerman 1994). As a result, the US for the majority of its history has paid little attention to what they termed "immigrant policies" defined as "those policies designed to promote the social and economic integration of newcomers" are "skeletal and largely inchoate" while immigration policies(i.e. the terms of entry and exit into the US) receive extensive attention and study(Fix and Zimmerman1994: 251).[1]

The cultural dimension of self-help is evident in the Horatio Alger tales popular in the early twentieth century. These bestselling novels articulated the now classic story of self-reliance where heroic young lads worked hard to "pull themselves up by their bootstraps." Through self-reliance, immigrants inherit the mantle of the self-made ethos from the Pilgrims and those who settled the frontier, keeping alive a fundamental tenet of American culture. Attacks on immigrant groups only reinforce the sanctity of an

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[1] In some respects, legal status obviously arises as a principal issue with all else being secondary. But once such status is obtained, other obstacles to adjustment, such as access to linguistically and culturally appropriate services, still remain. Refugee programs garner attention because, in contrast to other legal migrants, the federal government does finance and coordinate an array of social and economic programs to facilitate the settlement of those traumatized by their flight from political persecution. The contrast between refugees and other immigrants demonstrates that settlement is in fact a multi-pronged process that state agencies can affect but historically does not. As a result, the search for housing, education, and jobs largely rely on group efforts and organizations.

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immigrant private sphere as a refuge from state intrusion. Coercion and prejudice define the legacy of self-conscious government-based efforts at immigrant assimilation. The Americanization campaigns of the 1920s serves as a prominent example of illiberalism where government power was deployed to "make them like us" (King 2000). Contemporary efforts at assimilation, like English Only laws, share this illiberal bent. These aggressive campaigns reinforce the primacy of the immigrant private sphere as a haven and the true source of assimilation processes.

Business and entrepreneurship play a special role in the self-help story. The immigrant banking literature highlights the centrality of a group's social networks and entrepreneurial drive in shaping our understanding of the importance of immigrant self-help as a response to exclusion and inequality (Light and Gold 2000; Portes and Sensenbrenner 1993). It emphasizes the role of social networks in business, and explain how the social, cultural and economic resources of immigrant communities are utilized as they adjust to a new society. Ivan Light's landmark 1972 study, *Ethnic Enterprise in America*, decisively established the importance of a group's cultural resources in their attempts to make it in American society. Taking seriously the claims that race matters in structuring society in ways that rendered comparisons between white immigrants and African Americans unfair, Light compared three groups who experienced discrimination based on phenotypic differences. Using an historical, comparative research design, he examined why and how the Chinese and the Japanese were able to use business ownership as the classic route to upward mobility when discrimination blocked access to high-wage and salaried jobs, while Black communities did not. He found a sociological explanation focused on "culturally derived differences in economic organization" (Light

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1972: 18). Bank credit discrimination proved unimportant because research showed that most small businesses relied on loans from family and friends, not banks, to cover their initial costs. Further immigrant small business entrepreneurship outpaced that of native whites who presumably faced no discrimination and had access to loans.[2] Instead Chinese, Japanese and West Indians employed a cultural resource, rotating credit associations, as a means to raise capital without relying on banks. For African Americans, this "African economic custom had vanished from their cultural repertoire" leaving them without a collective mechanism for raising credit independent of bank capital (1972: 36). However, these analyses tend to focus on group behaviors without sustained consideration of political dynamics. The issue has appeared as a cultural one, divorced from any politics and best understood in its full cultural or economic machinations. Consequently, they tell us little about the intersection with the state.

Despite many detractors and critics, self-reliance persists as the dominant model of immigrant mobility in academic circles and popular expectations. It simply forms the societal expectation for the proper process for integrating immigrants. Self-reliance not only defines the image of the success of early waves of European immigrants, as one observer noted, the bootstrap argument has the "political import [which] comes in defining a prototypical American experience, against which non-European minority groups . . . are pressured to measure themselves" (Alba 1990). Individual and group self-help are the rules of the game by which groups are expected to achieve.

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[2] This discrepancy was true historically and is true today. See Bates 1997 on the contemporary research on minority small business.

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Beltways: The Importance of Immigrant Political Action

The ethnic interest group is a pivotal component in political science conceptions of the engines of politics. In ethnic politics, collective action on the part of an immigrant group is the origin and basis for policies that will protect the group's interests (Glazer and Moynihan 1970). Only those who mobilize politically through voting, fielding candidates, lobbying and otherwise participating in the political process can have their interests represented and protected (Dahl 1961; Browning, Marshall and Tabb 1984). The primacy of ethnic politics as the source of favorable policies undergird numerous studies of urban politics, ethnic and racial politics and machine politics. Although involvement does not guarantee a favorable outcome, it is a necessary precondition – the wheel must squeak in order to get attention. Consequently, political science approaches to the study of immigrants and politics often focus on trends in immigrant party identification, citizenship rates, voter turnout and other measures of voter behavior and political participation. Scholars also investigate civic participation, public opinion and racial identity as mechanisms for immigrant political incorporation (Erie 1988; Jones-Correa 2002; DeSipio 2001). Social networks and the private sphere can be a vital resource for generating political action. Clearly, immigrant communities have no shortage of such networks and of community based organizations. In general, immigrant communities are actively involved in civic and political activities both in countries of origin and locally. This is true historically and today (Guarnizo 2001).

In a virtual mirror image of sociological emphasis on self-help, the pluralist approach stresses political self-help – the pattern, persistence and savvy of immigrant political mobilization. The attention to politics uses the same ethos of self-help and self-

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reliance, however in the political sphere where immigrant mobilization is the precursor to political action. There is no attention to the state as such except as an extension of political dealmaking. A self-conscious forging of immigrant political identity and power is the necessary precondition for immigrants achieving favorable policies. Policy results are the function of ethnic groups functioning as interest groups. Where nativism and nationalism place immigrants in a defensive posture and highlight their political vulnerability, ethnic politics underscores immigrant political agency.

Integrating Bootstraps and Beltways

Studies of immigrant politics converge on participation as the primary way of linking the social to the political. In an important reconsideration of assimilation theory, Alba and Nee acknowledge the state has been marginalized in traditional approaches to studying immigrant assimilation. They come to this view because of the state's contradictory history of both supporting discriminatory practices when captured by anti-immigrant majorities and protecting minority rights to equal opportunity when civil rights groups gain legal and political support. Especially when anti-immigrant hostilities reign, Alba and Nee (2003) argue that immigrants often require state intervention to secure their basic rights. They argue that government support of equal rights is absolutely fundamental to the integration and acceptance of immigrants.

They develop a theory that retains the focus on the private sphere ("...assimilation into the mainstream mainly occurs as an individual, family-based process" (Alba and Nee 2003: 15), but systematically integrates the state's role in the assimilation process. In their theory, the state plays a crucial role because,

> ...advance on trajectories of assimilation is contingent to a large measure on the predictability of their [immigrants and their children] chances of

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> success, especially in terms of social mobility; and these in turn depend on the reception they anticipate from members of the majority and other racial/ethnic groups. Consequently, our theory emphasizes the institutional mechanisms that ensure predictability and thus the role of the state in maintaining an institutional environment in which the civil rights of minorities are safeguarded and barriers to entry imposed by racism have been lowered (albeit not eliminated) (Alba and Nee 2003: 278).

The state can enforce fairness of the playing field so that actors know that they have a decent chance of being rewarded for their investment in education and other social goods. They reject legally coerced assimilation but observe that individuals may choose to assimilate to gain the economic rewards that come from a relatively fair socio-economic environment. For Alba and Nee, the primary engine driving political change with respect to immigrant treatment in this society is immigrant collective action. Reflecting the assumptions of pluralism and on immigrant political incorporation, immigrant political agency is a central explanatory variable.

Another approach stresses racial politics. In the classic, *Racial Formation in the United States,* Omi and Winant (1994) argued that the racialization of social groups is the primary way society's distributes resources and explains prevailing inequalities. This approach challenges the classic bootstrapping immigrant model by insisting that state engages in a wide variety of racial actions. Consequently, it is not group traits alone that explain mobility but the process of racialization, where groups are marked by their affiliation to racial categories, and the political, economic and social structures that are created that affect groups that acquire strong racial identities/images in the US. In this framework, the policy victories of European immigrants entailed and reinforced the exclusion of racial minorities. Participation is not enough. It matters whether public discourses and related policy decisions reduce or justify racialized exclusion. The self-help celebrated by one group is spurned by another as state supported discrimination.

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Given the primacy of race and role in the distribution of resources in society, identity politics serves a vehicle for mobilization. European immigrants in the past variously employed their rhetoric and strategies to obtain benefits by virtue of their white skin (Roediger 1991; Guglielmo 2003). Contemporary immigrants vary in their responses to blanket racial categories of Black, Latino and Asian which subordinate more complicated ethnic and national identities (see, for examples, Waters 1999; Espiritu 2004).

Where Alba and Nee cast immigrant political action in a context of hostile anti-immigrant forces, racial analysis recognizes that immigrant political stances can reinforce an unfair playing field rather than a level one. Steinberg finds that groups invoke both liberal and illiberal principles as convenient. They can tear down the ethnic barriers in front of them when they protest exclusion from WASP institutions and other obstacles to their upward mobility. But they build ethnic barriers behind them when they cite a desire to protect their culture and way of life in order to resist demands for inclusion from those below them on the economic ladder as white ethnics did when they resisted residential and school desegregation (Steinberg 1989). A group's position as victim or perpetuator is situational rather than absolute. One of the fundamental conflicts in debates about assimilation is that the very social networks that theorists cast as a benign function of immigrant groups can also function as tools to exclude others. It is this conflict -- whether to treat networks as resources for in-group mobility or obstacles to universal fairness -- that stood at the heart of creating the civil rights state.

In addition, Alba and Nee's approach take the current protection of the civil rights of minorities as a stable product of the contemporary post-civil rights government. "So long as the current ensemble of rules on racial equality remain in force and are monitored

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and enforced, we can expect the trend toward inclusion of ethnic and racial minorities in the American mainstream to continue" (Alba and Nee 2003: 284). As a result, they ignore the ongoing politics needed to create, extend and protect rights of immigrants and minorities and simply measure the outcomes such as labor market incorporation.

Omi and Winant very usefully articulate race as a political process, rather than a biological given. Though race is a powerful frame, it doesn't explicitly address how immigrants with distinct cultural practices are treated by the state and social institutions. Cultural practices can function as markers of difference within racially homogeneous groups, setting European immigrants apart from European Americans and minority immigrants from US racial minorities.

Research Design

Social capital theory explicitly addresses the relationship between social networks and the public realm. Although many critiques and nuances of social capital theory exist, Robert Putnam's articulation and elaboration of the relationship between social ties and public affairs remains seminal. Tracing a lineage through classic political theory and de Tocqueville, Putnam argues that the roots of democracy rest in habits of cooperation and participation in the private sphere. Robust social relationships that cultivate "trust, norms and networks" (Putnam 1993) form the bedrock of the ability to overcome collective action problems. Habits of cooperation developed in the private sphere have public consequences. These habits facilitate one's ability to cooperate with strangers when needed to pursue shared goals.

But where are habits of reciprocal social relations cultivated? Participation in civic associations attracts the bulk of attention, but it is not the only site for such activity.

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It is also evident when robust, reciprocal social ties thrive. He anticipates that his theory will work well when applied to immigrants because he finds that reciprocal social ties structure immigrant life, often mediating access to migrant destinations, jobs, housing, recreation and transnational connections with friends and family (Putnam 2000). For example, Putnam predicted that groups who utilize rotating credit and savings associations, an informal pooled lending system that relies on reciprocity and trust to keep agreements, will do well when they turn their attention to civic participation because the already possess cooperative habits (Putnam 1993: 167-171). The existence of pooled lending and other informal banking arrangements among immigrants create a unique opportunity to investigate these claims empirically. However to do so requires finding occasions where informal banking practitioners used their social ties to engage in political action.

To answer the question of how immigrant social ties are political, I looked at public policies that explicitly targeted immigrant informal banking. These moments would heighten the likelihood of immigrant political action but require study to learn precisely how immigrant groups mobilized. I wanted cases where a government policy explicitly targeted immigrant informal banking practice with a preference for cases that permit comparison across time periods and racial groups. This case selection criteria had several advantages. First, it assured that the groups would be equivalent in their possession of social capital. Controlling for the presence of social capital focuses directly on the political consequences of immigrant social networks. In particular, I can observe how immigrants activate their networks to pursue a political goal and how their social ties were affected by the policies selected. Second, policy decisions that target informal

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banking make it likely that immigrants will respond politically because real consequences are at stake. Third, cases of policy change constitute a clear and decisive starting point for research of the political dynamics that led to these decisions (Orren and Skowronek 2004: xi). These triggering events do not constitute selection on the dependent variable because the outcome of interest – the political relevance of immigrant social capital – remains unknown.

I identified two occasions where public rules targeted informal banking. In 1917 the Illinois state legislature passed a law requiring Eastern European *unincorporated banks* which were concentrated in Chicago to adopt state banking charters (Lissak). In 1998 Fannie Mae, a Government Sponsored Enterprise, officially recognized that funds raised through Haitian *essos* can be included in its mortgage underwriting formulas (presentation at HUD-sponsored conference). Policy decisions are the necessary starting point for tracing relevant events that led to these decisions (Orren and Skowronek 2004: xi).[3] These two cases permitted further investigation to identify the political dynamics that created these decisions and the effects of these policies on immigrant social networks.[4]

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[3] These triggering events do not constitute selection on the dependent variable because the outcome of interest – the political relevance of immigrant social capital – remains unknown until the case study is complete. Only by tracing the political dynamics that created these decisions can we learn the ways in which immigrant social capital is political, what causes the changes in governing arrangements and who benefits from these changes. The existence of clear policy decisions suggest the presence of public controversy and actions that directly targeted immigrant practices. Such dynamics heightens the likelihood of political action by immigrants, which offers a succinct and natural test of the mechanisms of politicizing of immigrant social capital. It also suggests that a researchable set of data exists.

[4] The Chicago case was identified in Lissak 1989 which indicated the presence of archival material to research the political dimension of this conflict (Lissak focuses on the sociological aspects). I learned of the esso case through participation in a community development conference. Representatives of the Miami-based local nonprofit agreed to participate in the research.

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Do immigrants with equivalent types of social capital use their social ties to mobilize to affect the policy process? To trace immigrant activities, I used archival sources and interviews to learn who acted, how and when. Further data on state policies, regulations and laws were compiled from relevant governmental documents such as statistical reports, research and policy papers, and annual reports, when available. For the contemporary case of mortgage underwriting, I visited Miami, FL and Washington, DC repeatedly where I conducted extensive interviews with officials, staff, bankers, advocates, legislative aides and academics.[5]

These cases form a purposive sample designed to reduce variation on the presence of immigrant social capital and to yield robust observations of the political processes at work. The political dynamics observed in the cases will furnish an empirical test of political relevance of immigrant social capital. I can identify the precise mechanism of social ties in immigrant public involvement, whether it be ethnic interest groups in the era of machine politics, local civic associations or national civic federations or the role of racial identity politics in both periods. However, if bootstrap approaches are accurate, then immigrants will undermine invasive policy decisions with continued use of informal practices. This research design furnishes an empirical basis for drawing valid conclusions about the role and impact of the government on immigrant social networks and by extension, the process of assimilation. The value of this research lies in shedding light on

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[5] The network of community banking professionals in Miami generously shared contacts that facilitated my access to crucial resources. My time on-site with a local Miami nonprofit included tours of the surrounding Haitian neighborhood and site visits of the organization's housing and homeownership projects there (Lofland and Lofland 1995). In addition to formal interviews, I observed interactions among the organization's racially diverse staff members, between the staff and the immigrant families served, and between the organization and other professionals in the community banking field at professional conferences where Haitian and immigrant banking issues were represented to a broader public. I combined these observations with studies of trends in the homeownership industry.

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public policies towards immigrant cultural practices, and identifies processes and concepts that illuminate the relationship between immigrant social capital and government intervention.[6]

The main question I will try to answer is, How is immigrant social capital political? Is it through political mobilization (via parties, civic groups or identity politics) as theories predict or is it something else? In addition, I also which to observe whether the state truly marginal to or destructive of informal practices? The debate about the relative contribution of immigrant self-help efforts and the state to integrating immigrants into society would benefit from an empirical account based on intensive study of actual encounters between immigrant self-help activities and the political apparatus of the state.

Neither probability sampling nor controlled comparisons were appropriate or feasible, especially with the constraint of a formal policy change as a necessary condition for case selection. Where little is known about a subject, nonexperimental research designs are best suited for generating valid initial conclusions (Yin 1984).[7] Immigrant

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[6] The generalizability is not to a population based on sampling but to development of a theory that can be extended to other cases for testing (see Ragin 1987; Yin 1994). As Yin notes, "This analogy to samples and universes is incorrect when dealing with case studies. This is because survey research relies on statistical generalization, whereas case studies (as with experiments) rely on analytical generalization. In analytical generalization, the investigator is striving to generalize a particular set of results to some broader theory" (Yin 1994: 42).

[7] Empirical generalization will require testing these conclusions on a new set of cases to see if they hold. Although I learned of more cases as I did the research, I did not expand the study to include new cases to "test" my conclusions because of the depth of research in each case. however this research directly informs the construction of subsequent research (Yin) using an experimental design can now be pursued which can match groups and policies along other dimensions to test specific premises. For example, one could investigate neighborhood banking mandates in Philadelphia, New York and Chicago in the 1910s and 1920s and analyze similarities and differences in the nature of ethnic political mobilization. Or a research design can hold the immigrant group constant across time by comparing the dynamics of Eastern European immigrant banking in the 1920s and again in the 1990s now that post-Bosnia and post-Soviet developments fueled a new wave of immigrants. That would mean follow the same group in the same city at different points in time, for example, Polish informal banking in Chicago and another City in the 1900s and again in 1990s after the resurgence of Polish migration, and see what explains the different policy outcomes in each period.

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banking is also a quintessential example of the immigrant self-help story. Whether as cultural habit of saving, ownership of financial institutions, or financial practices transplanted from the homeland to the US, immigrant banking embodies the independence, initiative, hard work and self reliance that is considered to be at the heart of the immigrant mobility story.[8] Credit is also the lifeblood of the major paths to mobility, financing homeownership, higher education, and business ownership, yet the precise mechanisms of credit as it functions in immigrant communities is rarely the object of systematic study. But banking enjoys simultaneous prominence and obscurity in the immigrant mobility story in the US. Though mentioned in studies of immigrant communities, it rarely obtains sustained attention. We are more familiar with immigrant experiences in mutual aid societies and fraternal organizations than with savings and loan associations and mutual savings banks (Beito 2000, Cummings 1980, Soyer 1997). This study will uncover new information about the structure of banking in immigrant communities, as well as examine how and why immigrant lending practices became a public issue, and assess the policy response.

King, Keohane and Verba (1994) advise researchers to specify the "observable implications" of a theory in order to guide the collection and evaluation of data. The assimilation, ethnic politics and racial politics literature all lead us to expect that immigrants would actively defend their rights, especially given the fact that their

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[8] Oliver and Shapiro (1995), for example, argue that appreciation of housing values was and are key to economic mobility and wealth building for many immigrant Americans or at least their children and grandchildren (to be more precise). The status of small business ownership is less decisive. Symbolically it is powerful, economically it is the spread of union jobs and entry into mainstream corporations and institutions that had more economic significance than small business ownership. It is an undecided empirical point with the bias against small business. These distinctions do not matter for this study because lending and credit is crucial to all three.

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economic and political interests align on banking issues. Here I used Putnam's social capital approach because there is a close fit between his theory and empirical outcomes. We should expect immigrants who used informal banking to organize politically by deploying their cooperative skills and social networks to address policy issues concerning their banking practices. These immigrants could also parlay any memberships they have in civic associations to spearhead political action. This constitutes the strongest test of the political relevance of immigrant social capital. By examining immigrant political response, I can also observe whether and how ethnic politics (especially through political machines and party structures) or racial identity politics played a role, both if immigrants are racially targeted and whether immigrant political actors employ racial arguments in making their claims. Historical cases allow comparison between the newest immigrants and the earlier European migration based on original research rather than rely on generalizations about the past.[9]

I analyzed data in two ways. First, I compared theoretically derived expectations to empirical evidence. When it did not, I used inductive processes to examine patterns across the cases to search for explanations (Miles and Huberman 1994). Patterns that occurred in multiple cases had more validity than those that appeared once (Orren and Skowronek 2004). To increase the number of observations and to check the validity of my initial findings, I also researched the origins of formal "community-oriented" banking organizations such as mutual savings banks, savings and loan associations, the Community Reinvestment Act, and microlending programs. I found the patterns identified in the cases confirmed there.

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[9] See Gerstle and Mollenkopf 2001 on the lack of studies that combine historical and contemporary research on immigrants.

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Findings: The Top-Down Construction of Bottom-Up Banking Institutions

Evaluating the creation of new banking policies reveals important dimensions about their political dynamics that depart from the ethnic politics and interest group explanations. Two prevalent assumptions – that state intervention diminishes immigrant social capital and that ethnic group politics accounts for policies that benefit these groups – are unsupported by the evidence.

The familiar story of punitive state sponsored initiatives that diminished social capital did not fit the evidence. The case of regulating unincorporated immigrant banks initially appear to fit this mold but upon investigation, this turned out not to be the case. First, though the laws passed, I found little evidence of concerted efforts to construct enforcement regimes dedicated to ferreting out and bringing an end to informal banking. The laws did not eliminate informal banking but they did help to bring formal banks to immigrant communities to a greater degree than what existed before the law. Second, a good number of immigrants opted into the system both as owners and as customers. Scholarly and popular accounts of immigrant communities that mention formal financial institutions treat like government regulated neighborhood banks as genuine community-based organizations, not state sponsored projects intent on eliminating informal practices. Immigrant ownership of formal banks often serves as an example of a group's entrepreneurial character and evidence of institutional completeness, on par with fraternal societies, mutual associations and group-based charities because social ties remained central to how these formal organizations conducted their operations (Light and Gold 2000; Portes 1987; Cao 1999; Cummings 1980). Hence, ownership and management by fellow ethnic group members proves decisive. Immigrant cooperative economic

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institutions, such as savings and loan associations and credit unions, appear simply as part of an apolitical private sphere, a product of liberal market society that immigrant entrepreneurs take advantage of.[10] I find instead a contentious public debates defining the nature and type of financial institutions that make the presence of credit unions and neighborhood banks far from certain. Immigrant access to financial institutions is deeply affected by the outcomes of debates about banking institutions in society.

Because immigrants gained access to community-based banks, perhaps ethnic politics explains how immigrants obtain a firm foothold in the formal banking system. Immigrant bankers and immigrant civic organizations could have lobbied for community banking alternatives that benefited their communities. The Miami case seems to be a clear-cut example of immigrant civil society at work. Further, if ethnic politics explained the creation of policy changes in Illinois and new policies in Miami, it should also help to explain the creation of similar policies in other states where immigrants also utilized credit unions, state banks and obtained changes in mortgage underwriting. But tracing the political dynamics that created these specific decisions as well as similar decisions in other states does not bear this out. Instead advocates devoted to a particular set of policy solutions were the principal political actors. Even the Haitian-based nonprofit in Miami appears to be an independent actor driving policymaking, its actions proved to be a dependent variable where, unbeknownst to it, a prior Congressional law created by national advocacy campaign created new incentives that altered the ability of nonprofits to influence mortgage underwriting formulas.

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[10] Putnam treats cooperatives as a independent variable that signal high rates of social capital where I find they are a dependent variable, the result of prior political action determined to construct a legal infrastructure that makes cooperative economic associations easy to access and start.

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An apparent paradox exists: immigrants utilized new forms of banking, even though they did not lobby for them and, in some instances, these organizations were juxtaposed to informal practices. But groups don't necessarily organize to pursue their interests. As Seagert, Thompson, and Warren argue, the transfer of social capital to political purposes is "by no means automatic." It requires the work of activists to "transfer the trust, cultural traditions, and networks" within communities to support political causes (2001: 7). Immigrants did not automatically re-shuffle or re-direct existing networks and organizations to address banking issues. Immigrants who were active in transnational politics, civic associations and even electoral politics did not turn their attention to banking in a concerted way. Further, the advocates encountered in this research rarely engaged in political mobilization at the grassroots level as a strategy to pursue their policy goals. Instead, they directly lobbied public and regulatory bodies for the changes they sought. The root of policy changes in banking rested in advocates dedicated to re-vamping the banking system by democratizing ownership and financial practices. The ethnic interest group is only one model of policy change; issue-based advocates and democratizing policy tools are another.

Advocates varied in their relationship to immigrant communities. Some worked directly in immigrant communities and those experiences influenced their formulation of the limits of status quo banking and the solutions they pursued. Others marketed new approaches to banking to immigrants. In both cases, state-endorsed policy solutions proved viable in immigrant communities. Because these policy solutions rested on ownership or civil society models, they created new sites for action where immigrants could exerted agency, discretion, and autonomy on the local level. These policy changes

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occurred at moments when immigrant groups were overwhelmingly working class and economically and politically vulnerable, making it unlikely to have obtained these policies on their own through traditional interest group politics. The new policies dramatically lowered the costs of entering the banking field for everyone, not for a specific immigrant group, which increased the opportunity for ownership and for individuals to save with formal organizations. Since these new policy tools relied on existing social structures in communities to function (credit unions, for example, persuaded mutual and fraternal societies to create credit unions), they reinforced existing patterns of racialized access to financial resources.

The traditional ethnic politics framework of quid pro quo exchanges misses other sites of immigrant-based policy making, such as public interest laws. While community banking policies don't explicitly validate informal practices, they nonetheless empower and employ community norms and networks to inform formal banking services. This utilization is not simply the result of local immigrant entrepreneurs. It also comes from policy designs that encourage local solutions. The diversity at the local level appears to be the result of a hands-off, laissez faire, liberalism that simply leaves groups to their own devices. But that diversity flourished around a clear set of institutions: credit unions, neighborhood banks, postal savings banks and mortgage underwriting. The creation of these as distinct organizational categories involved considerable political effort. Each organization was designed to pursue a particular public purpose, that of democratizing banking. One outcome of this effort is that potential owners encounter a largely routinized administrative process for an organizational form that has public legitimacy

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and consumers have a wider array of institutions to choose from, limited presumably by their own knowledge of the options, preferences and goals.

If immigrant social networks and social capital aren't deployed to political mobilization, how are they political? Immigrant networks intersected with politics in two other ways. First, as policy targets immigrant practices crystallized social problems, in much the way the welfare queen imagery functioned in welfare politics. As policy targets immigrant informal banking is singled out and functions as part of the problem definition which Kingdon notes is a crucial step in distinguishing issues amenable to policy action from the vast swath of conditions in society that exist. Second, immigrant practices are affected by a policy's design. Their social ties can either be embraced or marginalized by policy choices. In policy impact informal networks and group resources are actually the vehicle by which organizations conduct their business.

Advocates, often nonprofits, succeeded in democratizing banking services but did so without including immigrants in a democratic political process. They functioned as cultural brokers of a sort. They deployed their knowledge of how traditional banks excluded new social groups to develop and promote new approaches to banking. To be clear, this is not a study of the evolution of informal banking. Rather it examines informal banking at a particular moment – when it has been the object of a policy decision– in order to learn about political behavior and the nature of state intervention in the immigrant private sphere. To focus on the state's presence does not imply that genuine self-help does not exist. Nor do I argue that interactions with the state is the exclusive or even the dominant force in the evolution of immigrant self-help. Factors other than government regulation can play a role in determining if self-help waxes or wanes,

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including the state of the economy, the age cohort of the immigrant group, geographical proximity of group members. But regulation, through the public attention and resources allocated, can have both symbolic import and institutional consequences. Arguments that focus only on immigrant "bootstrapping" strategies and counter-arguments that emphasize actions of state and federal governments ("beltways") miss a wealth of policy choices in-between.

These findings also challenge the tendency in assimilation theory to treat informal and formal banks as equivalent members of the immigrant private sphere. Doing so obfuscates the politics that surround formal banks and the way in which their legal status in society affords a different range of action. It also masks the nature of the disadvantages immigrants as a group experience by insisting that self-reliance alone is the primary means for overcoming those obstacles. Far from being just another example of the apolitical, market-driven, immigrant private sphere that attests to immigrant self-help, self-help is a distinct policy design that banking organizations are designed to cultivate and reward. Formal banks in immigrant communities are the result of two processes – first a legal and regulatory infrastructure that defines the scope of the organization's actions and second an entrepreneur who chooses to open a bank in a specific locality. Assimilation theories tend to focus on the latter to the exclusion of the former. The study of the politics of policy design shifts the perspective such that immigrant bank ownership is not simply the natural expression of a group's entrepreneurial character but is directly tied to shifts in banking policy.

However, this perspective stems from documenting the politics of organizational births. This project "brings the state back in" to re-cast processes often understood

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through the lens of "normal" market forces or immigrant culture. But this analysis is not centered on the machinations of the administrative state. It accounts for the role the public legitimacy of private organizations as a distinct resource at moments when indigenous immigrant modes of self-help is marginalized by institutions in society.

This research contributes to efforts in political science to understand the intersection of immigrants, politics, and the state (Freeman 2004; Hollifield 2000; Alonso 2001;Kloosterman 2004; Soysal 1994). It locates engines of policy change outside of, yet complementary to, immigrants. It recognizes how a wide range of policies cast in nonimmigrant terms function as immigrant policies in effect because they shape how immigrants become integrated in society. The lens of immigrant politics shifts from behavioralist approaches focused narrowly on how immigrants emerge as citizens (*immigrant political incorporation*) to a broader range of institutional changes that affect how immigrants become Americans (*immigrant institutional incorporation*).

I argue that successfully understanding the state's impact on immigrant social networks turns on discerning the range of financial institutions that serve immigrants. A pattern of top-down policymaking that cultivates community-oriented financial institutions occurs consistently. Community banking organizations are incorrectly understood as apolitical market entities, even though at an individual level they may be experienced that way. Their origin and operations are rooted in the state even as they rely on cooperative and mutual social relations. The creation of these organizations reflected significant policy changes that involved debates about the worth of different social groups. This study illuminates the public side of banking institutions centered in debates about recruiting inequalities in the availability of financial services. I pay particular

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attention to how immigrants are implicated in these debates and how these decisions affected whether immigrant social networks functioned as a beneficial resource in formal banking or pariah.

This account highlights the presence and contribution of the state, because its presence is so often overlooked, naturalized or vilified. When given something to read, we tend to focus on the black typeset – the print that conveys the words and messages that make a document distinct. Government's presence in the immigrant private sphere functions as the white sheet of paper, an invisible backdrop against which culture occurs. This study spotlights how the crafting of new policy tools (the white paper) that seek to reduce inequalities become the vehicles for bringing immigrant practices into the realm of formal banking (the black ink). This is not a story of the state's intent but of the effect of the presence of its public authority on marginal groups. This analysis situates entrepreneurship and culture within a phalanx of rules, regulations and politics that render some cultural practices viable while relegating others to marginal status.

The study encompasses the politics surrounding the construction of the major deposit-taking financial institutions in the US, with a focus on the intersection with immigrants. Commercial banks provide the major (but not the only) point of reference because they are by far the dominant form of banking. Other dimensions of the banking world receive less attention in this account, though they are important. Criminal activity, such as loan sharking, money laundering or exploitative debt servitude arrangements where immigrants turn over some or all of their wages to the middlemen who arranged their transport, fall outside of my scope. Also fringe-banking financial transactions that occur through non-depository entities like payday lenders and check cashers – receive

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some attention but only in contrast to the prominence assigned to formal banks. Although financial transactions like remittances are also important to many immigrants, my task is not to represent the entire range of financial transactions that immigrants engage in or the full scope of regulatory activity.[11] Nor do I examine the politics of elite banking such as the political deal making behind the financing of public work projects or deciding which banks receive government deposits.

Efforts to democratize formal, deposit-taking banking services are solidly the basis for this study. References to formal banking and formal banks refers to these government regulated, deposit-taking institutions. Technically, the term bank does not represent all of these forms but given the popularity of using the term in that way I employ it when referring to these organizations as a general category as well as the term financial institutions. Banks strictly refers to deposit-taking institutions with commercial bank charters (as distinct from credit union or other charters). However, commercial banks vary in their size and market. The Wall Street-centric Citibank and the Main Street-centric Bank of Topeka possess the same charter but serve very different needs. I will refer to neighborhood or community banks to characterize banks with a local focus which are usually small and use the terms mainstream or traditional banks to refer to large-scale, non-immigrant serving financial institutions.

Chapter Overview

The research captures immigrant social capital at two moments – one at the point of policy origination where I assess how immigrants participated in those debates and

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[11] I have not included efforts to regulate high-interest lenders such as finance companies and other fringe bankers. For a history of such efforts, see Calder 1999; Caskey 1994; and Johnson 1985.

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second at the impact of policy to see if and how immigrant social networks responded to new policies. The chapters situate informal banking within the pursuit of policies that define new approaches to delivering financial services. The three case study chapters convey the interaction of three key factors in the politics of immigrant incorporation: advocacy, policy designs and institutional incorporation.

Each case study chapter addresses three roughly chronological processes. First, each chapter examines the interest groups that shape the policy decision, accounting for immigrants as political actors and as policy targets. Second, I describe the main features of the new policy addressing how specific ideas and various political compromises defined the new laws. Finally, I consider how these policies worked in immigrant communities. My primary concern here is with the viability of immigrant social ties and how new policies affect the legitimacy of community knowledge in formal financial institutions.

To trace the story of the policy process I used archival sources and interviews to learn who acted, how and when. Further data on state policies, regulations and laws were compiled from relevant governmental documents such as statistical reports, research and policy papers, and annual reports, when available.[12] For the contemporary case of mortgage underwriting, I visited Miami, FL and Washington, DC repeatedly where I

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[12] To supplement the case studies, I sought historical and sociological accounts of immigrant banking. Surprisingly, very few studies of this type exist and very few of these seriously consider questions of politics and policy. Economists conduct most studies of banking institutions and policies but for most neighborhood-based financial activity barely warrants a footnote to the machinations of the large financial institutions that drive the economy. A handful of studies by economic historians and social historians proved useful. These include Lamoreaux 1986 and 1994; Calder 1999; Johnson 1985; Tenenbaum 1993; and Wadhani 2002. The paucity of studies reflects, in part, the scarcity of publicly available bank records to analyze.

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conducted extensive interviews with officials, staff, bankers, advocates, legislative aides and academics. By tracing the details of the political dynamics leading to the policy change, I identified whether immigrants who are equivalent in their possession of social capital used their social ties to mobilize to affect the policy process. In addition, I assessed the impact of the policies on their social ties.

Chapter 2 presents the case study of the regulation of unincorporated immigrant private banks in Chicago and explains how new laws, not laissez faire market forces, shaped immigrant access to neighborhood-bank. Chapter 3 assesses the political dynamics that surrounded small banks as the New Deal battled the banking crisis and argues that pre-New Deal developments in the community banking sector shaped the New Deal. Chapter 4 addresses the racial impacts of banking policies and its relationship to the birth of the landmark Community Reinvestment Act of 1977, a new tool to that sought to re-create the ethos of neighborhood banking.

In chapter 5 a Haitian nonprofit procured changes from a government sponsored enterprise that recognized *esso* funds in mortgage underwriting. This chapter demonstrates that activities in Miami were the local manifestation of a new policy design championed by a bevy of nationally networked advocates. Chapter 6 concludes and considers the significance of these policies for addressing the role of government in immigrant integration. Overall the project should illuminate how the state constructed self-help in this sector and the social foundations of financial institutions that make the embedding of organizations in underlying social networks a matter of policy design, not just immigrant choices.

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Chapter 2

Unincorporated Immigrant Banks and the Construction of Postal Savings and Neighborhood Banks Chicago, 1890-1929

In an era when banks issued currency, the Federal Reserve and federal deposit insurance did not exist, and commercial banks lavished attention on business and government clients, the residents of "foreign districts" in many cities such as New York, Chicago, Philadelphia and Boston turned to the ubiquitous "immigrant bank" for financial services.[1] *The New York Times* introduced the nation to these unincorporated banks on Sunday, October 2, 1910. It described a far-reaching national system that processed half of the $275 million transmitted abroad in 1909. This exceeded the $81 million sent overseas mostly by immigrants via postal money orders.[2]

As immigration levels increased in the 1880s, "immigrant banks" emerged to cater to the needs of immigrant workers.[3] Though legal, they functioned without charters, boards of directors or regulations—features they shared with the most famous of private bankers, J. P. Morgan (Chernow 1990). Unlike Morgan's prestigious bank, unincorporated immigrant banking services were often combined with other businesses

[1] Federal deposit insurance appeared in 1933; commercial banks began to focus on average customers in earnest in the 1950s (see Klebaner 1990 for trends in commercial banking). For most of the country's history, banks issued their own currency. In 1929 there were six kinds of US paper currency. After its creation in 1913, the Federal Reserve introduced the currency employed today which became the sole form of circulating paper currency used in the US in 1970. On the history of paper currency see Kelley L. Ross, "Six Kinds of United States Paper Currency," *The Proceedings of the Friesian School, Fourth Series*, www.friesian.com/notes.htm, 2002 (accessed 19 March 2003).

[2] "Immigrants Sent $275,000,000 Abroad in One Year," *The New York Times (*hereafter *NYT)*, 2 October 1910, part 5, p. 7.

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such as "...lodging-houses, restaurants, grocery stores, macaroni factories, beer saloons, [and] cigar shops..." (Koren 1897: 126). In these settings, immigrant workers felt more comfortable than in halls of commercial banks with their concrete pillars, marble floors and impeccably dressed bank tellers. The congenial and convivial atmosphere made immigrant private banks, as they were commonly called, eminently more approachable than traditional downtown commercial banks. In addition, banking services conformed to immigrant needs for access and availability after normal business hours, with services in their own language, and in a social environment where one could hear and debate the latest news items, gossip with others and share job information. The stationery of an Italian private banker, Banco Roma, illustrates:

> Remittances in any sum whatever to all the post-offices in Italy, Switzerland, France and Austria, in paper money, gold francs and florins, in the quickest and safest way. Telegraphic orders. Drafts, payable at sight, on all the principal cities of Europe. Notary public; legal advice free. Ocean and R[ail] R[oad] tickets.... Shippers by package post.... Depot for Marsala and table wines. Depot for S[an] Antonio tobacco, imported, prime quality (quoted in Koren 1897: 126).[4]

These banks primarily remitted funds to overseas locations, exchanged foreign currency, and accepted deposits for safekeeping in a proprietor's safe. Based on research conducted by the Congressionally appointed Dillingham Commission, the *Times* article also shared the Commission's discomfort with a large volume of financial transactions

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[3] "*Immigrant banks*" is the term employed at the time and appears when quoting original sources. But in the text I will use the term *immigrant private banks*.

[4] The advertisement appeared in Italian in a New York City paper and is translated and reprinted in Koren's article.

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existing wholly outside of formal money markets and embedded in the social relations of unschooled immigrant masses.

The Commission found that a vast majority of these banks were side business bankers—thousands of small proprietors (like grocers and rooming house operators) who simply added banking services as a sideline, often at their customers' insistence. They did not aspire to full-time banking and they were too numerous to count. Storefront bankers, on the other hand, were easily counted and numbered approximately 2,625 across the country. They hung a sign in the window announcing that they were banks (like Banco Roma). Fewest in number were stable banks that offered only a banking business; some of these had charters from the state (United States Immigration Commission 1911, hereafter Immigration Commission).[5] Despite the pervasiveness and size of the system, it remained largely unknown. Officials in the Treasury department commented to the *Times* that they "Never heard of such a thing as an immigrant bank," and that "We know nothing of any such institutions here."[6]

In order to learn more about the relationship between immigrant social capital and the state, I examined the details of the immigrant private banking controversy in Chicago, Illinois. Very little is known about unincorporated private banks (Sylla 1976; Redlich 1968) in general and immigrant private banks in particular (Gatton 1991; Lissak 1989). In 1910 Illinois was one of seven states that permitted private banking and the only major

[5] This is the restrictionist Dillingham Commission which produced an exhaustive 42-volume report on immigrants in the US. Despite its biases, the report is a wealth of information on how immigrants used these banks and the structure of the industry.

[6] "Immigrants Sent $275,000,000 Abroad in One Year," *NYT*, 2 October 1910.

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immigrant receiving state to not regulate the field (Immigration Commission 1911: 318).[7] By 1912, more than one-fourth of the nation's unincorporated immigrant banks were located there (Gatton 1991: 66). Chicago's record of activism on this issue leaves a meaningful historical record that culminated in 1917 when the state required all banks to obtain state charters.

For over ten years the city's immigrant, reformer and banking elites debated if private banking systems were worthy of the public trust and which type of public intervention would render them more trustworthy. Because trust is the real currency of banking, it is the nature of that trust—who has it, who should, and how it is structured—that makes informal immigrant financial systems objects of debate. Of particular interest to this study are the ways in which detractors of the private system crafted arguments about the public dimension of these private ties and how the two alternatives endorsed by the state—postal savings banks (1910) and mandated state charters (1917)—sought to use governmental authority as the basis of trust. The debate about the nature and limits of these unincorporated banks demonstrate why a financial system that was deeply interwoven with immigrant social ties became a public issue and how various advocates deployed public power to construct alternatives.

The chapter first describes the social ties that suffused this unfamiliar system of informal banking. This description is followed by the perspectives of immigrants, reformers and professional bankers as they diagnosed the "immigrant banking problem" and pursued policy prescriptions that embodied their sense of how the public sector

[7] The other six states were Arkansas, Georgia, Kentucky, Maryland, South Carolina and Vermont.

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should determine the kind of banking that was trustworthy. I summarize the major provisions of the two laws that resulted from this advocacy as well as assess how Chicago's immigrants responded to the introduction of federal postal savings banks and state chartered neighborhood banks. The final section of the chapter considers the persistence of affective ties in these new organizations as well as what occurred to social capital in these new regimes.

Unincorporated Immigrant Private Banks

Immigrants employed unincorporated private banks to meet their needs as they faced unfamiliar circumstances in a new world. Existing banks proved uninterested in the array of services immigrants required. Describing private banks in New York, Pozzetta found that, "[n]ewcomers primarily wanted an institution that would safeguard their small nest-eggs for short periods of time, send money to the homeland, operate a post office, sell steamship tickets, write postcards, give advice, secure employment, etc. Strictly banking business, in fact, often occupied a small part of the 'banker's' time" (Pozzetta 1971: 335). This array of services embedded immigrant private banks in layers of mutuality, reciprocity and social interaction. These banks began when customers of rooming houses, saloons, and grocery stores would ask to store their savings in the business's safe because funds hidden in a pillow or under a mattress invited certain theft. No one expected these deposits to bear interest but one could withdraw funds at will. Eventually, these small but regular deposits accumulated sufficiently to transmit money abroad or cover the cost of a steamship ticket for a visit overseas or to bring a relative to the US. Conventional bank loans were not a part of this arrangement, but proprietors regularly extended credit to

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cash-strapped workers for the goods and services provided, like groceries or other supplies (Immigration Commission 1911; see also Duis 1975/76; Kingsdale 1973 on the multifaceted role of saloons in immigrant life).

But sending money was only the beginning. Letters were currency of another type. The creation, mailing and receipt of letters by bankers embedded them in the lives of their immigrant customers. For the illiterate or those uncomfortable with the written word, the banker wrote letters to the homeland and read letters from relatives. Read and re-read to entire villages in Europe, these letters functioned as community documents and they contained information that served as a crucial link in the migration process (Immigration Commission 1911: 211-233; Hansen and Schlesinger 1940; Thomas and Znaniecki 1958 [1927]).[8]

The banker could also play a crucial role in helping relatives and friends re-unite. Once purchased in the US, a would-be emigrant could pick-up the steamship ticket at an office in Europe. After the steamship docked in New York City, delays at Ellis Island and an unreliable train schedule from the East Coast to the Heartland made the date of arrival in Chicago unpredictable. New immigrants often arrived with only the address of the "banker" stamped on back of the steamship or railroad ticket she carried. A "bank" representative would meet the new arrivals and guide them to the saloon or lodging house where their relatives could receive word of the person's arrival. Alternatively, the

[8] Some bankers received and sent mail informally while others were officially designated postal substations authorized by the postal service to receive and send mail. According to Hansen, the letter writer was aware that letters functioned as treasured community documents because of the expense involved in sending letters and the long time that passed between posting and arrival of letters. Through letters family members who planned to emigrate learned where they should settle when they arrived and how to find jobs.

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immigrant could take a cab from the train depot to the banker's address (Massachusetts Commission on Immigration 1914: 162-175, hereafter Massachusetts Commission).

In addition to their crucial role in the migration process, bankers provided a range of other services. One's banker, often a fellow countryman, knew local politicians, and offered information about happenings and job opportunities—all within the evening hours that workers found most convenient. They cashed paychecks. They served as notary publics who made affidavits for relatives traveling to the US, obtained exemptions from military service, and witnessed official renunciations of allegiances to the homeland. Their multifaceted services and unusual conveniences catered to the needs of their clients (Immigration Commission 1911: 209-219, 233-234).

Immigrant banks were widespread, well-established and worked. Even Frances Kellor recognized that "[t]he Greek coffee houses and immigrant banks are expressions of the immigrants' need for some place in which they may regularly meet and talk. ... It is essentially a personal transaction, based upon personal trust and racial ties. The immigrant in a strange country does not leave his savings with an impersonal corporation simply because it is chartered and supervised by the State" (Kellor 1915: 54).[9] Consequently, immigrant banks had an advantage with which chartered banks could not

[9] Before Frances A. Kellor went on to lead the Americanization movement that flourished during World War I, she was a social worker attentive to immigrant integration in society. A graduate of the University of Chicago and Hull House, she had a sympathetic view towards immigrants and played an early role in establishing New York State's first agency designed to address immigrant settlement, the Bureau of Industries and Immigration. She remained staunchly anti-restriction and desired immigration into the US to continue. However, the Americanization movement eventually adapted a more coercive approach to assimilation that discouraged hyphenated-Americanism and pressured immigrants to learn English and obtain US citizenship (on the evolution of Kellor and the national Americanization movement, see Higham 1965: 239-263; see also Costin 1983; King 2000; Tichenor 2002). Carlson (1970) distinguishes two strains of anti-restrictionist Americanization: a Hull House-based humanitarian strain and a coercive social control strain.

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compete. As the immigrant population across the country increased, so did the number of private banks (Barnett 1902). In Chicago, the city's population increased drastically from 1,099,850 in 1890 to 2,701,705 in 1920 (Nelli: 7). The immigrant population doubled in that time from approximately 450,000 in 1890 to 808,000 in 1920 (Langland 1922: 707).

Across the country, immigrant banks functioned well, except when they failed. Precise statistics on the extent of failure do not exist. Even in its extensive report based on a nationwide study, the Immigration Commission could not provide statistics on this point. The New York Commission of Immigration investigated losses due to the 1907 Panic and found that the amount of losses "'...though very heavy, could not be determined with exactness...'" (Immigration Commission 1911: 305, quoting the New York Commission's report). The *Chicago Daily Tribune* faithfully chronicled these losses, reporting at least a failure a month and sometimes a failure a week during economic downturns in 1912 and 1914.[10]

Though the percentage of failures may have been in line with normal turnover within any industry, the responses to bank failures differ from that which surrounds the closures of other businesses. The steady stream of bank closings engendered fear and panic among depositors. Before the advent of federally guaranteed deposit insurance in 1933, dollars in hand delivered the best assurance that one's funds were safe.[11] Consequently, actual bank failures, as well as rumors of failure, sparked "runs" where depositors stampeded banks

[10] This number is based on analyzing the frequency of coverage in the *Chicago Daily Tribune*.

[11] A handful of states had created deposit insurance programs. Illinois was not one of them. See Hammond 1957 on the origins of state deposit insurance programs. See Moss and Brennan 2001 for an overview of the experiences in the states before the New Deal introduced federal deposit insurance.

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to withdraw their funds, whether their specific bank had been at risk or not. Depositors that arrived early could be made whole before the bank ran out of cash and they permanently lost their savings.

Designing Public Trust: Perspectives and Prescriptions on Unincorporated Immigrant Banks

Immigrant Perspectives: A Trustworthy System Marred by Failures

The immigrant press chronicled these travails. Though many owners and publishers of the immigrant press were bankers themselves or among the community's elite and quite conservative (Higham 1964; Nord 1981; Park 1922), even socialist news outlets criticized the effects of bank failures on the overwhelmingly working class depositors.[12] The immigrant private banking business became home to fly-by-night operators who lacked deep community roots and exploited the affinity borne of shared language. The Polish newspaper *Dziennik Zwiazkowy* lambasted "scoundrels" like Koziello-Poklewski "...who, while conducting a 'bank' of that type, stole over eight thousand dollars of poor people's money and absconded." They noted the familiar modus operandi:

> A cheat establishing such a private bank usually operates in localities where people of his own nationality have settled. There he advertises himself in their language and immediately begins to ensnare his poor victims, who prefer to patronize one of their own countrymen rather than some 'foreigner'. Thus far, innumerable Italian, Slovak, Swedish,

[12] The immigrant newspapers cited here represent a variety of immigrant groups and political ideologies. English-language translations of immigrant news articles from this period are available through the *Chicago Foreign Language Press Survey* (*CFLPS*), a project of the Illinois office of the Works Project Administration. Between 1935-1941 WPA workers translated into English news articles that appeared in the immigrant press between 1890 to 1930. The WPA staff selected which articles to translate. While the views of the owners/editors of the immigrant press are not synonymous with those of immigrant residents, immigrant press coverage provide the best accounts of reactions within the immigrant community because they report the amount of the financial losses and the reactions of residents.

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> German, and Polish banks of questionable value have failed.[13]

The burdens of immigrant private bank failures fell heaviest on their customers. On the heels of three bank failures, the Czech socialist newspaper *Denni Hlasatel* observed that, "The total of the money involved amounts to one million dollars, representing the hard earnings of our less prosperous fellow-countrymen. The chances of restitution are slim indeed, only a small percentage of the amount, if any at all, is expected to be rescued."[14]

Immigrants did not view failures monolithically. They distinguished between failures caused by an economic downturn or unfortunate errors in judgment and those resulting from intentional fraud. The first found sympathy, the latter disgust. Consider the case of Silverman:

> His insolvency is a surprise to him, he was planning on launching a financial institution. Secretive and close in all his dealings, his business was confined almost exclusively to the Hebrew peddlers and small merchants to whom Silverman was at once oracle, prophet, and judge. Not even now yet have they lost confidence in their old idol. Shattered it may be, perhaps, but most of them accept his statement that they will be paid in full as gospel truth.' ...His bank had gone through all the financial panics since the early [eighteen] fifties without suspension for a day or repudiating an obligation. Recently he had desired to become a known financier in mainstream community, not just in the Jewish community. He joined with Marshal [sic] Field and others investing in iron mine [sic]. He invested in a salt mine. He made other investments. They turned sour.

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[13] "Private 'Banks," *Dziennik Zwiazkowy*, 1 November 1910 (*CFLPS*, Polish).

[14] Editorial, *Denni Hlasatel,* 7 April 1917 (*CFLPS*, Bohemian).

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> He has no cash on hand to handle requests from depositors.[15]

As his financial capital plummeted, confidence in Silverman remained high. The staunch faith of his customers formed the bedrock of the relationship that had allowed Silverman to be successful for decades.

The most caustic vitriol was reserved for long-standing community bankers whose fraud was later uncovered. *Denni Hlasatel* describes the effect of the failures of the house of Pitte which had been in business for over forty years, the Tuma bank, and the Dubio bank.

> In every case, the cause of the break down must be assigned to unsavory practices, perilously close to plain stealth, and not to a typical catastrophe as a result of any general financial crisis; even a well conducted concern may become a victim of the latter.[16]

The failures of banks with high standing in the community revealed the dirty dealings undetected by customers. Pitte, in its final year of operation, took in $120,000 in savings and small deposits. But Pitte's bank was never inspected nor examined by outsiders until it entered receivership. At that time, decades of forgeries and fraudulent transactions were unearthed.[17] Unfortunately, the predictive capacity of a common ethnic bond to indicate

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[15] "Fall of Silverman—Hebrew Banker's Great Surprise at his Failure," translated from Yiddish (name of paper not specified) (*CFLPS*, Jewish). This article was a Yiddlish translation of an article first published in the *Chicago Daily Tribune* on 6 August 1893. Silverman began as a peddler and gradually rose to the position of banker, earning his customers' trust and respect as he pulled himself up from rags to riches. On the role of credit among Jewish peddlers in Chicago, see Eastwood 1991.

[16] Editorial, *Denni Hlasatel*, 7 April 1917 (*CFLPS*, Bohemian).

[17] Ibid.

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trustworthiness lost its utility when both long-standing and fly-by-night banks operated fraudulently.

Immigrant Prescriptions: Minimal State Intervention

Stable, honest bankers within the system risked being tainted by their association with failed banks. Even as the editors insisted that, "[t]o date, honesty has been a privilege and the rule in the transactions of our people," they also admitted that failures generated public distrust in *all* immigrant bankers.[18] The immigrant press generally supported efforts for regulation. A Polish newspaper endorsed the *Chicago Daily Tribune*'s call for private banking legislation: "State laws ...rules and regulations...would give the immigrants absolute guarantee that the money deposited by them in a bank...will be safe."[19] On several occasions, these newspaper owners assisted reformers by agreeing to publish public service announcements that warned of the dangers of immigrant bankers. But participation in reform efforts did not mean that immigrant leaders embraced all of the reform agenda. A Polish newspaper pointedly rejected "the chauvinistic aspirations of melting all immigrants into patented Americans in their pot of Americanization."[20] Immigrants did not emerge as decisive political actors in ensuing policy debates, however.[21] As a result, their demand for a governmental response lacked specific policy content and Chicago's reformers and large downtown bankers spearheaded regulatory

[18] Editorial, *Denni Hlasatel,* 7 April 1917 (*CFLPS*, Bohemian).

[19] "Private 'Banks'," *Dziennik Zwiazkowy*, 1 November 1910 (*CFLPS*, Polish).

[20] "In Defense of the Immigrants," *Dziennik Zwiazkowy,* 24 October 1916 (*CFLPS*, Polish).

[21] If immigrants were a decisive political factor, either at the grassroots level or as an elite interest group, sources and references would mention or discuss them. But no sources furnish evidence of such sustained immigrant political engagement to shape these issues. Immigrants are present but do not appear

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initiatives. We now turn to their perspectives on the immigrant banking problem and their policy preferences.

Reformer Perspectives: Private Capital Cannot Protect the Public Interest

Although the immigrant banking system served an essential function, no institution in Chicago was more perturbed by its persistent shortcomings and vocal about alternatives than the Immigrants' Protective League (IPL). From the IPL's inception in 1908 until the passage of private banking legislation in 1917, every annual report highlighted the problem of immigrant banks and their efforts to address it. In their view, bank failures, along with the missteps of immigrant lawyers, employment agencies (*padrones*),[22] "quack" doctors and other service providers, degraded immigrants' adjustment to life in the United States and hampered their successful assimilation.

The IPL sought to alter the environment immigrants entered and to vanquish the forces that thwarted immigrant efforts to achieve success. To that end, the IPL's staff lobbied city, state and federal agencies to introduce, improve and expand services for immigrants and they opposed nativism, hostile Americanization and other expressions of anti-immigrant sentiment (Costin 1983).[23] In addition, the League's multi-lingual staff assisted immigrants with resolving individual grievances with service providers and public agencies. They helped to file visas and citizenship applications, re-united new arrivals

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to be as organized and insistently focused on the banking issue as reformers and traditional bankers became.

[22] Immigrant labor brokers, also known as *padrones*, assembled work gangs for employers. They drew criticism for charging would-be workers exorbitant fees for jobs that did not exist and for draining the wages of workers through overpriced rent, grocery stores and other services at job sites.

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with relatives and friends in Chicago, and served as translators for their clients in court proceedings. Building on the insight gained from its service and advocacy experiences, the IPL sought more far-reaching change by lobbying for new legislation and new government agencies to serve new arrivals.[24]

Jane Addams' Hull House and the settlement house movement incubated the IPL. Across the country, female reformers who were overwhelmingly white, middle-class, American-born, college-educated and single dedicated themselves to social service lived in settlement houses that provided an array of social and cultural activities for immigrants. This was certainly true for IPL's founding director, Grace Abbott, who lived at Hull House before, during and after her decade-long tenure with the League. Hull House emerged as an intellectual and training juggernaut for many women who later held leadership positions in the non-profit and public sectors. Nationally, the settlement movement advanced a liberal, inclusive approach to immigrants but it also spawned those who took a harder, "they must conform to us" Americanization stance, such as Frances Kellor, another Hull House alumna.[25]

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[23] For example, the IPL frantically worked to halt the deportation of immigrants that occurred during the anti-communist, anti-union Red Scare of 1919. They criticized the indiscriminate raids and the absence of due process in the deportation process.

[24] Grace Abbott wrote extensively on related issues. See for examples, *The Immigrant and the Community* (New York: Century Company, 1917) and *From Relief to Social Security: The Development of the New Public Welfare Services and their Administration* (Chicago: University of Chicago Press, 1941). Ernst Freund, one of the founders of administrative law, served on the IPL's board for twenty-five years and assisted them in most of their legal endeavors. His scholarly work includes *Standards of American Legislation* (Chicago: University of Chicago Press, 1917) and "The Problem of Intelligent Legislation," *Proceedings of the American Political Science Association* 4 (1907): 69.

[25] Grace Abbott differs considerably from Americanizers like Kellor. However, early in their careers their perspectives, especially on immigrant banking, were similar (see King 2000 and Higham 1965 on these divergencies among pro-immigrant progressives).

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The IPL differed substantially from settlement houses. The latter furnished a host of social and recreational services to immigrants. The IPL, and its counterparts in major locales such as Boston, New York and San Francisco, actively pursued policy interventions that would alleviate the legal and economic disadvantages that systematically entangled Chicago's immigrants. These nonprofit organizations, and the state commissions they eventually morphed into, advocated for immigrants in policy venues as well as in individual cases. They pursued resolution of disputes between immigrants and deadbeat employers, exploitative lawyers, landlords, and bankers. These individual cases furnished direct lessons in the shortcomings and failures of some immigrant service providers. For every complaint they received, they assumed many remained unreported.[26] In the IPL's view, the breakdowns in the system were not anomalous but systemic. The IPL found that the immigrants who sought its services often proved too ashamed, embarrassed or frustrated to seek alternatives to the unincorporated banker and too unfamiliar with systems in the US to pursue policy solutions. Far from being armchair ponderings, policy solutions flowed directly from direct experience and interaction with immigrants whom the system had failed. Though these reformers functioned from a sympathetic, pro-immigrant stance during a period when nativism reigned , they also believed they had a superior approach to ensuring that society met immigrants' needs.

[26] In 1911, of the 262 complaints received by New York State's Bureau of Industries and Immigration, 141 were for non-transmission of funds. Agencies could only report the number of complaints they received but assumed that most violations remained unreported because many immigrants were not aware of the agency's existence or could not communicate in English. New York State Department of Labor, *Second Annual Report of the Bureau of Industries and Immigration for the Twelve Months Ended September 30 1912*, (Albany: State Department of Labor) 1913: 4.

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On the question of immigrant banks, the IPL concluded that the fundamental flaw in this system (and with many immigrant services) rested in a for-profit structure that placed the financial desires of owners above the interests of customers'. In short, profit trumped service. Coupled with the immigrant customer's ignorance about the US, private businesses guided primarily by the profit motive undermined the integrity of private banking transactions. Where today's scholars would consider private banking as rich in social capital because of its reliance on relationships and trust (see Rae 2003), the IPL and many contemporary observers viewed the personal relationship between the immigrant and his banker as unstable and vulnerable to deceit, fraud, and exploitation. In their view, shared language, region or country of origin proved poor measures for evaluating another's trustworthiness.[27]

The IPL's work with immigrants who had been defrauded furnished ample examples of the shortcomings of private service providers. With regards to bankers meeting customers on the docks, Abbott noted that "[t]hese immigrant bankers and ticket agents, for obviously commercial reasons, encourage those in America who are sending for their relatives or friends to give the address of the bank. This practice should be discouraged by the government, as investigation shows that the banker seldom knows what has become of girls who gave his address on the manifest sheets" (Massachusetts Commission 1914: 164).[28] Some bankers deceived clients through excessive and frivolous charges or failure to

[27] "Eleven Years of Community Service: A Summary of the Work of the Immigrants' Protective League," January 1920, 7, IPL II, Box 4, File 60 "IPL—Annual Reports II, 1917-1954."

[28] Grace Abbott authored this report. The state of Massachusetts hired her to conduct this study for which she received a leave from the IPL. The Massachusetts report furnishes the clearest written statement

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render the service paid for. In one scheme, private bankers with notary public designations who offered "legal advice" misled customers to believe that they were more schooled in the law than lawyers, like notaries in Europe. In reality, such advice could only be that of a countryman more schooled in the ways of the US than the newcomer. Some bankers offered bogus investment opportunities to customers. A *Chicago Daily Tribune* reader invested $750 in a La Salle Street project upon his banker's solicitation, only to learn that it was the "rankest of swindles."[29]

The IPL sought to protect immigrant customers *and* immigrant bankers. They cast unincorporated bankers as trapped in a system where they were free to fail. Instead of casting unincorporated bankers as venal, they instead paternalistically cast them as simply 'in over their heads.' Well-meaning storekeepers and boarding room operators would agree to accept a few deposits as a courtesy to a few customers would unwhittingly find themselves deluged by a flood of banking requests without the skills or inclination to keep track of all these funds. Some did not resist the temptation to pay off debts and make investments with this new source of cash, a perfectly legal option because no law governed how unincorporated bankers used depositors' funds.

Some bankers were unscrupulous. They deliberately delayed sending remitted funds and obfuscated their actions. For example, immigrants could expect to receive letters from overseas confirming that transmitted funds arrived. Because letters normally arrived

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of her views on the shortcomings of immigrant service providers and the proper role of the state. She produced a similar report for Chicago but no archive holds a copy.

[29] "Bad Tip from a Banker," *CDT,* 1 October 1912, 8 (Letters to the Editor). On notary fraud, see the Massachusetts Commission on Immigration 1914: 189-192.

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months later bankers could manipulate customers by insisting that funds were sent but the letter simply had not arrived. For those bankers who took advantage of their customers, their clients' ignorance of the justice system and limited English language skills often assured the silence of their victims (Massachusetts Commission 1914; Koren 1897). Even as Abbott conceded that "[i]n some cases the immigrant banker is a public-spirited leader and interpreter of his people," she feared that "[i]n too many cases, however, the reverse is true, and it is part of his business policy to develop among his countrymen an undesirable dependence upon himself" (Massachusetts Commission 1914: 188).

In the absence of deposit insurance, immigrants had no legal recourse when banks went bankrupt. In the event of a bank's failure, depositors rarely received compensation because creditors were the first to receive payment. Nor could the courts assist immigrants. The key witnesses to the fraud were overseas (awaiting remitted funds or steamship tickets) US courts did not accept foreign telegrams or affidavits as admissible evidence (Claghorn 1969 [1923]).

Who would protect the interests of the trusting yet easily defrauded immigrant worker? The profit motive increased the likelihood that banks would "choose private gain over public good"; therefore, immigrant bankers could not be trusted to assure the public interest in protecting immigrants (Massachusetts Commission 1914: 202). Abbott argued that, "These people [i.e. immigrant depositors] cannot be properly guided... by the people whose interest in them is purely commercial" (Massachusetts Commission 1914: 214-215). This rendered the immigrant private sector inappropriate for the task of delivering financial services. As chief investigator of the Bureau of Industries and

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Immigration in New York State's Department of Labor, Frances Kellor complained that, "We leave assimilation to the private sector (*padrone*, banker, saloon, benevolents) which is to leave assimilation to hope and chance" (Kellor 1914: 160). The lure of private profits disqualified private bankers from the public responsibility of exercising responsible stewardship of the savings entrusted to him.[30]

The critique of immigrant private banks rested on this analysis of the structural mismatch between private profit and public service and not on an argument that most banks failed. In fact, most banks did not fail. In fact the incidents of failures were fewer than that suggested by this incentive structure. The IPL acknowledged this. Abbott observed that, "The whole responsibility for honest dealing under great temptation is placed on the immigrant banker. That he does not yield more frequently is perhaps the surprising thing" (Massachusetts Commission 1914: 188). Not actual failures but the potential for failure and deceit that defined the entire context within which bank operations occurred, at least in the eyes of these reformers.

Their analysis rendered immigrant bankers specifically (and for-profit immigrant businesses generally) as inappropriate for the task of protecting the savings of immigrant customers. As a result, the IPL argued that the government should step into the vacuum. The public had a duty to ensure that poor, uninformed immigrants profited from

[30] "Exploitation of Immigrants Under Investigation by the Immigrants' Protective League," IPL Box 4, Folder 42 "Foreign Newspaper Information, June 1926." Kellor made a similar point: "It is the contention of the steamship companies that they are best able to regulate the practices of their agents. In this I cannot concur, since the agents conduct many side lines of business and it may well be that methods which help the lines and serve competition *do not necessarily serve the best interests of the state*, nor do they necessarily give the best services to the purchaser of tickets, whose protection is *the immediate duty of this state,*" New York State Department of Labor, *Second Annual Report of the Bureau of Industries and*

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commercial relationships. The "peculiar helplessness of the immigrants" whose language barriers and civic weaknesses stymied the ability of the most vulnerable immigrants to protect themselves in a foreign and unfamiliar country amplified the state's responsibility to provide basic services (Massachusetts Commission 1914: 214). Abbott insisted that, "...for its own future welfare, the State must undertake to provide for the immigrant" who needed "disinterested guidance" by impartial state employees (Massachusetts Commission 1914: 214).

Reformers' Prescription: Postal Savings Banks

Its roots in the settlement house movement and the emerging social work establishment ensured that an organization like the IPL functioned as part of city, state and national networks with which it shared ideas and drew support. As part of the Chicago settlement house network, the IPL received clients from and referred cases to settlement houses.[31] An Addams protégé, Abbott emerged as one of the leading voices for the development of state capacity to assist immigrants and helped to cultivate the ability of state governments to sensitively respond to immigrant needs. The Massachusetts Immigration Board hired her to conduct a comprehensive study of the immigration problem and its California counterpart tried to hire Abbott as its director. Abbott remained in Illinois and succeeded in persuading the state to create the Illinois Immigration

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Immigration for the Twelve Months Ended September 30 1912, (Albany: State Department of Labor) 1913: 28, my emphasis.

[31] The Immigrant's Protective League was originally called the Immigrant's Service League. It evolved from a project of the Women's Trade Union League, which held its meetings at Hull House. Through this League, reform women combated white slavery and prostitution by meeting newly arriving immigrant women at the train depot and ensuring their safe arrival at their destinations. *History of the Immigrant's Service League*, n.a., n.d., IPL II Box 7, File 79 "Immigration—Historical Documents, Sept. 1922-1963"; see also *Hull-House Yearbook* (hereafter *HHY*), 1927/28.

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Commission where she served as its founding director. Abbott's national reputation came not from her work with immigrants but with her work with the federal Children's Bureau, which she left Chicago to head in 1921. Her efforts ultimately created Mother's Aid, and its successor, the Aid to Families with Children (colloquially known as welfare and now known as TANF) (Costin 1983; Gillon 2000). The continuity between these two phases of her professional career rests in her devotion to state building to address poverty and disaffection on issues previously ignored by the government. At this time, she pursued broad policy solutions to facilitate immigrant integration into the social and economic life of the country. Abbott and her colleagues placed an affirmative responsibility on the state to assist immigrants. She argued that in trying to determine the character and contribution of the new immigrants that "... we should inquire not only as to his moral standards, his capacity for self-government and his economic value but, equally important, whether his development in these directions is being promoted or retarded by the treatment he receives in the United States" (Abbott 1909: 3). Government's neglect of immigrants only compounded the problems immigrants faced and produced the very poverty that the public criticized.

In pitting the public good against private profit, reformers rendered service provision a government responsibility best met by disinterested government employees who did not possess a profit motive. Consequently, *postal savings banks* (PSBs) where post offices accepted deposits for savings accounts, presented the best option. Because deposits would be guaranteed by the US government and insulated from default, it was a financial system whose trustworthiness would be unquestionable. These banks remain the

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only example of the US government directly providing consumer financial services. From the outset, attracting immigrant funds was a major goal (Kemmerer 1911). The postal service was aware of immigrant demand for financial services because of the large volume of business conducted in postal money orders. Eighty percent of money orders were sent to six countries: Austria, Great Britain, Hungary, Italy, Norway and Russia. Some immigrants saved by purchasing postal money orders in their own names. Others sent funds overseas to be deposited in their postal savings account in their country of origin.[32]

The strongest opponents to and proponents for postal savings banks were from Chicago. The American Bankers Association (ABA) protested vigorously and quickly passed a resolution that "condemn[ed] in unqualified terms" the creation of PSBs. The president of the Chicago Savings Bank and Trust Company, Lucius Teter, led their campaign as chair of the ABA's postal savings bank committee.[33] In contrast, Congressman Martin Madden, a banker whose district included Chicago's influential financial district, introduced a bill to create postal savings banks, a position that placed

[32] The existence of 51,824 money-order post offices throughout the country mitigated the start-up costs associated with creating the PSB system. The post offices avoided the use of the term bank. The formal terms were *postal savings depository* to refer to a post office that received funds. The commercial banks where the post office deposited the aggregate savings it received were known as *depositories of postal savings funds.* These terms are cumbersome and I adopt the colloquial terms employed by Kemmerer of *postal savings bank* and *depository bank.*

[33] The ABA's 1908 resolution read: "Resolved, that it is the sense of this association that we should condemn in unqualified terms the proposition for the establishment of postal savings banks or any other system by which the government enters directly into banking relations with the people," (quoted in Kemmerer 1911: 474). Teter testified in Congress against the formation of PSBs in 1909 and he recognized the focus on immigrants: "The advocates of the postal savings bank argue –first, that a postal savings bank, being a government institution, would attract foreigners who have been accustomed to government saving institutions abroad, and knowing nothing of our institutions, will become more thrifty citizens if provided with the system in America." Lucius Teter, "Latest on Postal Bank Situation," remarks to Mississippi bankers at Columbus, OH, in *The Chicago Banker: A Weekly Paper Devoted to the Banking and Financial Interests of the Middle West,* 22 May 1909: 5.

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him at odds with his banking colleagues.[34] As the only contemporary expert analyzing PSBs, Princeton economist Edwin Kemmerer summarized the political faultlines: "The opponents of postal savings assailed the plan as a socialistic proposal, which would place the government in the banking business and make it a dangerous competitor of existing banks. The proponents, on the other hand, looked upon it as a well-tried device that would draw idle money from hoards, cause the foreign population to keep their savings in the United States instead of remitting them so extensively to their native countries, and provide savings facilities for our large rural population..." (Kemmerer 1917b: 46). In 1910, with President Taft's intervention, Congress authorized a process where post offices could apply to serve as depository institutions for savings accounts.[35]

The law reflected this duality: it brought services to the thrifty poor but in a way that would not compete with commercial banks, savings banks and trust companies.

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[34] He introduced H.R. 311 on December 2, 1907, see House Committee on Post Office and Post Roads, "Postal Savings Bank," 60th Cong., 2nd sess., 28 January 1909, and 61st Cong., 2nd sess., 23 March 1910, 161. Representative George Foss of Chicago also introduced a PSB bill. The Chicago Banker reported that Foss was strongly backed by (or, less charitably, did the bidding of) *Chicago Daily News* publisher Victor Lawson who is the "...original postal savings bank advocate in America." They credited the *Chicago Daily News* for winning the postal savings fight. *CBW,* 18 December 1909: 5; Editorial, *CBW,* 13 August 1910: 14.

The American Federation of Labor endorsed the creation of PSBs because of the impact of the private banking failures on workers. See House Committee on Post Office and Post Roads, Public Hearing, 61st Cong., 2nd sess., 16-18, 22 March 1910, 181.

[35] When the bill faced death in the house committee, Taft called a White House meeting and pressured Ohio Republicans to support the measure by letting them know that "action upon this legislation is regarded by him as a test of party fidelity, being specifically promised by the Chicago platform." *The Chicago Banker: A Weekly Paper Devoted to the Banking and Financial Interests of the Middle West,* 29 January 1910, p. 21 and *idem* 30 April 1910 p. 19. The bill passed with one of the highest cohesive vote scores (i.e., the level of unity between the two parties) (Chubb and Allen 1967).

Initially a three-person Board of Trustees would choose the post offices that could offer this service. By 1911 Congress transferred decisionmaking to the postmaster-general. Control and investment of the deposited funds remained with the Secretary of the Treasury (Kemmerer 1911: 478-479).

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Deposits. Persons ten and older could open an account and make deposits. No more than a hundred dollars could be deposited in one month and initially, no more than three hundred dollars could be kept in an account (excluding interest). In 1916 Congress eliminated the monthly limit and increased the maximum deposit to $1,000 and raised it again in 1918 to $2,500 (Kemmerer 1917a: 71; O'Hara and Easley 1979: 744).[36] When an account reached the maximum limit, depositors could purchase US coupons or registered bonds that paid 2.5 percent interest (Kemmerer 1911: 486-495). Each depositor was limited to one account and transferals of accounts to other locations were prohibited. This meant that immigrants who moved had to close their postal accounts and re-open accounts in a new location. Doing so meant they forfeited interest payments if less than a year had passed.[37]

Interest. The annual interest rate of two percent was the lowest of any rate paid by postal savings banks in the world and fifty percent less than that averaged by commercial banks. But it was certainly more than the alternative of hiding funds at home or converting one's cash to money orders. Interest was paid annually. Early withdrawals entailed a forfeiture of interest. Compound interest was not allowed but depositors could

[36] The 1916 provision also allowed for an additional $1,000 to be deposited above the maximum that would bear no interest. However, the postmaster general did not exercise this provision (Kemmerer 1917b: 71).

[37] Funds were tracked via a certificate of deposit rather than a passbook. The certificates were issued in denominations of $1, 2, 5, 10, 20, and 50 and bore the name of the depositor, the account number, date of issue, name of post office and date on which interest began. With each deposit, the postal clerk made a duplicate of each certificate and the depositor signed both documents, and each retained a copy for their records. With each deposit and withdrawal, a new certificate was issued (Kemmerer 1911: 479-483).

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withdraw the interest and deposit it as a portion of the principal (Kemmerer 1911: 485-486).[38]

Safety of Funds. The PSB would avoid bank runs by guaranteeing payment on demand. No restrictions would be placed on the withdrawal of one's deposits. However, if a postal branch ran out of funds, withdrawals could be deferred until sufficient funds were obtained from the *depository banks.* To meet this obligation, PSBs had to guarantee that the deposits would be invested safely. To assure this, depository banks had to guarantee a minimum of a 2.25 percent return on the deposits and supply public bonds or other securities supported by the taxing power that were equivalent to the funds the post office deposited. As a result, PSB deposits could only be placed in the safest and most stable banks. No funds were lost in the system because the security provision was so strong. Unincorporated banks, mutual savings banks and savings and loan associations were excluded from receiving deposits.

Location of Funds. To ensure that PSBs were not unfairly keeping funds that the American Bankers Association argued would otherwise be deposited in local banks, post offices were required to deposit the funds they collected in neighboring financial institutions. To eliminate favoritism in the selection of these depository banks, PSBs divided their deposits amongst participating banks in proportion to the bank's size. If no

[38] The United Kingdom possessed the next lowest rate at 2.5 percent and Japan the highest with 4.2 percent. Kemmerer found that by 1917 "Sixty-two per cent of the deposits are withdrawn before they have been on deposit one year..." leading to a substantial profit for the postal system. "The government is now realizing large profits from the postal savings system...and this profit is coming from a class of people in the community from whom it is bad social policy to take it, *viz.*, from the thrifty poor." Kemmerer preferred interest to accrue every three or six months (Kemmerer 1917a: 74-75).

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such banks existed in the state (by circumstances or by choice) then the funds were deposited at the Treasury in Washington, D.C. [39]

Immigrant Responses to Postal Savings Banks

Immigrants embraced postal savings banks. One banker dismissed the notion that immigrants feared US institutions and argued that no one would accept a two percent interest rate when savings banks offered four percent.[40] But this prediction grossly misread the market. Immigrants brought savings out of hiding for safekeeping with the US government. In the summer of 1911, PSBs expanded from the small towns where they first opened and ventured into the big cities when Boston, Chicago, New York, and St. Louis opened their PSBs simultaneously on August 1st.[41] In the first twelve days of operation, Chicago's PSB deposits were double those of New York and four times that of Boston.[42] In its first year of operation, Chicago had the highest postal savings rate with

[39] Ironically, little local investment occurred because few banks opted to participate. Kemmerer reports that the required securities tied up too much of a bank's capital and made the system unattractive (Kemmerer 1917b: 77-86;). O'Hara and Easley found that in 1935 only 5.8% of the $152 million deposited in Illinois' PSBs were re-deposited in the state (1979: 750-752).

[40] "The Foreigner and Postal Savings Banks," *Bankers Magazine*, December 1909, p. 913-914. The author argues that, "There is no reason on earth why the foreigner, or any one for that matter, should entrust his savings with the postal savings bank in preference to any of our independent banks. And surely there is nothing to indicate that a post office bank...will attract the money, when conservative, profit-sharing, savings banks are offering four per cent...and yet cannot divert the foreign laborers' money into their vaults." He further argued that immigrants did not bank in the US because they planned to return to their countries and therefore chose to save abroad. He felt that this practice would continue after PSBs were launched and therefore PSBs should not expect any deposits.

[41] "Postals for Central Reserve Cities," *The Chicago Banker: A Weekly Paper Devoted to the Banking and Financial Interests of the Middle West,* 29 July 1911, p. 17.

[42] Chicago had $108,316, New York $53,029 and Boston $26,722. Fifty percent of Chicago's depositors were US-born but, like foreigners, they reportedly did not have accounts at state or national banks. The PSB was located at the main post office branch in the downtown loop district. See "Chicago's Postal Bank Leads," *The Chicago Banker: A Weekly Paper Devoted to the Banking and Financial Interests of the Middle West,* 26 August 1911, p. 17.

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$1,250,000 in deposits.[43] By 1913 there were 12,151 offices across the country and by 1921 Chicago had over 50 banks at postal stations, including one at Hull House.[44]

In letters and communiqués to the Postmaster General, local postmasters reported that they turned away more deposits than they accepted because of the depository limits. Kemmerer concluded that, "in the United States the postal savings bank is to a large degree an immigrant's bank" (Kemmerer 1917b: 57). According to data collected by the American Bankers Association in 1916, sixty percent of the depositors were foreign born and their deposits accounted for seventy five percent of the all deposits in the system. Greek, Russian and Italian nationalities utilized the system disproportionately. PSBs were most popular in cities with an industrial base and in the mining and lumbering states along the West coast. Four states accounted for fifty-four percent of all deposits. In order, they were New York, Pennsylvania, Illinois and Ohio. By 1922 the Chicago office ranked third in the nation with $6,471,988 in deposits from 15,059 depositors (a mean of $430 per depositor at a time when Congress raised the initial $300 deposit limit to $2,500 in 1922) (Langland 1922: 874). For the thrifty poor, postal savings bonds provided a safe permanent investment.

Disadvantages. In contrast to Daniel Carpenter's argument (2001) that the creation of the postal savings banks serves as an example of bureaucratic autonomy, social workers in the field registered frustration with the system's inability to operate flexibly and truly

[43] If each account met the initial $300 limit, then approximately 4,166 residents opened accounts. But this estimate minimizes the number of depositors as few probably deposited the maximum when they opened an account. Hence the number of depositors could easily be triple or quadruple this amount. "Chicago Postal Savings Big," *NYT*, 1 August 1912, p. 12.

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compete with unincorporated banks. Washington, DC-based decisionmaking allowed PSBs to offer uniform and universal access to services, but it hampered their ability to respond quickly to local needs. Postal clerks could not translate forms for non-English-speaking immigrants, nor could they assist them with filling out the forms. Forms were available in twenty-three languages, but government workers could not aid immigrants who were illiterate in their native language. Three months after opening, Chicago's main post office offered services on Saturday afternoon and bandied about plans to stay open until 8 p.m. on weekdays. However, immigrants needed evening services from the start. Abbott expressed frustration that *disinterested* public servants appeared *uninterested* in aggressively overcoming the obstacles that would allow the PSB to effectively compete with private bankers. At the very least, the post office needed to advertise and promote the service and make immigrants aware that this service existed (Massachusetts Commission 1914: 186-187). The centralization of operations in DC and the need for public and administrative approvals for changes in service meant that postal savings could not function as a responsive market institution, a fact that certainly pleased the American Bankers Association who did their best to saddle the new agency with requirements that confined postal savings to the least profitable segment of the market while the layers of approval required in a public bureaucracy to obtain program changes assured that postal banks would always function as sluggish second-class institutions compared to formal banks. At the same time, traditional commercial banks did relatively little to improve their

[44] The 12,151 figure is from Kemmerer 1917b: 48. For a list of postal bank stations see Langland 1922: 874.

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services for immigrants (Goddard 1918; Higley 1919).[45] They did a better job in the 1920s but these changes remained meager in comparison to the need (Day 2002; Germain 1996).

Free, accessible to all and public-spirited, the postal system possessed all the virtues the Immigrants Protective League valued. It represented a trustworthy financial system grounded in the guarantee that government would pay interest on savings and would not default. Safety and security, not earning the highest interest possible, remained the primary motive for making a deposit at PSBs.[46] Even though many depositors trusted the government with their funds, many more continued to utilize private banks. In Massachusetts in 1913 PSBs transmitted $6.2 million in abroad via international money orders where immigrant banks transmitted $7 million (Massachusetts 1914: 178). The persistence of private banks meant that failures continued as well.

Like postal savings, Abbott's brand of Progressivism enjoyed modest success but fell short of the aspiration to create comprehensive government services for immigrants that would ultimately replace the immigrant private sector. The promise and pitfalls of public interventions centered in government bureaucracies is evident in her attempts to build an immigrant policy bureaucracy in Illinois. In 1919 Abbott persuaded the Republican

[45] Goddard observed that "A great many banks...especially true of some banks in foreign sections...fail to get acquainted with the workings of the foreigners' minds and with their habits of life" which he contrasted with a local bank which gave services in over ten languages and whose owner reported that his bank staff "cultivate[d] the acquaintanceship of the individual depositor with the hope that he will feel that he is dealing with a personality as well as institution. Foreign-born people like to deal with people rather than institutions" (Goddard 1918: 758).

[46] "As a matter of fact the interest rate paid is so low that it makes a very weak appeal to the class of people who deposit in the postal savings banks. Their motive is primarily security" (Kemmerer 1917b: 75). When interest rates fell during the 1930s and matched those of the PSBs, depositors withdrew funds from banks and deposited them into the postal system (O'Hara and Easly 1979).

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Governor Lowden to create the Illinois Immigrants' Commission with her as the first director. The IPL dissolved itself now that a state agency with official authority and a state-wide reach could comprehensively investigate and intervene on behalf of immigrants. Ultimately, the Commission was short-lived and Abbott proved its sole administrator. The subsequent administration de-funded the Immigrants' Commission in 1921 when Abbott refused to appoint patronage employees (Costin 1983: 120).

Professional Bankers' Perspectives: All Banks Deserve the Public Trust

Although postal banks best conformed to many of the IPL's concerns about immigrants, they also endorsed state supervision. Of the two options that existed, the IPL preferred mandated charters with its required government inspections of bank operations over a licensing system which did not entail high levels of oversight. The IPL constantly courted new organizations to join the effort to regulate unincorporated immigrant banks. They had invited immigrant bankers and immigrant newspaper owners to join their campaign and received a lukewarm response. Chicago's downtown commercial bankers responded favorably. Commercial bankers agreed with the Immigrants Protection League that immigrant private banks presented a problem. However, their position as for-profit, private market actors placed them at odds with a policy position that critiqued the profit motive and equated public trust with public employees, even though social workers applied these conclusions to immigrants rather than to bankers generally. These large bankers functioned under government charters where state or federal agencies authorized private organizations to serve the public if they met minimum standards. The IPL supported mandated charters for unincorporated bank but bankers

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played the more prominent role in shaping this type of banking legislation than social workers because they had pre-existing well-organized and focused interest group.

While informed by the IPL's perspective, bankers developed their own views on the public implications of immigrant financial transactions. Although some bankers held nativist, anti-immigrant views, Chicago's chartered bankers largely expressed sympathetic pro-immigrant views similar to those of the IPL. They agreed with the IPL that "[t]here are able and responsible private bankers" amongst immigrants.[47] In an article in the region's leading banking magazine, the president of the influential Illinois Banking Association (IBA) articulated his position on state supervision of unincorporated (or private) banks: "I do not mean to say ...that lots of our private bankers are not capable and strong as the organized bankers—for some of them are their equals or superiors—but the lack of private banking laws in this state has already done much harm and stands as a constant menace."[48] Although they could not join the exclusive Chicago Clearing House Association (CCHA) as members, the best unincorporated immigrant bankers could acquire affiliate status and in this way were well-known to the most elite downtown banks (Huston 1926, vol. I: 503). Affiliates could remain unincorporated but passed

[47] "A Model (?) Private Bank," *The Chicago Banker: A Weekly Paper Devoted to the Banking and Financial Interests of the Middle West* (hereafter *CBW*), 9 October 1909. This periodical covered banking, finance and real estate issues in Illinois and the Midwest and diligently covered how other states addressed the issue of unchartered banks. Because it positioned itself as a vehicle for education and persuasion it published reports, letters, speeches and analyses of laws by banking superintendents, attorney generals and fellow bankers. Its editorial position unwaveringly favored regulation but the news pages regularly reported on the arguments and activities of those opposing its editorial views. In addition, I consulted two other regional periodicals: *The Chicago Banker: A Financial Journal* and *The Economist: A Weekly Finance, Commercial, and Real Estate Newspaper*, but they both had limits. The first went out of print after three years (1899-1901) and the second primarily published raw financial and other data on industries in the Mid-West.

[48] "Further Demand for Bank Supervision in Illinois," *CBW*, 12 November 1910, p. 5-6.

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rigorous inspection procedures that had become an industry hallmark for safe bank operations.[49] But a pro-immigrant attitude did not mean legislation was unnecessary. Bankers agreed with the IPL that the presence of good private bankers only "cloak[ed] such institutions as the [failed] Schiavone bank. "[50] Although bank chartering legislation could be a vehicle for nativism and for exerting punitive controls on the immigrant community, the bankers and social workers who dominated this issue did not operate from that stance. Regulation was not inherently anti-immigrant, even though nativists could advocate regulation as advancing their agenda and Democrats could cast new laws as inherently hostile to immigrant communities. However, those immigrant bankers who preferred the status quo did not address the downsides of an unregulated system. Their failure to address the problems within immigrant banking (for example, they could have engaged in self-monitoring) left the issue open to other actors who felt strongly about the issue.

But immigrant bank failures were not solely an immigrant issue. For the IBA, the occurred as a banking industry issue as well. Immigrant bank failures became a vehicle to debate the public responsibilities of private organizations that they were entrusted with the task of managing the savings of the public. Where the IPL focused on how bank failures affected immigrant customers, the IBA focused on the effect of immigrant bank failures on the public's faith in the banking industry. Failures tarnished the public's trust

[49] Affiliates submitted sworn statements of condition five times a year, agreed to inspection of their books by a CCHA designated inspector and had check clearing privileges. Chicago added the innovation of CCHA inspection of its member banks. These inspections were widely regarded as more reliable than government inspection and the practice was quickly copied by associations across the country.

[50] Ibid.

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in *all* banks.[51] Runs were contagious and the fear and anxiety they induced led unaffected customers to demand cash from their bank to reassure themselves. When immigrant private banks failed, customers would stampede and withdraw funds from stable, well-run banks as well. This spillover effect occurred because the term *bank* implied state incorporation and customers did not treat charters and unchartered banks differently (Huston 1926, vol. I: 463).[52] Immigrant bank failures eroded the public's trust in all banks which marred the image of the entire banking industry.

But bankers did not speak with one voice. Three groups existed: immigrant bankers (largely unincorporated and in Chicago), loop bankers (largely chartered and based in Chicago) and country bankers (who served rural areas). Unincorporated immigrant bankers, whether they supported or opposed regulation, were sidelined by division between loop and country bankers which drove the policymaking apparatus. Pro-regulation bankers often possessed state or national charters and were central to the operations of Chicago's financial district known as the *loop*. Loop bankers, typically the largest commercial bankers, sat at the center of financial transactions of the entire Midwest and for whom large bankers like those on New York's Wall Street served as their reference group.[53] However, it was *country bankers* who overwhelmingly served the

[51] The IBA president B. F. Harris lamented the fact that banking remained the only unlicensed professional field, such that anyone can "...hang out a banker's sign, disgrace our business, defraud our citizens and perchance destroy financial credit and shake confidence in our community and in the sound banks for the time being" ("Further Demand for Bank Supervision in Illinois," *CBW*, 12 November 1910, p. 5-6).

[52] See also "Private Banking Not Sufficiently Defined by Law," *Chicago Banker: A Financial Journal*, 15 March 1899.

[53] Though some wished Chicago could have a prestigious private banker like J. P. Morgan that could engage in high-end financial transactions free from the constraints that government charters imposed, popular sentiment ran against the operation of such a bank. Morgan's bank had also fell under intense

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needs of this largely agricultural state. Like immigrant banks, they were small, numerous and overwhelmingly unincorporated but they differed in the fact that they were formal members of the Illinois Bankers Association and functioned as an organized voting block within the banking industry. Their opposition to banking legislation proved crucial. Country bankers vigorously disagreed with their loop colleagues about the role of regulation in securing the public's trust in banks. Their operations demonstrated that trustworthiness did not require the state's imprimatur. The personal relationships of rural communities rendered regulation superfluous, such that only a handful of country bankers bothered to obtain charters. The scourge of private bank failures were a distinctly Chicago problem which should not entail country banks to alter their operations.

Among those who supported mandatory chartering legislation was the head of the IBA, B.F. Harris. Harris staunchly believed that the banking industry needed to professionalize and that private banks were out of step with the future of the field. Mandatory chartering laws would assure the public that every bank was trustworthy. He observed that the fields of law and medicine had professionalized but banking still lacked consistent rules and regulations. Harris himself was a country banker who voluntarily obtained a charter. Pro-regulation bankers further argued that stable, well-managed operations would have nothing to fear from government oversight. They claimed that opponents feared new laws because their tomfoolery would be exposed under public disclosure requirements.

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public criticism culminating in the anti-monopoly, trust-busting Congressional Pujo Commission investigations. See Chernow 1990.

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Consequently, loop bankers (and country bankers who had obtained charters, like B. F. Harris) proposed private banking legislation that unchartered country bankers subsequently blocked. For all their financial power and influence, Chicago's chartered banks represented a small fraction of all banks in the state. By 1915, only 155 of the 1,424 banks in Illinois (this number includes state chartered as well as unincorporated banks) were located in Chicago (Huston 1926, vol. I: 572). Unlike their immigrant counterparts, country bankers were seen as legitimate, financially sound, viable and they were members of the IBA. Despite their small size, the large numbers of country banks gave them influence. Previously organized as the Private Bankers Association, country bankers merged with the IBA in 1894, doubling the organization's membership. The country banks were guaranteed representation on all committees and at least fifty percent representation among officers and on the governing council. They also retained a standing committee within the IBA (Gattton 1991: 1, 13-15, 67). Country bankers were also customers of loop banks. Through correspondent banking relationships, country bankers kept their deposits in loop banks that, in turn, used the capital to invest in national and international financial markets. In turn, loop banks furnished country bankers with a consistent cash flow by furnishing loans to country banks for the planting season when cash was low. These loans were re-paid once farmers sold their crop and funds flowed back into country banks.

Harris pursued mandatory charters with the support of industry leaders (concentrated in Chicago) like Charles Dawes who had served as Comptroller of the Currency from

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1898-1901.[54] In July 1912 the Illinois Bankers' Association (IBA), the state's foremost bankers' professional group, received a report on private banking from the IPL that recommended regulation of all private bankers. The IBA's Executive Committee approved the IPL report but the proposal met defeat when placed for a vote before the Convention.[55] Soon thereafter Harris proposed that the IBA appoint a committee to determine whether all banks should be under supervision but on a crucial vote needed to appoint the committee, the chartered bankers strategically moved out of the quorum to avoid a "yes" vote. By avoiding the vote, chartered bankers would not offend the country bankers with whom they did a large business (Gatton 1991: 66-67, 83).[56] Undeterred by this defeat, Harris informally appointed a committee chaired by Charles Dawes who proceeded to draft private banking legislation.

This conflict between country bankers and pro-regulation bankers persisted for almost a decade with the IBA leadership proposing reforms and the organization's membership voting down the proposals. As a result, IBA convention delegates rejected proposals that called for taking an official position on private banking legislation in 1912,

[54] Dawes, best known as the author of the Dawes Plan, also served as founder and president of the Central Trust Company of Illinois, a major Chicago bank. Dawes received the Nobel Peace Prize in 1925 for the Dawes Plan to reconstruct Germany after World War I and served as Vice President to Calvin Coolidge from 1925 to 1929. His bank sat the center of the controversy that contributed to Herbert Hoover's defeat when it was revealed that it received a multi-million dollar loan from the Reconstruction Finance Corporation. Critics claimed this financial assistance epitomized Hoover's preference for helping big business while ignoring the needs of the common citizen.

[55] *Fourth Annual Report of the Immigrants' Protective League for the year ending January 1st, 1913*, p. 20.

[56] The vote was 13 to 11 with the majority consisting of 11 private banks, a state and a national bank.

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1914 and 1916.[57] In addition, country bankers effectively ensured that private banking bills never passed the state legislature's House banking committee. Several members of the House committee were country bankers or represented rural districts where country bankers were influential.[58] As a result, the state legislature failed to act on banking bills in 1912, 1914 and again in 1916, even though the Chicago city council unanimously endorsed a recommendation in 1912 that the state adopt a banking law.

The election of 1916 helped to break the longstanding logjam. In 1916 private banking emerged as a campaign issue in statewide elections. The spectacular failures of the Tuma, Dubio and Pitte banks in 1916 painfully dramatized the downsides of unincorporated immigrant banks and allowed many to make the case for state supervision. The Republican ticket endorsed bank supervision.[59] Pro-regulation proponents finally gained political momentum when Republicans won majorities in both houses of the state legislature and captured the positions of State Treasurer, the Auditor of Public Accounts (which oversaw all banks) and the governorship.

The new Governor, Frank Lowden, understood immigrant private banking issues. He served in the U.S. House of Representatives from 1906-1911 and actively participated in

[57] IBA delegates rejected Dawes's proposal for mandatory chartering at IBA conventions in 1912, 1914 and in 1916. *Chicago Daily Tribune (CDT),* 25 January 1912, p. 10.

[58] Editorial, *CBW,* 2 November 1912.

[59] The Republican party platform endorsed private banking legislation, see editorial, "The Republican State Party Platform," *CDT,* 21 September 1916, p. 6. Democrats opposed big bankers and business interests. A review of major issues on their platform did not mention private banking regulation, see "Democratic Party Platform," *CDT,* 27 September 1916, p. 4.

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the hearings on the postal savings bank law.[60] Lowden expressed his desire for a mandatory state chartering law and proved successful in making the 1917 legislative session the occasion for the "most thoroughgoing administrative reorganization that has yet been achieved in any state" (Dodd 1917: 712). Despite the election sweep, country bankers retained their control over the House banking committee. In the past, this committee simply refused to pass a banking bill of any kind. However in 1917, given the intense public pressure the House committee passed a bill but restricted the regulation of unincorporated banks to Chicago. The Senate, however, passed a bill that applied to all banks in Illinois. To reconcile the two bills Lowden called a midnight meeting at the Governor's mansion, which included the Auditor of Public Accounts and the Treasurer. This group forged a bill that mandated supervision for all banks in the state. When placed before both houses, this new bill overwhelmingly passed which demonstrated that the House committee had long represented a minority view.[61]

Professional Bankers' Prescription: Mandated Charters

Clearly regulation of private businesses differs substantially from postal savings banks as a policy tool. Bank supervision clearly involves state action but local bankers retain the ultimate responsibility for providing services directly to customers. The government's authority and role remains significant but it does not require the government

[60] See hearing transcript, "Postal Savings Bank," the House Committee on Post Office and Post Roads, 61st Cong., 2nd sess., 16-18, 22 March 1910. He was a leading contender for the Republican presidential nomination in 1920 and 1928.

[61] For coverage of legislative negotiations on the bank bill, see "Private Bank Law," *CBW,* 10 March 1917, p. 1; "Chance for Bank Supervision Gaining in Illinois," *CBW,* 17 March 1917, p. 9; "Cook County Private Banks to be Under Supervision," *CBW,* 31 March 1917, p. 1; "State-Wide Supervision," CBW, 5 May 1917, p. 1.

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to function as a banker. This regulation of the private sector in the public interest represents the normal mode of government intervention. The new law brought unincorporated banks into a pre-existing system whose well established contours included requirements for mandated incorporation, government inspection, public filing of resources and liabilities, and specific obligations of the board of directors and stockholders.[62] For Abbott and the IPL preferred mandated charters to a system of licensing which were less stringent.[63] No reference is made to immigrant banks in the letter of the law though steamship and other services are mentioned.

Defining banks: Incorporation, Inspection and Public Information. The law restricted the use of the term bank to organizations authorized by the state and required government inspection and supervision. It banned the use of the term "bank" by those who issued steamship tickets or wired funds and telegrams overseas and forbade individuals and private firms from accepting deposits. This provision sought to end the practice of steamship companies and others advertising themselves as banks.

State chartered banks were defined as those that had a board of directors (as small as three but no more than twenty-one) and a charter approved by the Auditor of Public Accounts.[64] To sit on a bank's board, directors were required to own a minimum of ten shares of the bank's stock and set the price at $100 a share. The directors also assumed

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[62] General Assembly of the State of Illinois, *Laws of the State of Illinois, Fiftieth General Assembly, Regular Biennial Session Jan 3-June 29, 1917* (Springfield, IL) (hereafter *Laws of the State of Illinois*). Amends Section 1 §2, 4, 7, 8, 10, 11, 12 and 15 1/2.

[63] Grace Abbott concluded that licensing was ineffective. In Massachusetts it produced $884,000 of bonds for $8,000,000 of business; too small an amount to truly protect depositors during a loss (Massachusetts Commission 1914: 182-183).

[64] *Laws of the State of Illinois,* amended January 1917; Sections §2 & §12.

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responsibility for the bank's compliance with regulations. The banks were subject to an annual inspection by a person appointed by the Auditor but paid for by the bank, as was industry practice. The penalty for those convicted of willful deception of the bank examiner was up to ten years of imprisonment. In addition, banks were required to file a quarterly report of their deposits, reserves and liabilities with the Auditor of Public Accounts and publish the same in a local newspaper.[65] The vision here however was not one of loop bankers overtaking and imposing their business norms onto immigrant communities. Rather it was one that expanded the types of formal bankers who could participate. Charters would impose some uniformity on bank administration but not on the details of how bankers served their customers. But ensuring variety amongst bankers turned on the ability of small bankers to qualify for a charter. Recognizing this, the law included a range of accommodations that facilitated the inclusion of small bankers.

Minimum Capital Stock. Who would be permitted to open a bank? This question was answered through criteria that established the amount of capital needed to legally start a bank. State chartered banks had a $200,000 capital requirement and national chartered banks complied with an even higher capital requirement. However, that threshold would automatically eliminate thousands of country bankers who simply could not raise this capital from their small customer base. With low capital requirements, more people could meet the criteria and open banks. The legislative committees considered the amounts of $25,000, $50,000, and $100,000 in required capital. In one columnist's view, smaller amounts would "...lead to many small banks and what is needed are safe banks,

[65] *Laws of the State of Illinois,* amended January 1917; Section §4, §7, §8.

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not democracy."[66] The low capital threshold for the entire state helped country bankers but functioned as a state-authorized fig leaf for existing practices if all small bankers in Chicago could easily obtain a charter.

In the end, the legislature created a system that tied capital requirements to population size which allowed them to accommodate country bankers and Chicago's unincorporated banks in the same system.[67] It created staggered capital requirements from $10,000, $15,000, $25,000, $50,000 and $100,000 for localities that ranged from 1,500 to 50,000 in population.[68] This requirement clearly accommodated country bankers and recognized that they can safely function with lower capital thresholds than banks serving areas with a high population. Chicago banks, on the other had, were required to have $200,000 in capital stock (raised through the sale of 2,000 shares).[69] However, for a temporary period, $100,000 in capital would suffice. To encourage immediate action unincorporated banks had ninety days to incorporate but recognizing that new bankers

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[66] "Illinois Banking News," *CBW,* 17 February 1917, p. 12.

[67] To avoid a court challenge to the law, legislators could not create one set of laws for Chicago banks and a different set for downstate banks. Doing so would constitute discriminationk, which the courts had struck down. Equal treatment required that both banks be subject to the same set of requirements. The population requirement proved a useful and legal way to recognize the different regional needs of bankers while simultaneously requiring all banks to comply to the same rules for inspection, governance by the board of directors, etc.

[68] For populations 50,000 and greater, banks with $100,000 in capital stock but less than $200,000 could not accept deposits totaling over $1 million. The capital stock could be increased to $200,000 at any time. *Laws of the State of Illinois,* amended January 1917; Sections §11. The amount of capital stock required varied by population size. In unincorporated towns, villages, cities, a bank could open with a minimum capital stock of $10,000. Incorporated locations with a maximum of 1,500 residents required a minimum capital stock of $15,000. Incorporated locations with populations between 1,500-5,000 required $25,000 of stock; 5,000-10,000 population required $50,000; 10,000-50,000 population required $100,000; 10,000-50,000 population required $50,000 but they could not accept deposits over $500,000 unless the bank's capital stock increased to $100,000. If violated, the bank had 90 days to comply or lose its charter and one year to shut down.

[69] *Laws of the State of Illinois,* amended January 1917, Section §12.

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needed time to adjust the law granted new banks three years to convert their assets and obtain charters. The Illinois state constitution required all banking laws to obtain voter approval before it becomes law. The referendum passed in 1918 with 403,458 voting for the proposal and 83,704 against it (Langland 1919: 313).

As a result of the law, the term "bank" matched the public's expectation that the entity was authorized and subject to public oversight by the state. The law defined banks objectively and forbade individuals from hanging signs in their businesses declaring themselves banks. The law created a floor of minimum standards for all banks and its inspection and supervision provisions required a higher standard of oversight than that available through approaches that issued licenses to private banks (as in Massachusetts) or city-issued bank charters (which Chicago debated but the courts probably would have struck down).[70]

Immigrant Responses to Mandated Charters

Unincorporated bankers had to decide whether to obtain a charter, go out of business or halt the practice of taking deposits (though they could continue to send remittances and sell steamship tickets). Of course, some invariably ignored the law all together. As the era of legal unincorporated banking drew to a close, neighborhood-based banks emerged to take their place and proved an outlet for immigrant private bankers. The fact that Illinois banned branch banking enhanced the growth of small, independent, neighborhood-based banks whose financial success rested on investing in the neighborhood that surrounded

[70] Historically, state and federal governments, not city government, promulgated banking laws.

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them.[71] These small banks only contributed to Chicago's growing reputation as the "city of neighborhoods." In addition to the new banking law, the number of small banks grew as Chicago annexed adjacent towns. These outlying areas became home to *outlying banks,* so labeled because they were located outside the city's financial loop district and served areas that large downtown banks did not (Hauser and Kitagawa 1953; Huston 1926: 556).[72] In 1900, there were eleven incorporated outlying banks; by 1924 there were 173. Their combined resources totaled almost $1 billion and two million of Chicago's three million residents had accounts at these banks. Outlying banks held fifty-five percent of the savings deposits in the city (Baty 1924: 22). I use the term *neighborhood banks* to refer specifically to immigrant-owned outlying banks.[73]

To identify whether immigrants faced exclusion in this new era of chartered banks I cross-referenced immigrant, neighborhood and banking sources to discover the degree of immigrant ownership among the 173 outlying banks. I found that one-third of these possessed identifiably immigrant origins, and half of these could trace their roots to

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[71] Illinois originally banned branch banks in 1857 to combat "wildcat banking" where banks had multiple locations but kept their official headquarters in a remote area where "only the wildcats roamed" to discourage customers from redeeming the bank's paper currency for easily traded specie (hard currency) (Gatton 1991: 34). Later, a 1923 law banned branch banking in the anti-monopoly and anti-banker sentiments in many agricultural states, see James 1938 vol. 2: 952-960. Bankers later circumvented these laws through a system of interlocking directorates, see American Bankers Association 1929.

[72] There were two major periods of annexation. 1889 was the most significant because the city expanded to almost two-thirds its present size. From 1890 to 1950 there were 44 annexation acts, expanding the city in small acquisitions at its outer edges. Almost half of these occurred between 1910-1924 (Hauser and Kitagawa 1953).

[73] Not all outlying banks possessed a neighborhood orientation. Some outlying banks were located near the loop district and were de facto downtown banks. Some functioned as surreptitious branches of large loop banks, as a means to circumvent Illinois' anti-branch banking laws. Others were affiliated with major industries, such as the Live Stock Exchange National Bank, which served the meatpacking, industry and, with 30,000 depositors, its myriad workers as well. On June 30, 1924 the amount of deposits ranged from a low of $94,000 in Montrose Trust and Savings Bank to a high of $19,116,000 North-Western Trust and Savings Bank. Baty's *The Story of the Outlying Banks of Chicago* (1924) is the definitive treatment of these banks from that time.

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private banks that opted to obtain charters (see Table 2.1). Large unincorporated banks, like those affiliated with real estate concerns, easily transitioned because they had ready access to large pools of capital. Immel and Sons, a private bank established in 1914 and Immel State Bank chartered in 1919. Both originated in John P. Immel's real estate and insurance business that began in 1892, where he offered loans strictly as an extension of his real estate practice (Huston 1926, vol. III: 103-105). Five other immigrant-owned state banks clearly originated from real estate concerns: Elston State Bank (1921), Hatterman and Glanz (1920), Hegewisch (1919), Independence State Bank (1917) and Robey State Bank (1921) (Huston 1926, vols. II-IV). Independence State Bank had its roots in the private banking operation of Kedzie Savings Bank (1911) which itself began as a real estate concern of Issac Schiff . (The bank developed because people repeatedly left deposits with him.) Schiff was joined by Louis Bomash in 1916, who "divined the spirit" of the neighborhood. They determined that "the thing most desired by the local population was some assurance that this bank was safe to deal with, and he [Bomash] offered them the utmost of safety by submitting to state and government supervision" (Huston 1926, vol. III: 105-112).[74] Stable private bankers for whom banking was their primary business were fewest in number, concluded the Dillingham Commission, but these were the unincorporated banks that could most easily transition to chartered status.

The professional and middle-class within immigrant communities emerged as "banker-owners." A bank's board of directors included entrepreneurs, professionals (lawyers,

[74] Schiff and Bomash were Jewish.

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doctors, and scientists), and members of various chambers of commerce. The stockholders included smaller operators from commercial districts. Grocers, florists and bakers joined realtors and lumbermen as shareholders in the new banks and formed part of a network interested in steering business to banks.[75] Some bankers opted for charters well before the law mandated it. A well-founded fear of impending legislation may have forced their

[75] "Garfield Park State Savings Bank," 7 June 1913, pamphlet, WGP Box 2, Folder 6. Shares were sold to raise capital and many banks paid dividends. This source does not indicate the number of shares owned by each board member.

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Table 2.1 Immigrant-Owned Banks

	Ethnic affiliation	*Year of charter*	*Former private bank*
Kaspar American State Bank	Czech/Slovak	1905	1887
Lawndale Savings Bank	Czech/Slovak	1909	1905
Slavic American Savings Bank	Czech/Slovak	1911	
Lawndale State Bank	Czech/Slovak	1911	1905
Adams State Bank	Czech/Slovak	1913	
Depositor's State Bank	Czech/Slovak	1913	
Skala State Bank	Czech/Slovak	1919	1897
Twenty-Sixty Street State Bank	Czech/Slovak	1919	1897
Millard State Bank	Czech/Slovak	1920	1912
Papnek-Kovac State Bank	Czech/Slovak	1920	
Elston State Bank	Czech/Slovak	1921	
Novak and Steiskal State Bank	Czech/Slovak	1921	1886
Robey State Bank	Czech/Slovak	1921	
Diversey Trust and Savings Bank	Czech/Slovak	1924	
Ogden National Bank	Czech/Slovak	1924	
Crawford State Savings Bank	German	1918	
First Italian State Bank	Italian	1920	1907
Italian Trust and Savings Bank	Italian	1921	
Rogers Park National Bank	Jewish	1912	
Independence State Bank	Jewish	1917	
Noel State Bank	Jewish	1917	
Hegewisch State Bank	Jewish	1919	
Immel State Bank	Jewish	1919	1914
Sixteenth Street Bank	Jewish	1919	
Superior State Bank	Jewish	1923	
Universal State Bank	Lithuanian	1917	1893
Northwestern Trust and Savings Bank	Polish	1906	
Fullerton State Bank	Polish	1919	1914
Hatterman and Glanz State Bank	Polish	1920	
Milwaukee Avenue State Bank	Scandinavian	1891	1885
State Bank of Chicago	Scandinavian	1891	1879
Union Bank of Chicago	Scandinavian	1905	
Security Bank of Chicago	Scandinavian	1906	
Second Security Bank	Scandinavian	1911	
Swedish American State Bank	Scandinavian	1913	
Kimbell Trust and Savings Bank	Scandinavian	1919	1909
Builders and Merchants State Bank	Scandinavian	1922	

Table 2.1. This list is conservative; it only shows banks for which information on ethnicity existed. For example, the Austin State Bank, Union State Bank of South Chicago, and Wiersema State Bank were all former private banks established in 1891, but there was no information available on their ethnic affiliation. To identify a bank's immigrant affiliation I cross-referenced Murray 1926, Vols. II, III and IV for biographies of bank founders and boards of directors; James 1938, Vol. II; and Baty *Outlying Banks*. Additional sources included John J. Reichman, *Czechoslovaks of Chicago: Contributions to a History of a National Group*. (Chicago: Czechoslovak Historical Society of Illinois, 1937); Vlasta Vraz, ed. and comp., *Panorama: A Historical Review of Czechs and Slovaks in the United States of America* (Cicero, IL: Czechoslovak National Council of America, ca. 1970); Erik G. Westman, ed., *The Swedish Element in America: A Comprehensive History of Swedish-American Achievements from 1638 to the Present Day*, vol. 4 (Chicago: Swedish-American Biographical Society, 1931), as well as immigrant histories and newspaper accounts in the Chicago Foreign Language Press.

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hands prior to the 1917 law. For others, such as the Harris Trust and Savings Bank which began as a private bank in1881 and incorporated in 1907, charter change was part of their long-term business strategy. They abandoned private bank status because failures began to give immigrant private banks a bad reputation (Harris 1932). Among the large operations were immigrants like John Smulski who started the Northwestern Trust and Savings Bank in 1905 in the heart of the Polish community. Through interlocking directorates that circumvented anti-branching laws, he organized Depositors State Bank (1913), Fullerton State Bank (1914) and Brighton Park State Bank (1922) (Murray 1926; James 1938; Kantowicz 1975; Slayton 1986).[76] However, this form of branch banking simply knitted together banks that functioned as community-based institutions in immigrant communities.

Though larger and less numerous than the previous generation of private bankers, neighborhood banks were intimately tied to the community's development. E.N. Baty, the first full-time secretary of the professional association of outlying banks, described this crucial link.

> Besides supplying their neighborhoods with convenient and safe depositories, they have performed a multitude of other services, chief among them the taking of a leading part in all civic or community developments. Neighborhoods, that within the memory of Chicagoans still in their teens were swamps, truck gardens or simply vacant land, are today thriving and prosperous communities, with thousands of homes and business sections that can and do supply every normal need;

[76]Slavs and Bohemians included Czechs, Poles, Slovaks, Lithuanians and Ukranians primarily and they shared a language group. Even though they have distinct social networks, they tended to live in proximity to each other.

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> and this mainly because a local reservoir of money and credit was early established and managed by men who had a genuine interest and an abiding faith in the future growth of their community (1924: 8).

Chartered banks also introduced a new dynamic around failure. In the private banking era, most failed bankers fled and customers demanded their funds. With chartered banks, a different outcome was possible. Some bank failures ignited community-based efforts to save the bank by keeping it out of receivership. Instead, other banks could take over its operations and customers, or the bank would sell shares to raise needed capital. When the old Sixteenth Street State Bank closed its doors, it re-opened as Superior State Bank in 1923 with ninety percent of Sixteenth's depositors agreeing to subscribe to the capital stock out of the dividends they would receive from the old bank (Huston 1926, vol. IV: 176-177).[77] The starting point of such efforts were the bank's board of directors, who sought to secure the longevity of the institution and desired to pay off depositors instead of moving away. In all, state-mandated supervision re-structured the private banking field and generated the trustworthy, community-rooted, neighborhood bank resting on professional integrity.

Interest Groups. Because large bankers displaced small ones, were well-heeled loop and immigrant bankers responsible for the demise of immigrant private bankers? Though plausible, this explanation does not appear to be the case. Chicago's loop bankers

[77] Similarly, the Madison and Kedzie Trust and Savings Bank was created in 1930 to guarantee the deposits of the old Madison and Kedzie Bank that never re-opened after the 1929 federal bank holiday when to stem the tide of panic borne of widespread bank failures, President Roosevelt ordered all banks to close, re-opening them subsequent to inspection that established that they were in good standing. The new bank raised money by selling shares to the merchants and businessmen of Madison-Kedzie district. It also solicited the depositors of the closed Madison and Kedzie bank to place their deposits in the new institution. "Business Establishments: Madison-Kedzie Trust and Savings Bank," *West Town News*, 6 February 1931, East Garfield Park Community Collection, Box 1, Folder F9, Chicago Public Library, Special Collections.

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remained steadfastly uninterested in cultivating immigrants as customers. They had little incentive to serve depositors who had small sums and were prone to runs. The *New York Times* concluded that "it is impossible by any known methods, for the regular banks to take from these most unsafe concerns the millions now deposited with them" and that regular banks "...would not, and in fact, could not, attend to such things."[78] If loop banks wished to serve an immigrant market, they did not need a new law to do so. They could have extended their hours, hired a bilingual staff, sold steamship tickets, and provided services immigrant customers needed. But correspondent banking relationships with neighborhoods banks gave them access to immigrants' funds without them altering their services. Downtown bankers were not motivated by the prospects of gaining a share of the immigrant market. Their benefit remained the boost to public confidence in all banks that an end to failures would bring.

Perhaps large immigrant bankers conspired to exclude smaller operators. They may have wished to rid the field of ruffians and reap the immediate benefits of the policy change. Some bankers appear to fit this profile of possessing both an immediate financial interest and the requisite political connections.[79] John Smulski, for example, was a prominent Republican who was elected to the positions of Chicago alderman, City Attorney, and State Treasurer. Trained as a lawyer, he withdrew from elected office in

[78] "Immigrants Sent $275,000,000 Abroad in One Year," *NYT*, 2 October 1910.

[79] Large immigrant bankers, especially those who had already opted to obtain charters, would benefit from maintaining the status quo because their charters easily distinguished them in a crowded field. In other states, like New York, large unincorporated bankers blocked regulation. The Italian Banker's Protective Committee, a coalition of Italian private bankers, sued the state for the discriminatory impact of its private banking law that required immigrant private banks to meet bond requirements, while exempting elite private bankers like J. P. Morgan, Kuhn, Loeb & Co. and others. They lost on appeal. Editorial,

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1907 to pursue his business interests that included four banks that primarily served the Polish community (Pacyga 1991; Kantowicz 1975).[80] Bankers like H. A. Haugan and John R. Lindgren of the Swedish State Bank of Chicago became members of the exclusive Chicago Clearing House Association in 1902 but retained their Swedish clientele even as they grew from a private bank to a major loop bank.[81] In addition, members of the City Council like John J. Hoellen (Republican) and Anton J. Cermak (Democrat) were private bankers themselves. Though immigrant bankers may have used their political access, there is little evidence that they acted as an organized lobby. There are no reports of a coalition of immigrant bankers substantively participating in policymaking except to support a city council bill that would have granted Chicago the authority to issue bank charters. But the coalition failed and quickly faded (Huston 1926, vol. I: 577).[82] As a result, country bankers, not immigrant ones, produced meaningful political deadlocks. Also the new laws included a grace period with lower requirements that allowed smaller banks to obtain charters.

Chicago Banker: A Financial Journal 12 March 1910, p. 14; "Private Banking Act Is Unconstitutional," *NYT*, 12 October 1910; "Bank Law Decision Hits Curb Brokers," *NYT*, 19 November 1910.

[80] In each election John Smulski garnered a significant percentage of the Polish vote. Chicago's immigrants were predominantly Republican until Al Smith's presidential bid. They decisively and durably shifted to the Democratic party with Franklin D. Roosevelt's election. See Allswang, (1980 [1967]) on changes in immigrant party identification in Chicago. The Lowden administration of 1917 was also a reformist one. All of Smulski's banks were founded after he retired in 1907.

[81] "Haugan and Lindgren's Bank," *Svenska Tribunen*, 12 June 1906 (*CFLPS*, Swedish). See also, "New Bank in Chicago," *Svenska Nyheter*, 21 March 1905 (*CFLPS,* Swedish). The founders of the new Union Bank of Chicago were colleagues of Haugan and Lindgren and "nearly all the stock of the new bank is held by our countrymen in Chicago." (*CFLPS* Swedish).

[82] A coalition of immigrant private bankers (mostly Democrats and saloon owners) supported the option of city charters. But others (mostly reformist Republican) balked at the risk that the Council would simply grant charters to all the current private bankers, giving legal cover to existing practices. See *CBW*, 26 October 1912. Many immigrants were Republican at this time (Bukowskil 1998).

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Disadvantages. Where the rule-bound nature of PSBs created problems, the flexibility afforded neighborhood banks permitted racial exclusion and continued fraud. In segregated Chicago where knowledge of the community was an integral part of a profitable business, such service did not extend to communities one did not know or deemed undesirable, like African Americans. Black-owned Binga State Bank served residents of Chicago's south side for many years until it failed in 1930 and was not replaced. Racial exclusion from financial services was especially developed in and disseminated by Chicago-based bankers and realtors.[83]

Though headline-grabbing failures were no longer a common occurrence, fraud existed in a different guise. When State Supreme Court Justice Bijur enjoined New York State's private banking law, he reasoned that, "the possession of wealth may be regarded as some guarantee of responsibility and stability. Still, in the last analysis, it is the integrity and sound business judgment of the banker which affords to a mere depositor the assurance of the safety of his funds."[84] At the end of the day, higher balances only

[83] When banks failed in immigrant communities, new banks replaced them or customers could turn to the existing banks. Binga State Bank began as a private bank in 1912 and incorporated in 1920. See Binga State Bank advertisement, *The Messenger*, January 1925; Carl R. Osthaus, "The Rise and Fall of Jesse Binga, Black Financier," *Journal of Negro History* 58 no. 1 (January 1973): 39-60. Chicago also served as a model disseminating its approach through industry and government: "The bankers of the nation are to meet here in Chicago this fall [of 1924], and it is hoped that all of our visitors will study at close range the Chicago plan of 'taking the bank to the people.'" Baty, *Outlying Banks,* 17. See Homer Hoyt, *One Hundred Years of Land Values in Chicago* (Chicago: University of Chicago Press, 1933); Kenneth T. Jackson, *Crabgrass Frontier: The Suburbanization of the United States* (New York: Oxford University Press, 1985) on the Federal Housing Administration nationalizing the system of using race to assign values to real estate; John T. Metzger, *Social Capitalism in American Cities: Financial Institutions and Community Development* (Ph.D. diss., Columbia University, 1999) on Chicago's centrality in the development of these race-based assessments in real estate valuation and their dissemination nationally in approaches to inner-city economic development.

[84] See "Private Banking Act is Unconstitutional," *NYT* 12 October 1910, p. 5. The Judge issued the injunction because the law treated large and small banks differently. Only small bankers who did not file a $100,000 bond in New York and Buffalo ($50,000 elsewhere in the state) would have to apply to the State Comptroller for a license which the Comptroller could refuse at his discretion. However, the injunction was abrogated when the Apellate Division of the Supreme Court refused to rule on the constitutionality of

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raised the stakes for fraud, attracting those who were willing to gamble at higher levels. Speaking for country bankers as they rejected private banking legislation, the chair of the Illinois's Private Bankers Committee noted that, "Law is not a cure-all. Defect[s] in human nature will show up in spite of laws and will ever continue to do so..." (quoted in Gatton 1991: 67). Nevertheless, legal changes successfully curbed bank failures which disappeared from Chicago's front pages. Mandatory charters proved a satisfactory solution, more so than postal banks, such that in 1918, the IPL's annual report declared a victory and removed banking from its list of major immigrant policy issues.[85]

Re-Locating Social Capital: Immigrant Practices in New Financial Institutions

Exploring the regulation of unincorporated immigrant banks takes us through three financial systems: one based completely on private ties, the other on government guarantees and a third that grants public authority to private organizations. All three enjoyed some success and our journey illuminates a process by which the state's presence, not its absence, became a crucial means to signal trustworthiness. This section focuses on competing conceptions of what makes the financial system worthy of the public's trust. We consider how new organizations accommodated ties to the immigrant community and by extension whether they provided new opportunities for social capital to persist. I consider how governmental authority and immigrant identity is structured in these new arrangements.

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the law. "Bank Law Decision Hits Curb Brokers: Appellate Division Sets Aside Injunction and Throws Out Test Suit," *NYT,* 19 November 1910.

[85] IPL Annual Report 1917, p. 19-20.

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Ideas about safety and trustworthiness informed anti-immigrant banking initiatives. The focus on the use of the state to craft alternative trustworthiness can overlook how community ties persisted in new organizational forms. Both postal savings and neighborhood banks had meaningful ethnic ties, but they functioned in very different ways. The government guarantee of the safety of deposits co-existed with affective ties immigrants possessed towards postal banks. Instead of a strange, bureaucratic alternative to private banks, PSBs conjured up the Old World past. Many immigrants used postal banks in their countries of origin. Postal banks operated in forty other countries for decades, making the United States anomalous for not offering such services sooner (United States National Monetary Commission 1910). They were so strongly identified with foreign lands that some observers believed that their introduction signaled the abdication of US culture to immigrant habits. The Savannah Chamber of Commerce argued that "'...it is a settled policy of this country to teach foreigners to accommodate themselves to our methods rather than that our methods should be made to conform to their prejudices....'"[86] Postal banks were culturally relevant and culturally familiar to many immigrants. In many ways, postal banks proved the familiar norm. But immigrant identity politics did not bring this familiar organization to the US. In fact, immigrant legislators were lukewarm to the idea (Carpenter 2001). Instead non-immigrant social workers pursued a policy that would use immigrant cultures and practices as a means to assimilate immigrants. They lobbied for the importation of an institution that was

[86] "Postal Banks and Foreigners," *CBW*, 26 March 1910, p. 14, quoting an official official statement issued by the Savannah Chamber of Commerce.

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"natural" for immigrants. But postal banks appealed to US-born natives as well who constituted fifty percent of its depositors, many of whom did not have bank accounts. Both personal ties and government intervention can embody trust.

Where the *origins* of PSBs attracted immigrants to their services, in chartered banks shared ethnic bonds facilitated the *delivery* of financial services. For example, its own community roots were extolled by the State Bank of Chicago, as the bank whose "...every official and employee is a Swede and whose stockholders are practically all Swedes, is the ideal bank, not only of Chicago's Swedish colony, but of Scandinavians from coast-to-coast. So well is the bank known."[87] The sense of shared community informed services to individual customers but it also extended to the bankers' countries of origin or ancestry. Lindgren, a principal of the State Bank of Chicago, served as vice-consul for Sweden in Chicago and the bank served as the agent for a £2,000,000 Swedish government loan (Olson 1917; Olson n.d.). Hajicek and Skala, principals in two Czech banks (Kaspar State Bank and Skala State Bank respectively) brokered trade and financial relationships with Poland soon after the country's borders were restored at the end of World War I. They participated in the American Czechoslovak Chamber of Commerce which established an office in Prague in 1920 and helped US companies establish business

[87] "A Popular Bank," 19 March 1902; "Haugan and Lindgren's Bank," 12 June 1906, *Svenska Tribunen* (*CFLPS*, Swedish). Founded as a private bank in 1879 and incorporated in 1891, it remained the leading deposit institution for Scandinavians even as it grew in size and acquired non-Scandinavian clientele. In 1917, half the board were Scandinavians of high means and status. See Olson 1917; Olson n.d. Sometimes community ties belied the typical dividing line between capital and labor. For example, a board member of Depositors State Bank, which served the largely Slavic working class Back of the Yards neighborhood, made donations to the strike fund of meatworkers (Slayton 1986). For a similar dynamic between savings and loan associations and unions see Flam 1983 who also observes that as businesses grew, the tie to the community declined and these types of donations decreased.

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relationships with the new country.[88] John Smulski's work on behalf of Poland's liberation during World War I won him the newly established country's highest honor, the Order of Polonia Restituta (Kantowicz 1975).

Public trust did not rest unilaterally on the presence of the state, though reformers and bankers may have hoped that it did. Instead the type of public trust that emerged combined public authority *and* affective ties. PSBs and neighborhood banks possessed a genuine connection to immigrant communities; however, the ties were structured in different ways. Retention of ethnic tie is important to public trust because it creates organizations relevant to immigrants. The new organizations had meaningful community connections that would make them more accessible to an immigrant clientele than downtown banks that focused on commercial customers. One result of this combination of public authority and affective ties is that it produced services that were relevant to immigrants and in organizations where immigrants would be comfortable.

Further, it is useful to note that informal ties probably persisted, despite the new law. Although express, steamship and telegraph services could not legally accept deposits, they probably did if their customers wished it.[89] Certainly the number of bankers decreased. No longer could someone establish a bank by simply hanging a sign in the window. The ample number of immigrant-owned chartered banks that emerged

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[88] "Press Release: Chamber recognized by National Chamber of Commerce in Prague," 20 April 1920, and "Open Letter by John J. Sokol to potential shareholders," n.d., Collection of papers of American Czechoslovak Chamber of Commerce, Czechoslovak Heritage Museum.

[89] § 15 1/2 of the law allowed a business to "...transmit money to foreign countries, buy and sell foreign money or receive money on deposit to be transmitted abroad but they could not refer to themselves as Banks" *Laws of the State of Illinois*, 1917.

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suggests that the higher barrier of entry into formal banking did not squelch the provision of banking services.[90]

Formalization did not preclude the presence of ethnic ties; but the presence of such ties was not equivalent to the presence of social capital. Before we proceed, it is useful to review one of the features of social capital. Theorist James Coleman argues that social capital is not invariably affixed to one set of practices. As the ties and patterns of behavior on which it relies changes, its location changes as well. The amount of social capital naturally ebbs and flows because urbanization changes the social relationships. Social capital is the byproduct of repeated interactions in relationships; it is not the result of the deliberate intent of the actors. As a result, one cannot predict where social capital will fade or arise (Coleman 1998).

With this in mind, it would be useful to place the decline of immigrant social capital banking in a broader context. Though interest group lobbying and legislative initiatives were present, other changes in the social and economic landscape eroded the position of private bankers and challenged their longevity. Modernization and urbanization undermined the social and economic foundations of private banks. Small grocery and variety stores faced stiff competition from the rise of supermarket and department store chains whose low fixed prices eventually replaced haggling with the local store clerk.[91]

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[90] Higher capital requirements did not necessarily function as a barrier to entry. In some cases, loop banks financed the creation of outlying banks. If so, these arrangements overcame the financial barrier of starting a new bank but employed a staff of immigrants, ensuring that the provision of services would be relevant to the community. Black-owned Binga State Bank reportedly received support from electric utility tycoon Samuel Insull, see Reed 1997.

[91] A Polish newspaper exhorted its readers "that instead of patronizing the big stores, to support our small Polish merchants." "Support our Merchants," *Narod Polski*, 14 July 1901 (*CFLPS*, Polish). Proprietors who extended credit to customers during difficult financial times were not re-paid with loyalty,

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From 1880-1920 the liquor industry transformed saloon-owners into low-paid bartenders of the liquor companies which increasingly financed and stocked taverns (Duis 1983). Further, prohibition led to the closing of thousands of saloons.[92] The market for steamship tickets ended with the dawn of World War I and the passage of the nativistic National Origins Quota Act in1924 curtailed immigrant inflows. These changes seriously threatened the survival of immigrant private banks. The demise of social capital banking is not artificially at the hand of an interest group. Consequently, the 1917 law itself may not have delivered a deathblow as such. In light of social capital's dynamism a new question arises: Are new organizations sites where social capital can re-appear? Does an organization's design permit the development of new relationships that have the qualities of reciprocity, mutuality and trust? We find that differences in organizational structure matter for the re-emergence of social capital ties.

Because ties of ethnicity and origin remained a factor in service delivery, banks were more likely to re-generate social capital. Unlike PSBs, banks were owned and managed by immigrants. Baty observed that, "Just as the country banker is 'father confessor' to his community, so is the outlying banker the confidential adviser and 'silent partner' of a considerable portion of his customers" (Baty 1924: 24). The commitments, contacts and judgments of immigrant banking professionals shaped their businesses. Their relative

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especially once store-credit at the chains became widespread in the 1920s. Also see the series "Lawndale-Crawford Marches On" which ran in the 1940s. The larger neighborhood businesses that survived from the turn of the century but once again pressured by suburbanization and the desire to shop in chains. *West Side News*, 1948, LCCC Box 2.

[92] The 18th Amendment to the Constitution that prohibited the manufacture, sale, transportation, import, and export of alcohol went into effect in 1920 and was repealed in 1933. It was preceded by state laws.

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autonomy meant that the very way they conducted their business could subvert paternalist or nativist intentions which presumed that because immigrant neighborhood bankers were civic-oriented, educated and middle-class (like reformers), that they would provide leadership free from ethnic politics (also like reformers). Though these bankers admitted the need for regulation, they did not reject the social ties of a previous era (Lissak 1989). The field allowed multilayered, ethnic-based relationships to inform banking services. Postal clerks had less freedom to invent the ways they would deliver the savings and money order services they offered. In this way, a new organization furnished a different context for pre-existing relationships.

Is there a legitimate and substantive reason for immigrant social capital to attract public policy attention other than nativist biases, reformer paternalism or financial gain? Modernization and urbanization suggests that there is. The changing Chicago landscape affected an individual's ability to accurately gauge where social capital was located. Though stable for a long time, socio-economic changes and individual decisions may lead to a decrease in social capital in places where it had previously existed, making it harder to assess if a private banker could be trusted. Because social capital is dynamic, private bank failures were a legitimate public fear because social capital was no longer reliably in a location where it previously resided. This uncertainty created incentives to seek alternatives like postal savings and neighborhood banks. In the context of major social and economic changes, we reinterpret PSBs and neighborhood banks not as inevitable replacements of private trust systems but as new options introduced into a changing landscape. These new options did not kill immigrant social capital banking. If social

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capital and its institutions are not assumed to be stable entities whose outcomes are determined by the intent of those who craft public policy, then attention to whether and how an institution's design allows social capital to re-appear becomes germane. This case is not the story of the inevitable demise of immigrant private banks; instead the research suggests that neighborhood banks made it possible for similar relationships to form elsewhere.

Conclusion

Clearly immigrant private banks were not a private concern. For almost two decades they sparked controversy and political action. Ironically, the majority of private bankers functioned without incident. Nevertheless, reformers and downtown bankers rejected the view that banking services nested solely in private relationships constituted a trustworthy financial system. They strongly felt that the downsides of bank failures were not confined to the immigrant community. As a result, they pursued strategies to eliminate the uncertainty engendered when private banks failed. In this way, immigrant private banks were at the heart of debates about establishing public standards of trust.

The organizations that resulted used their tie to the state as the basis from which to serve customers. PSBs had the certainty of government's presence; neighborhood banks used the presence of government authorization as the new basis for trust. Both sought to replace the trust borne of shared ethnicity and the state's absence. Yet both appealed to ethnicity. PSBs beckoned to immigrant practices through its origin in Europe and reflected a belief in government as a service provider. Chartered banks invoked ethnic ties in service delivery, expressing a preference for government regulation of the private sector.

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Consequently, the loss of private banks did not mean the loss of one's ethnic ties or identification. But of the two, neighborhood banks furnished the opportunities for new ties based on trust and reciprocity to be re-born.[93]

Because of the major social and economic changes of the ensuing decades, it is unlikely that private banks could have persisted in their original form. Consequently, we cannot treat private banks as exclusive and permanent sites of stable, unchanging and pristine social capital ties. Both the postal savings bank law and the 1917 law mandating state bank charters exemplify the emergence of new ways to determine trustworthiness that depart from a system that solely relied on private trust. The role of the state, in retrospect, is to endorse new institutional options. Depositors were not required to use these organizations, but many did. These new institutions added another option to their institutional repertoire. The law expanded the banking options available to social groups who were outside the mainstream by endorsing organizations that were easily accessible and relevant to their needs. The success of both government-controlled postal savings and government-regulated neighborhood banks indicates that public authority can be an asset and private ties are not the only way to provide meaningful services.

[93] In 1966 Congress closed the system.

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Chapter 3

The New Deal and the Preservation of Community Banking

The failures of the banking establishment defined and shaped much of the 1932 Presidential campaign and the early New Deal. In his inaugural address, Franklin Roosevelt famously declared that, "The money changers have fled from their high seats in the temple of our civilization." The First Hundred Days saw no fewer than seven new laws addressing banking, credit and currency. It is customary to dismiss the world small banks constructed before the New Deal as "minor actions by State and local governments" (Keith 1973: 26). The mass destitution wrought by the Great Depression of 1929 revealed the fundamental inadequacy of small, community-based welfare services to truly meet the needs of families in a mass society and a modern economy. Immigrants in particular lost faith in community organizations that had failed them in their moment of need and turned to the federal government to meet their needs (Cohen 1990). The New Deal normalized the presence of the national government in society which seemed to occur at the expense of community-based organizations (Beito 2000).

Having lost their legitimacy, banks became vulnerable to major regulatory changes initiated by the federal government (Vogel 1978; 1989). Banks genuinely faced elimination. Proposals to radically reform the financial system such as nationalizing all banks under the Federal Reserve; eliminating the dual banking system of state and national bank charters; and moving all deposits from commercial banks to postal savings banks existed and found there way to the desks of New Dealers (Phillips 1995). Although they received a hearing, these proposals failed to gain traction as Roosevelt pursued a more conservative path, one that restored the public's confidence by reinforcing existing

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institutions. For all the changes of this turbulent era, small financial institutions displayed remarkable durability. Rather than being eliminated, the regulatory arrangements developed under state governments informed and guided the development of national programs and ultimately protected small banks. In short, small banks were strengthened by the New Deal, not replaced by it.

I use the term community banking to refer to financial institutions that primarily served the working classes. This chapter addresses the politics that created new policy tools that affected small commercial banks, credit unions and home mortgages, all of which served the mass public. The preservation of immigrant community banks occurred as a result of policies that protected community banking in general rather than immigrant banks specifically. The next section accounts for the relative absence of immigrants in New Deal bank policymaking and the rest of the chapter examines a range of policies that sought to protect small depositors and small financial institutions.

Immigrants and the Politics of Community Banking

Pre-New Deal developments had given Eastern European immigrants a foothold in the formal banking system through the spread of community banking institutions. And cities like Chicago were especially hard hit. Home to the neighborhood unit bank, Chicago experienced the greatest number of bank failures and the lost the most amount in deposits (Esbitt 1986). The savings and loan industry was headquartered in Chicago and the city had many S&Ls and, in general, these organizations were popular with immigrants (Bodnar 1985; Haveman and Rao 1997; Zunz 1982); over 1,700 failed.[1] Was

[1] The United States Savings and Loan League and its affiliates, the Society of Residential Appraisers, the Mortgage Bankers Association of America, and the National Association of Building Owners and Managers, all had their headquarters in Chicago as well as the National Associaion of Real Estate Boards and its affiliates.

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the survival of community banks tied to the political activism of immigrant communities? Immigrant political participation could help protect small banks if immigrant bankers pursued policies that protected their position or if immigrant customers made their voices heard through letters, protest and appeals to local and national politicians.

To identify immigrant participation in New Deal bank policymaking, I identified the policies that would affect small financial institutions to learn if immigrants appeared as key decisionmakers. The policies that affected the public's ability to keep their savings and their homes, such as deposit insurance and home mortgage insurance, would overwhelmingly affect immigrants. In reviewing histories of New Deal banking policy I wanted to see whether immigrants were decisive actors, not just if they expressed an opinion about a policy. Do scholars point to ethnic civil society as an important political force in policy changes affecting small banks? I found little evidence that ethnic politics protected community banking institutions.

It is difficult to explain the institutionalization of community banking in the national administrative state as a result of the political mobilization of an ethnic political machine or immigrant political participation. There are several reasons to find an ethnic politics explanation wanting. Major banking proposals occurred in the first Hundred Days of Roosevelt's presidency, but the realignment of immigrants from the Republican to the Democratic party occurred over a series of elections. Urban ethnics first voted decisively for the Democratic presidential nominee when Irish Catholic Al Smith made his 1928 presidential bid. The consolidation of ethnic political power in the New Deal party machinery occurred over the course of Roosevelt's four administrations (Andersen 1979). In tracing the evolution of political realignment among Boston's ethnic voters in *The*

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Making of New Deal Democrats (1989), Gerald Gamm confirmed Kristi Andersen's key findings (1979). New Deal voters emerged through two processes occurring over a decade or so. First the New Deal *converted* Republican voters to the Democratic camp, and later it *mobilized* nonvoters into the electorate as first-time Democratic voters. Converts tended to vote Democrat nationally and Republican locally, as many Boston Jews did (for a similar finding on Chicago see Allswang 1980). Roosevelt also sought to wrest political control from local machines and transfer voter loyalty to the federal government. The speedy production of banking legislation favored long standing political players and those with pre-existing policy solutions over policies that simply reinforced the local machine's ability to dole out benefits. Banking policies seems better understood as a way to woo and keep voters in the Democratic camp.

Nor was Congress automatically inclined to assist immigrants specifically. In other crucial areas of New Deal policymaking, immigrants occupied a precarious position. The fiscal austerity of the period found Congress seeking ways to minimize access to government resources. Access to relief programs and jobs on public works projects were regularly restricted to citizens (Thatcher 1990 [1973]). Congress also reinforced the "public charge" provision, which made immigrants who relied on welfare vulnerable to deportation (ibid.; originally introduced as part of nativist movements Higham 1965). This provision also empowered immigration officials to refuse admittance to anyone they determined could not survive economically and would turn to the

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government for relief. At its most egregious, the financial crisis provoked the indiscriminate deportation of Mexicans without regard to their citizenship status.[2]

Unfortunately, when immigrants were plainly within sight, public reactions proved unfavorable. In a move that either signaled marketing genius or crass manipulation, Joseph Marcus created the state chartered Bank of United States in New York's Lower East Side in 1913 and thoughtfully eliminated the "the" found in the name of the central bank created by George Washington and Alexander Hamilton in 1791.[3] Situated in the heart of the immigrant Jewish community, the founders were Jewish and the bank attracted depositors from thousands of immigrant workers. It grew rapidly after 1927 and by 1930 it had deposits of $200 million and was one of the largest banks in the U.S. (Lucia 1985). On December 11, 1930, both the Federal Reserve and New York's financial establishment allowed the Bank to fail, causing the first wave of bank failures in the Great Depression (Lucia 1985 citing Friedman and Schwartz 1963). There is some debate as to whether the bank's own recklessness justified the lack of assistance (its founders were convicted of fraud) or whether anti-Semitic sentiments motivated New York's WASP establishment (Grant 1992; Esbitt 1986). J. P. Morgan exerted considerable influence on both and the establishment, including Morgan, was famously anti-Semitic (Chernow 1990). Undoubtedly both motives existed. Deeply troubled financial institutions had received assistance in the past (see for example Tarr 1966), and given the financial crisis and prominence of the Bank of United States, New York's

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[2] Recruited as agricultural workers under the Bracero program (Operation Wetback), the deportations was one way the federal government communicated that their labor was no longer needed.

[3] The Bank of *the* United States had two iterations, 1791-1811 and 1816-1837. Some claimed that the Bank of United States name gave immigrants the impression that this was a central government bank and very secure.

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bankers should have anticipated that a failure of this magnitude would trigger bank runs, not just in New York but nationwide. It was also common knowledge at the time that immigrants were prone to bank runs (Grada 2001). Prominence did not guarantee that immigrant banks would find a favorable hearing at a moment when blame, fear and financial loss ran rampant. Occupying the shadows probably possessed some benefits.

Finally, immigrants employed alternative institutions to get them through these hard times. Deposits in postal savings banks exploded as customers withdrew their bank deposits and re-deposited them in the only safe financial institution around (O'Hara 1979). In Chicago, check cashing outlets known as Currency Exchanges, experienced unprecedented growth in the period (Berk et al 1979). What of informal banking activity? Hard evidence isn't available but some informed conjecture suggests that given the nature of Currency Exchanges (basic transactions such as remittances, check cashing, bill paying), it appears that unincorporated bankers continued illegally or obtained easily available licenses. Other states, like Massachusetts, had similar laws or pursued licensing instead of chartering of informal immigrant bankers. In the past, the use of self-help activities of all types increased during a depression (Grant 1983), the same probably occurred this time as well. For those for whom it was meaningful, informal practices could continue to be used but probably occurred in addition with use of formal organizations. For the vast majority of Americans, the preservation of mainstream and ethnic community institutions proved critical.

Immigrants, along with many Americans, wrote Roosevelt and their representatives appealing for help. The flood of letters to Roosevelt and Congress either pleaded for action in general or expressed gratitude for the programs put in place (Cohen

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1990). These appeals did not dictate the details of legislation. At best, they indicated that something needed to be done but did not say what should be done. Many ethnic self-help organizations that aided the poor, sick and elderly met their demise and others came quite close. Clearly, ethnic institutions neither ignored these changes nor simply persisted in their previous modes of operation. The New Deal saw an ethnic group, once prominent for the thoroughness of its self-help apparatus, transformed to an outspoken supporter of welfare statism. Jewish leaders linked support for the welfare state was rooted in the Torah, making welfare statism an extension of the Jewish obligation to serve the poor (Sarna and Dalin 1997, Wenger 1996). But no similar voice apparently emerged around immigrant banking. Immigrant bankers serving distinct neighborhoods, in different languages, and different types of organizations, apparently had no compelling reason to forge themselves into a coherent interest group. Perhaps the relative silence of immigrant voices reflects sources focused on policy history moreso than ethnic history. But these sources still shed light on the question of whether immigrants are represented among the political actors who forged new community banking policies. I found industry professionals who had cut their teeth on state banking battles played a prominent role in defining national policies. Far from being small, insignificant and at a loss until the New Deal salvation, these advocates actively participated in and shaped legislative efforts to save them. If immigrants were present, their actions were overshadowed by other political actors who played more direct roles.

Ethnic institutions clearly survived the New Deal. Indeed, these institutions helped to fuel the ethnic revival of the nineteen seventies. Their persistence through the postwar era led Nathan Glazer and Daniel Moynihan to famously declare that, "The

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melting pot never happened" (1964). Policies that protected community institutions affect immigrants whether immigrants shape the policies or not. The intersection of immigrant institutions with efforts to forge national solutions to the banking crisis becomes germane. The image of urban ethnics cutting political deals that serve their constituencies exclusively may prove secondary to the construction of national policies that preserved the community-oriented design of existing financial institutions. Immigrant political participation is one dimension of does complex policy processes. Perhaps the relative absence of immigrant political actors is an artefact of the sources and the ways in which stories of national policy developments gets told which sanitize the presence of ethnic and race politics. To be clear, I am not saying that immigrants refused to act and are politically quiescent or that there weren't distinct immigrant tension. I am saying there is little evidence that these issues were understood and argued in immigrant terms and that immigrant political actors per se (including ethnic politicians) had key leverage on various banking issues.

Community banking policies are de facto immigrant policies. The persistence of ethnic financial institutions occurred through policy designs that protected small banks. Just as the state-based legal structure that created community banks did not emerge from immigrant politics, the protection of these organizations occurred without immigrants. The protection of their institutions occurred as a result of policies that saved small banks generally. The persistence of community banking designs permitted group networks and ethnic identity to inform the delivery of financial services. Given the anti-immigrant sentiment that found expression in Congress, the muted presence of immigrants may contain benefits. I now turn to the politics that preserved community banking.

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The Politics of Community Banking Policies

How can we account for the persistence of small community banks despite their economic and political vulnerability and in the absence of an active immigrant constituency? Programs like deposit and mortgage insurance relied on the existing array of financial institutions at a moment when the federal government could have displaced them all together. Although the details surrounding each policy varied, three patterns recur. First, the presence of experienced community banking advocates; second, new political opportunity due to a weakened opposition and new opportunities because of the financial crisis and Roosevelt's election; and third, the power of Southern Democrats. These three elements combined to produce national policy designs that strengthened community banking. As far as politics and policymaking goes, these observations about the New Deal are fairly standard. Especially of interest, however, is how these politics converged to create policy tools that assisted small institutions.

First, unlike customers who may generally want change of some sort, the advocates who constructed the state apparatus lobbied hardest for national policies. Advocates who had cut their teeth in state legislative trenches found themselves well-poised to pursue new national banking policies that protected small commercial banks, credit unions and savings and loan associations. They saw an opportunity in the New Deal to establish a national policy regime that would put community banks on par with large commercial banks. These policy elites possessed a vision for the industry that had a specific role for the national government; they had the technical expertise to negotiate bills and regulations; and they had the political contacts to navigate Congress, the Presidency and the growing federal bureaucracy. Patashnik (2003) observes that public

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interest legislation only persists if an interest group grows up to protect it. Credit unions and savings and loan associations originated as public interest, social welfare projects as did mutual savings banks (Knapp 1973; Moody and Fite 1971; Teck 1968; Voorhis 1961; Wadhani 2002).[4] But in the decades since their creation, these paternalistic projects that promoted thrift as a solution to poverty managed to generate narrow interest groups who absorbed the burden of monitoring policy changes. They also remained invested in protecting the field as a site of public interest policymaking where each possessed and maintained their status as nonprofit, public service organizations distinct from for-profit banks. Patashnik notes that in the absence of the formation of such groups, policies languish as meaningless laws on the books. And indeed, the customers of these financial organizations simply were not mobilized to substantively shape policies in the field. State level policy developments afforded an opportunity for country bankers, credit unions and savings and loan associations to forge themselves into an advocacy network. The crafting of New Deal policy tools consolidated earlier lessons about public power and private organizations and led advocates to pursue policies that used the state to reinforce private activity.

Second, the Depression weakened small organizations but it weakened large ones as well. The crisis changed the political landscape and the realm of what was possible. The banking community had always been marked by divisions. It encompassed international money center banks in New York, Chicago and San Francisco; small unit

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[4] Josephine Shaw Lowell, one of the founders and leading theoreticians of the Charity Organization Society, noted that the, "'The great scheme of Savings Banks was originally conceived and put into operation as a means of helping the poor. Savings banks have grown to be such immense business enterprises, and are so necessary a part of the life of every nation, that they are never thought of as a 'charity' – but they should be constantly pointed to as an example of what true charity can do'" (quoted in Schwartz 2000). Mutual savings banks and credit unions developed from similar charitable impulses.

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banks serving one neighborhood or country banks that served an agricultural community; sprawling multi-state branch banks as well as investment banks like J. P. Morgan's unincorporated private bank. Although they had interconnected financial ties, they all had different interests.

Because the banking crisis reached new proportions in the spring of 1933, Hoover's defeat created new opportunities to change banking's status quo because of public's dissatisfaction with bank failures and Roosevelt's openness to new endeavors. FDR sought "a change in ethics" where profit and materialism would no longer be the criteria.[5] He wanted creative action, shared commitment and the application of "social values more noble than mere monetary profit" as keys to the path of restoration. But his approach was conservative, preferring solutions that revised, rather than abandoned, capitalism (Schlesinger, Jr. 1958; Brinkley 1989). FDR was interested in policy proposals that served the masses rather than just the wealthy, which also helped to woo and cement new voters to his party. But FDR found, as he had declared in his inaugural address, that the business leaders had no vision. The banking establishment (the money center banks) was bereft of ideas and believed this dip in economic fortunes, like previous ones, would eventually blow over (Schlesinger, Jr. 1958). Small community banks, in contrast, possessed distinct policy agendas that they successfully promoted first with Hoover and, more drastically, with Roosevelt. Credit unions and savings and loan associations, which were founded upon the principle of service over profit and brought banking within reach of average citizens, used the New Deal to elevate themselves into national entities. For community bankers, policy proposals that found rejection in the pre-New Deal era, now

[5] "Fear Only Fear Itself," Franklin Delano Roosevelt, First Inaugural Address, 1933 in Agel 1997.

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found acceptance. The lessons of those early losses proved instructive and fueled the drive to make the most of the New Deal moment.

Determined advocacy alone does not yield significant policy changes. The political economy of the Democratic party also mattered. In a number of cases, fortuitous intervention and support of members from agricultural states proved crucial. The support of rural members cannot be explained by the persuasiveness of their urban colleagues. Southern Democrats were the heart of the party, controlled key committees and wielded influence beyond that of their urban ethnic counterparts. They naturally supported the efforts to preserve rural banks. However, the cooperative structure of credit unions and savings and loan associations proved an appealing alternative to big money center banks. Southern Democrats who preferred small rural banks over large money center Wall Street investment houses supported community banking. The extent to which financial institutions enlisted the support of rural and urban members, they fared well. The fact that many community banks were already institutionalized at the state level meant they received a more favorable hearing with legislators from southern and western states. Bankers that did not have this national reach failed to gain national status in the New Deal moment.[6]

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[6] Mutual savings banks and postal savings banks had experienced banking professionals but lacked southern Democrat backers and did not experience significant increases in their capacity to expand their domain, despite their desire to grow. Mutual savings banks were founded in 1816 and dominated the east coast states. By 1929 their attempts to enter the mid-West and Southern states failed as politicians saw no reason to permit a new kind of bank when rural banks already served those of small means. Postal savings banks suffered from party as well as banking politics. Passed in 1910 at President's Taft's insistence, Republicans supported postal savings banks and defeated Democrat initiatives to pass federal deposit insurance in the wake of the 1907 depression. Rural postal savings proved a paltry and anemic sum compared to the amounts deposited in urban locales (Kemmerer 1917a). Further, the American Bankers Association (ABA) opposed the expansion of government banking which it always viewed as an infringement on deposits that properly belonged in the private sector. The fact that millions of Americans withdrew funds from commercial banks and re-deposited them into postal banks in the wake of the 1929 crash only fueled the ABA's animosity. Further, depositor support didn't translate to lay leadership of

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The Great Depression and the New Deal created policy windows, to use Kingdon's term (1984), through which policy elites with existing policy proposals could pursue their goals with renewed vigor. The next three sections describe how these three factors converged to create policies that protected community banking. The policies include federal deposit insurance, national charters for credit unions, and various policies to support homeownership.

Deposit Insurance and the Protection of Small Banks

Economists today still debate the true causes of the Great Depression. Indisputably bank failures figured prominently. Before the Great Depression, banks regularly failed. In 1900, the industry of 4,000 banks sustained a twenty percent failure rate (Barnett 1902: 66-67) and by 1929, this rate was largely unchanged with 700 failures a year as standard (Kennedy 1999). The Depression of 1929 differed only in the order of magnitude. But it was a new rash of failures that occurred in the spring of 1933, before Roosevelt's inauguration in March, that stimulated wholesale changes in the financial system. In the spring of 1933, even Hoover began to embrace the idea of deposit insurance, but could not because his term quickly drew to a close.[7] Upon assuming office, FDR declared a national bank holiday. Most banks were already closed because

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policies supporting the growth of postal savings. The Chicago Plan promoted postal banks absorbing *all* deposit functions of banks and commercial banks would focus only on lending, a system that would bring the US financial system in line with that in Europe. But economists based at the University of Chicago led this effort (Phillips 1995).

[7] Hoover's staff prepared a new set of bills and proposals in the wake of the latest bank runs. Deposit insurance was among them (Olson 1988). Hoover suffered from a pro-business image that backfired as the Depression weakened. Newspapers widely covered the list of banks assisted by the Hoover created Reconstruction Finance Corporation (RFC). The public learned that Illinois Continental, one of the largest banks in Chicago, received a $90 million loan while the bank's customers could not get anything from relief agencies and hundreds of small banks went unaided. The bank's founder and president, Charles Dawes, was a well-connected Republican. He had served as the Comptroller of the Currency and was a leader in the Republican Party. The seeming disparity of privileged elites and starving workers scandalized Hoover and hastened the demise of his presidency (Burns 1974: 16-22; see also "R.F.C.'s Advances Near Two Billion," *NYT*, 31 December 1932; "Dawes Bank Repaying R.F.C. Loan," *NYT*, 31 December 1931).

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governors had declared state bank holidays to stop the financial free fall. The federal holiday gave the national government the authority to re-open banks. Roosevelt required regulators to declare banks solvent before they could be re-opened. Shortly thereafter, banks could become members of the Federal Deposit Insurance Corporation (FDIC). During the New Deal the public interest in banks shifted from protecting the freedoms and profits of the private sector to responsible management that protected the safety and security of deposits. Millions of bankrupt depositors wanted federal protection for their funds.[8] With federal deposit insurance, banks would bear the cost of failure while depositors would receive the full amount of the funds held by the bank.[9] Deposit insurance has proved one of the unmitigated successes of this period. Since its passage, bank failures have practically disappeared.

However, the passage of federal deposit insurance was far from assured. 1933 found three key opponents to the idea: the American Bankers Association, President Franklin Roosevelt, and the powerful Carter Glass (D-VA), chair of the Senate Banking Committee. The president of the American Bankers Association (ABA) pledged to fight this "unsound, unscientific, unjust, and dangerous" idea of deposit insurance (quoted in Schlesinger, Jr. 1958: 443; see also Burns 1974).[10] By 1933 it was clear that small banks failed more often than the largest banks (defined as banks with deposits over

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[8] The failures of over one thousand savings and loans in the late nineteen eighties did not create a public panic that destabilized the banking system, because depositors were fully reimbursed.

[9] Deposits up to $2,500 initially. The current limit is $100,000.

[10] Perhaps deposit insurance would not have been needed if shareholders could be held liable for failures. But banks subverted the double liability requirements that protected depositors' interests by placing the bank's stock in a separate bank holding company which often had no assets. By the time depositors figured out that the holding company, rather than the bank, was responsible for payments to creditors, no funds remained. The Glass-Steagall Act eliminated double liability and placed limits on holding companies (American Institute of Banking 1933: 144-154). Deposit insurance instituted a repayment system that bankers could not sabotage.

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$20,000,000) and the ABA in this regard spoke for its most powerful and influential members. Roosevelt feared that deposit insurance gave poorly managed banks a guaranteed safety net and thus perpetuated their poor practices. Glass feared deposit insurance would perpetuate small banks when the banking crisis presented the perfect opportunity to eliminate them. Glass, father of the Federal Reserve system

But thousands of country bankers from agricultural states enthusiastically supported the idea. Immigrant advocacy did not protect small community banks. Urban neighborhood-based bankers were lost in the giant battles between large money-center banks who defined urban banking and the small rural bankers from agricultural states. Rep. Henry Steagall (D-AL), the powerful chair of the House's banking committee, insisted on the inclusion of deposit insurance as the price for passing the landmark Glass-Steagall Act.[11] In light of Steagall's recalcitrance , Roosevelt relented but only if the introduction of the FDIC was delayed by one year and if small bank participation was temporary. Similarly, Carter Glass and large bankers conceded to deposit insurance because the protections for small banks included in the emergency measure passed in 1933 were temporary. Both Senator Glass and FDR hoped to use the one year window to eliminate small bank participation all together by making the terms of FDIC membership prohibitively high for state banks (Burns 1974).

The original 1933 law reflected the compromise between these positions. In a move that re-assured the public, all banks could join the FDIC immediately. But this FDIC was temporary and would disappear one year later when a permanent insurance

[11] The Glass-Steagall Act separated the investment and depository functions of banks in order to protect depositor funds from failure due to bank investments in speculative securities. This division defined the structure of American banking until 1999 when it was partially repealed by the Gramm-Leach-Bliley Act. The FDIC authorization was part of the Glass-Steagall Act, formally the Banking Act of 1933.

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fund would open on June 30, 1934. The original 1933 authorizing statute, in recognition of small bankers' fears, expressly declared its intent not to discriminate against nonmembers of the Federal Reserve.[12] But the fine print restricted non-member participation until July 1936, at that time all participating banks had to join the Federal Reserve or lose their deposit insurance privileges.[13] The terms of membership in the FDIC became the site for battles between large and small banks. Most small banks not meet the stringent Federal Reserve membership criteria.[14] Small banks had good reason to believe that FDIC examinations would serve as a tool for government to "comb deadwood out of the banking system" and create "bigger and better banks" by not allowing unsafe banks to join the system (American Institute of Banking 1933: 165 quoting a New York Times article).

But these machinations did not take small bankers by surprise. Experience had taught rural banks that DC policy machinations promulgated regulations that could spell their demise. The Federal government sought to eliminate state banks through the National Bank Act of 1863. It failed and unwhittingly created a complicated dual banking system where federally chartered banks joined an existing system of state chartered banks. The creation of the Federal Reserve system in 1913, where Carter Glass played a central role, furnished another venue for battles for national bank supremacy. Many small

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[12] The Banking Act of 1933, Section 8, subsection 12 stated, "No bank shall be discriminated against because its capital stock is less than the amount required for eligibility for admission into the Federal Reserve System" (quoted in American Institute of Banking 1933: 165).

[13] All national banks must be Federal Reserve members and state banks could opt for membership. A few did but state bank charters had less stringent terms.

[14] The Federal Reserve is a member based system but membership is optional their criteria fairly stringent. There are 12 regional banks and the national headquarters in Washington, DC. For the first few decades of its operation, the New York Fed office de facto led the system which placed the DC office on the sidelines. State and national chartered banks applied for membership as Federal Reserve banks and interacted principally with their regional bank.

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state banks had opted not to pursue membership in the Federal Reserve system and so avoided its stringent eligibility criteria and its harsh bank exams. State banks grew accustomed to fending off regulatory initiatives designed to homogenize them into "professional" banks as defined by their large, money center banks in New York. They insisted on their right to be banks of a different sort.

Deposit insurance, on the other hand, sat on the the policy agenda of state bankers for decades. Federal legislators had long tried to introduce national deposit insurance. Between 1866 and 1933, Congressmembers introduced 150 bills on deposit insurance. Sponsors were just as likely to be Republicans as well as Democrats and represented thirty states without geographic concentration. However, many came from unit banking states in the south, southwest and plains states and a third of the proposals originated from members in Oklahoma, Nebraska, Texas and Kansas. Only two bills almost became law, one in 1912 met defeat because President Taft had already endorsed postal savings banks instead. The other, introduced by Henry Steagall in 1932, passed the House but not the Senate. In fact, despite bank runs in 1931, none of the twenty deposit insurance bills introduced by Congress members in 1932 passed both houses (see Golembe 1960 for a full account).

The knowledge that state-level deposit insurance programs had functioned with success probably frustrated national legislators. New York state first introduced deposit insurance in 1829 with the Safety Fund Act. This system had no precedent in the US but was inspired by practices in China.[15] Six other states created similar insurance funds and

[15] The proposal originated with Joshua Forman, a Syracuse, NY businessman who formulated the plan based on "the regulations of the Hong merchants in Canton." The newly elected Governor of New York, Martin Van Buren, introduced a bill to the legislature in the form of the Safety Fund (Golembe 1960: 179). Forman observed that in Canton "...a number of men, each acting separately, have, by the grant of

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these systems performed quite well until the National Bank Act of 1864 rendered them obsolete. The second wave of deposit insurance legislation followed on the heels of the economic crisis of 1907, with Oklahoma leading this phase followed by seven other states.[16] These systems worked well until 1929 when unprecedented wide-scale bank failures rendered the system inoperative.

But the deposit insurance system furnished an opportunity for the Federal Reserve to impose order on what it regarded as a ragtag system of small weak banks. Large banks and their allies in the major federal oversight agencies (the Federal Reserve, the Comptroller of the Currency, the Treasury Department) saw FDIC membership as a way to impose Federal Reserve membership standards on all banks (Golembe 1960: 197). The dual banking system of state and national bank charters could end if the Federal Reserve determined the eligibility standards for all banks. Using new rules to coerce compliance proved an effective means to obtain agreement from reluctant New Deal partners.[17] State

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the government, the exclusive right of trading with foreigners, and are all made liable for the debts of each in case of failure" (Golembe quoting Forman as reported in the *New York Assembly Journal*, 1829, p. 179). The Safety Fund Act required all banks to contribute to a common insurance fund, the Safety Fund, as a condition of renewing their charter. In the event of a bank's failure, this fund re-paid the bank's creditors and depositors. Banks paid an annual assessment to the State Treasurer of 1/2 of 1 percent of their paid-in capital stock until the total paid amounted to 3 percent of the bank's capital stock. If the fund dipped below a required size, the Treasurer could issue a special assessment. After a bank was liquidated, unpaid depositors and holders of circulating bank notes (i.e. the bank's currency) were paid in full from the Safety Fund. By 1837, over 90 percent of the state's banks were covered by the Fund. Following 1837, New York limited refunds to noteholders and had granted the Treasurer the ability to issue bonds to raise additional funds to finance the system. A few other states added these features. See (Golembe 1960: 183-184).

[16] They were Kansas, Nebraska, Texas, Mississippi, South Dakota, North Dakota and Washington.

[17] The Emergency Bank Act authorized the Reconstruction Finance Corporation (RFC) to purchase the preferred stock of banks, which would infuse these crippled organizations with new capital. This new power marked a new era under Roosevelt. Under Hoover, the RFC only provided loans, which only deepened a bank's debt. On spurning RFC's overtures, see Schlesinger, Jr. 1958.

Indeed, rules in one arena became vehicles for advancing agendas in another. For example, FDIC membership became the means to solve the pre-existing crisis in bank insolvency. In 1933 virtually all banks, large and small, did not have sufficient funds on hand to pay their debts. The Emergency Bank Act authorized the RFC to purchase the preferred stock of banks, which would give banks an infusion of capital. Even though they were in desperate financial straits, banks refused to sell their stock. Some feared creeping socialism, interpreting the stock purchase as government ownership of their banks, despite the fact

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chartered banks, unable to meet the Fed's higher capital standards and stringent bank examinations, would inevitably disappear.[18] Deposit insurance would serve as a boon to depositors but be the vehicle to eliminate small banks.

In dynamics reminiscent of the Illinois private banking controversy, the loudest voices speaking on behalf of small bankers were rural bankers. Small in size but numerous, their sheer numbers gave them access to many representatives in Congress. The battle proceeded with rural Congress members staking a place for their constituents. They invoked state's rights – the right of states to have an independent banking system. Chairman Steagall announced that the participation of nonmember banks in the deposit insurance system would never expire. With the support of Southern Democrats, he passed a series of amendments that extended the life of the temporary FDIC and delayed the implementation of the draconian permanent criteria. Congress established the permanent structure for the Federal Deposit Insurance Corporation in 1935 but a new set of amendments extended the deadline for nonmember participation to 1938 and then to 1940, when it was finally eliminated. Senator Vandenberg of Michigan supported deposit insurance as a way to save unit banks and "reverse the vicious trend" of "an America whose credit would be controlled by a few men pulling the strings from New York"

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that they were allowed to buy their stock back as they returned to a steady financial footing. Roosevelt used the creation of the FDIC to break this persistent deadlock. The FDIC's authorizing statute required banks seeking membership to be solvent. With deposit insurance as the new gold standard of safety and soundness and the RFC as the only path to solvency, banks relented to RFC stock purchase to gain FDIC membership. The volume of banks that needed assistance was so large that 2,000 remained insolvent at the deadline. RFC Chair Jesse Jones secured the Treasury's approval to certify them as solvent and then bring them to solvency within six months. Despite the fiscal crisis, banks remained incalcitrant and insisted their judgments remained best (Schlesinger, Jr. 1958: 426-428).

[18] For example, one provision of the FDIC law held that when a Federal Reserve *state* member bank failed it would be placed under FDIC receivership which in turn would create a new *national* bank and proceed as if the bank was a closed national bank. A commentator noted this provision was a "thorn in the side of state bankers" who, at any misstep, would find they had a national bank substituted for it (American Institute of Banking 1933: 163-164).

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(quoted in Golembe 1960).[19] With Steagall's vigilance, large bankers lost this attempt to drive small bankers out of the industry at a moment when deposit insurance became an industry standard.

In fact, the terms of membership in the FDIC gave small banks a decided advantage (Calomiris 1999). For example, the structure of the agency's membership fees benefited small banks.[20] To obtain the benefits of deposit insurance, banks had to join the FDIC. The membership fee amounted to one-half of one percent of a bank's total deposits and was later lowered to one-twelfth of one percent of a bank's assets in the Bank Act of 1935. This fee system benefited small banks. Because of this fee structure, the 300 largest banks in the United States would pay over 60 percent of the cost of the FDIC. The remaining 15,000 banks, which held 30 percent of the deposits in the country, bore about 40 percent of the costs. Because smaller banks were more likely to fail, they received the bulk of the protection insurance provided (American Institute of Banking 1933: 165).[21] Large bankers complained of the imbalance but A. P. Giannini, the founder and CEO of Bank of America and an industry maverick, pointed out that bankers would

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[19] Citing the Congressional Record, 73rd Cong., 1st Sess. (1933).

[20] Technically, the FDIC is an independent government corporation and had to raise capital to finance its operations. It did so by selling its stock to the Government, to the twelve Federal Reserve banks, and to FDIC member banks. Only members could enjoy the benefits of deposit insurance. It can also obtain capital by borrowing funds from the Treasury. In addition, FDIC dividends would accumulate and stay with the Corporation but were paid to a bank when it left the system.

[21] The details of eligibility for FDIC membership noted the special challenges of small banks. The chair of the FDIC explicitly stated that, "This corporation has been created for the protection of depositors by affording them insurance, and under such a system the test of solvency can be substituted for that of liquidity without sacrificing ultimate safety." American Institute for Banking 1933 quoting radio speech of Walter J. Cummings, chairman of the FDIC board as reported in the American Banker, September 29, 1933.) The distinction between solvency and liquidity benefited small banks who were illiquid i.e. did not have enough cash on hand to pay their creditors and depositors. Solvency assessed the value of the assets and investments made by the bank. These could be evaluated as strong or weak independent of the fact that if they were sold in the current depressed market they would not command their full price. He declared, "I assure you a fair and broad interpretation of those [examination] provisions of the act relating to the eligibility for insurance of any bank operating under the charter of any State" (quoted in American Institute for Banking 1933).

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save $246,000,000 annually in interest payments because the law eliminated paying interest on checking accounts. This trade-off more than compensated for the new fee (American Institute of Banking 1933: 165).[22]

Small banks secured a place in the modern financial system which allowed them to enjoy its privileges without risk of annihilation. They safely thrived for the next few decades. In 1959, 80 percent of the 14,000 banks in existence were unit banks. Small banks, often dismissed as insignificant and poorly managed, gained all the benefits of federal protection despite their weak financial position. FDIC protections applied to all banks, including small urban bankers who were lost in the shadows as large, urban commercial banks battled small, rural unit banks.

Authorizing National Credit Union Charters

Another site for local, low-cost, community oriented banking services existed in credit unions. Credit unions were (and remain) non-profit banking organizations with a cooperative structure that furnishes its members with access to low-interest loans. At this time, members volunteered to run credit unions by serving in key roles as treasurer, secretary and loan committee members. Unlike commercial banks and savings and loan associations, credit unions experienced few failures during the Depression and did not need government intervention to save them.[23] In fact, credit unions did not acquire federal deposit insurance until 1971. Despite the fact that credit unions did not face an economic crisis, they somehow obtained national charters. Known as a means for the working man to own and manage a bank, credit union expansion would assist wage

[22] Banks only needed to keep fifty percent of the actual fee on deposit with the FDIC. The remainder would be paid when the FDIC asked for it. This allowed bankers to keep funds on hand for their own use.

[23] Some involuntary liquidations occurred with the wave of bank failures in 1933, but these were anomalous and confined to neighborhood-based credit unions in New York.

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earners and the many immigrants amongst them. But again, immigrant advocacy does not explain how credit unions successfully pursued and acquired federal approval.

In 1934, the credit union movement was barely twenty-five years old and represented a bevy of small organizations managed by zealous volunteers. Although immigrants utilized credit unions, especially at their workplaces, they were not the principal actors behind the campaign for a national credit union law. Instead Edward Filene and Roy Bergengren retained their role as the primary strategists for credit union organizing and expansion. Filene was of German Jewish descent but he functioned as a thoroughly assimilated, wealthy heir and philanthropist and only struggled with his Jewish identity close to death and as Nazism expanded (Engelbourg 1976). Even though combating anti-Semitism partly motivated his support of the credit unions (Tenenbaum 1993), credit unions were not part of the traditional Jewish community structure. His dedication to cooperative ownership fueled his vision, his role as the principal philanthropist behind the credit union campaign, and public statements about credit unions. Their vision, not a groundswell of customer requests, fueled the pursuit of a national law. Roosevelt's election proved their best opportunity to persuade the Executive branch that these small and safe community banks should be rewarded with federal recognition. Because of their clear purpose and their efforts to build a national credit union infrastructure since 1909, they approached Roosevelt with the idea of a national credit union law during his first year in office.

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The credit union idea was before Congress at least once before in 1914.[24] In 1917 Bergengren and Filene discussed whether to continue pursuing a national law but they decided to pursue state laws instead. By 1932 twenty-two states had credit union laws culminating in a grand total of 1,057 credit unions with 268,381 members.[25] With a federal law credit unions that chafed under restrictive state laws could convert to a national charter and credit unions could be opened in states that lacked a law. As Bergengren later described it, "...a federal credit union law would be a sort of blanket insurance policy for all our state laws, giving us an alternative method of organization" (Bergengren 1952: 219-220). In short, credit union leaders wanted a dual banking system of state *and* federal charters.

Filene and Bergengren had complementary strengths. Filene had long devoted himself to philanthropy and social causes. As former co-owner and heir to Filene & Sons department stores, he parlayed his ability to attract media coverage to draw attention to credit unions. At the first sign of the economic crisis, Filene participated in a special radio broadcast and immediately promoted credit unions as a solution.[26] A staunch Democrat, Filene supported Al Smith's presidential campaign in 1928 and supported Roosevelt's candidacy in 1932. In a departure from most business elites, Filene boldly supported many features of the New Deal. When business leaders expressed their opposition to the New Deal's support for legalizing unions in March 1934 by creating the American Liberty League, Filene refused to join their effort (Schlesinger, Jr. 1958:

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[24] "Reforms Under Proposed State Banking Law Revision," *The New York Times* [a] (hereafter *NYT)*, 27 February 1914 (on New York's law being considered as a model for the law the federal government might adopt).

[25] Szoszkies, Henry, "The Cooperative Movement in Europe and America, *NYT*, 19 November 1933. The author was Chief Inspector of Cooperative Unions (i.e. credit unions) in Poland.

[26] "Lauds Credit Union as Aid to Workers," *NYT*, 30 October 1930.

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495).[27] He held firm in his belief that the cure for the depression was not a living wage but a high "buying wage" that would allow citizens to consume more which, in turn, would boost the economy.[28] Consumer purchases could drive the economic recovery and worker-owned credit unions furnished access to low-interest loans that would finance the purchase of necessary goods. Hence the spread of credit unions throughout the nation could shift the fortunes of the economy (Filene 1930). Filene wealth and disposition placed him in a network of economic and political elites, a position that he immediately leveraged with Roosevelt's election. Within one month of Roosevelt's swearing in, Filene urged the creation of credit unions throughout the country.[29] As Governor of New York, Roosevelt had introduced New York's credit union law and Filene quickly enlisting Roosevelt's support for the Congressional bill (Moody and Fite 1971).

Bergengren's strengths rested in legislative negotiations and with his access to a national network of credit union activists. A trained attorney, Bergengren had authored the model credit union law in 1921 and had two decades of experience in the art of lobbying state legislatures to pass credit union laws. Obtaining state laws was tedious and time consuming and in 1934 ten states still did not have them.[30] But some of the existing

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[27] Business sentiment turned against FDR in March 1934 with National Recovery Administration actions, strikes by labor and securities and stock exchange legislation (Schlesinger, J. 1958: 471). The Wagner Act passed on July 5, 1935 and the League promptly sent Roosevelt a brief signed by 58 lawyers pronouncing the Wagner Act invalid (Schlesinger, Jr. 1958: 406). In contrast, Filene was part of the Raushenbush group, he proposed an unemployment insurance scheme that became unemployment insurance (Schlesinger, Jr. 1958: 302-338). When New Dealers proposed increases in the business tax, Filene responded, "'It has not been the United States Chamber of Commerce, but President Roosevelt who has been representing the true interest of business. ... Why shouldn't the American people take half of my money from me [in New Deal taxes]? I took all of it from them" (Schlesinger, Jr. 1958: 494).

[28] Filene backed the Democratic party's presidential nominee and supported Alfred Smith in 1928. On this and the "buying wage," see "Edward A. Filene, 77, Dies in Paris," *NYT,* 26 September 1937.

[29] "Filene Urges Credit to Aid Employment," *NYT,* 9 April 1933 reports on Filene's radio address broadcasted over NBC stations.

[30] They were Connecticut, Delaware, Idaho, Maine, Nevada, New Mexico, North and South Dakota, Vermont, and Wyoming.

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state laws had deep flaws because political enemies successfully slipped in terms that made the law unworkable. For example, although Texas and Pennsylvania had state laws, very few credit unions opened in those states (Dorfman 1984; Sloan 1984). With a federal law, supporters could circumvent restrictive state requirements by opening a credit union with a federal charter.

Since 1920 the Filene-funded and Bergengren-staffed Credit Union National Extension Bureau had formed state credit union leagues that served as a central base for information and training (Moody and Fite 1971). The leagues, often run by the most committed volunteers or a shoestring staff, offered technical assistance to credit unions within their state and promoted the spread of credit unions. They also served as a central point of contact between Bergengren and credit union activists throughout the country. Theda Skocpol argues that civic associations have deliberately copied the federated structure of the political system that facilitated their political mobilization (Skocpol et al 2000). Evidently the, credit union campaign pursued such a strategy. Bergengren leveraged the state league system he constructed to lobby on the federal bill. He drecognized that the dedication of credit union leaders rarely trickled down to members. But these volunteers could mobilize less knowledgeable members who had benefited from CU membership. When the House of Representatives held hearings on the credit union bill in May 1933, Roy Bergengren ensured that credit union leagues mobilized their members to visit Congress as well as send letters and telegrams supporting the passage of the Federal Credit Union Act (Hoffman 2001).[31]

[31] In addition, the movement diligently built credit unions within the federal bureaucracy, which ensured the presence of successful credit unions in states without a credit union law and built good will within federal agencies. As federal employees postal workers, for example, were exempt from state laws and opened postal credit unions. In this way credit unions existed in states like Connecticut, long before the

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From the start, Bergengren cultivated credit union support in both urban and rural areas. This approach proved absolutely crucial in Congress. The law only passed because of support from Texas Congress members in both houses. Exhibiting its longstanding opposition to traditional banks, populist Texas quickly embraced the idea of cooperative business enterprise and adopted a credit union law in 1913 (Sloan 1984). But that law was saddled with difficulties and largely unworkable, leaving credit unions to exist there illegally. Texans understood the relevance of a federal law as a tool to by-pass problematic state laws and to permit credit unions in states without laws to people who were not federal workers. Senator Morris Sheppard, working closely with Bergengren to authored, introduced and ushered the law through Congress. Representative Wright Patman, also from Texas and a staunch supporter of unit banks, provided crucial support in the House, even though he (like Sheppard) did not sit on the banking committee. The chair of the House Banking committee, Henry Steagall, as well as officials in the Federal Reserve and the Treasury all opposed credit unions. But they let the bill pass the House on the last day of its legislative session, once Roosevelt intervened on its behalf, as a result of Filene's influence. The late passage of the bill meant it arrived in the Senate too late to be read into the record. Nevertheless it passed with unanimous vote because of Sheppard's request to the fellow Texan presiding over the floor, Vice President Garner.[32] The bill literally passed in the final hours of the close of the second session of the seventy-third Congress in June 1934.

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state passed a credit union law in 1939 (Bergengren 1952: 69; Featherstone and Sandahl 1985). In the early 1930s Bergengren persuaded the National Federation of Federal Employees to encourage its members to start a credit union. Employees of the Department of Commerce obtained a license and launched the Commerce Credit Union in June 1932 (see George D. Riley, "The Federal Diary," *The Washington Post*, 8 August 1933).

[32] On the details of the law's passage, see Hoffman 2001: 198

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To be clear, credit unions were not part of a pre-existing populist uprising. Rather, Bergengren and Filene wanted a national law that reinforced the self-help cooperative principles underlying credit unions. In addition to the persistence of credit union activists, took advantage of the political opportunity created by a new administration. Credit unions made very little demand on the government's administrative capacity because the key tasks required – namely approval of charter applications and annual inspections – were already being conducted for banks and credit unions. In the right setting, credit unions simply piggy-backed on existing activities. In this instance, the Farm Credit Administration offered to serve as the relevant oversight agency (Knapp 1973).

Because they relied on volunteers to manage its operations, credit unions did not demand government funding to operate. In 1937, a member of the Farm Credit Administration noted that, "No Federal Government money whatsoever has been used to capitalize or make loans in these voluntary self-help savings and loan institutions."[33] In his evaluation of the 1934 federal credit union law, economist John T. Croteau noted the paradox of state help for self-help:

> Perhaps the most unusual feature of the federal credit union system is that it is a venture of the federal government in the area of voluntary action. The credit union is a 'do-it-yourself type of activity; owned and managed by its members, it relies in large part on unpaid voluntary effort, or on part-time work modestly rewarded. Traditionally this type of voluntary activity has been of a local, personal nature, and not considered to be within the purlieu of federal government jurisdiction. *Yet the growth of the system points to an institutional arrangement that has sought to combine the prestige and solidity of a federal statute and the general supervision and examination of a federal bureau with the personal altruism and benevolence of the community group* (Croteau 1956, emphasis mine).

[33] The speaker is W.I. Myers at a conference for Federal Credit Union officials, quoted in "Federal Credit Unions," *Wall Street Journal*, 27 February 1937. Filene proposed that the federal government furnish start-up capital for credit unions. But movement organizers rejected this proposal because it threatened to replace the energy and drive that credit union volunteers expended (Hoffman 2001: 201).

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The Federal Credit Union Act of 1934 preserved the mutual, cooperative, local, and voluntaristic character that defined credit unions. It legitimized this "self-help" approach to banking by endorsing the unique role of credit unions as cooperative organizations that offered small loans at affordable interest rates to depositors with modest salaries.

The federal law reinforced and institutionalized credit unions as organizations substantially different than for-profit banks. The requirements for starting a credit union remained low, keeping ownership within reach of workers. Seven people could start a credit union when each purchased a share of the organization for five dollars. Members deposits furnished the capital from which loans were made and the accounts paid six percent interest. With a $5 deposit a member could obtain a $50 loan. Loans of $51 or more required security of some form, either by funds (of at least $50) in a savings account or held in notes. Credit unions also continued to promote civic participation by allowing each member to vote and elect the board of directors, the credit and the supervisory committees. Committee work occurred without pay, unless authorized in an organization's by-laws and even then, only the Treasurer and Chief Operating Officer could be paid. The Board retained the right to decide the details of loan terms, dividends and the like within statutory limits. Members of the loan committee (which decided on loan applications) and the supervisory board (which oversaw the entire operation and served as an external monitor) had to be volunteers.

National charters permitted growth on an unprecedented scale. The first federally chartered credit union was established by the citizens of Texarkana, Texas in October 1934, three months after the law went into effect. One year later, there were 563 federally

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chartered credit unions, with Texas running a close second to Pennsylvania. By 1937, there were 2,000 federal credit unions with over 300,000 members and $8,000,000 in savings. This averages to twenty-six dollars in each savings account and illustrates the focus on wage earners.

Protecting Savings and Loan Associations and Home Ownership

Savings and loan associations (S&Ls) have been characterized as overwhelmed, insignificant and meaningless before New Deal interventions strengthened the homeownership sphere. Originally known as building and loan associations, these inherently small and local organizations operated as neighborhood-based nonprofits that pooled the deposits of its members and granted mortgages on terms more favorable than that available at banks (Bodfish 1931).[34] By offering lower downpayment and longer repayment terms, they helped to place homeownership within reach of many workers. On the east coast, these elites secured the passage of state building and loan laws by state legislatures. Most S&Ls functioned through volunteers who managed all administrative tasks. Immigrants were overrepresented among S&L customers and among mutual savings banks which also specialized in mortgages to workers. In cities like Detroit, immigrant homeownership rates exceeded those of middle-class, native whites because, some believe, of their use of S&Ls (Bodnar 1985: 180; also Zunz 1982).

[34] Standard balloon loans offered by commercial banks, savings banks, mortgage bankers and insurance companies accepted a twenty to fifty percent downpayment, interest only payments for two to three years and the full amount of the loan at the end of that period at which the loan could be extended. Using the greater financial resources of the federal government, extended mortgage terms, they amortized the entire loan (principal, interest and fees, not just the interest), and pioneered installment payments that reduced the amount of the entire loan (rather than applying first to the principal and later to the interest). Federal intervention popularized their core product without granting them a monopoly on its offering which forced S&Ls to match it.

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The Depression hit S&Ls particularly hard. Before 1929, 75,000 foreclosures a year was standard. But in 1930, that number rose to 100,000, then to 175,000 in 1931 and 200,000 in 1932 (Keith 1973: 22). By the 1930s, savings and loan associations supplied the plurality of home financing funds (35%) but they had approximately 40 percent of the $20 billion in home mortgage debt in default (Ewalt 1962: 37).[35] The Home Owners' Loan Corporation stands as a quintessential New Deal program because it directly aided ailing citizens by refinancing their foreclosed mortgages and saving their homes. In contrast, Hoover's conservative Reconstruction Finance Corporation and Federal Home Loan Bank aided industry. Introduced in the first Hundred Days, this unprecedented initiative found government granting mortgages *directly* to consumers and sidelining the small and unprofessional savings and loan associations whose defaulting loans it purchased. Lizabeth Cohen argues this case pointedly: "As the national government stepped in to help workers protect their homes, ethnic institutions charged with that function became even weaker" (Cohen 1990: 274). These community-oriented organizations were fundamentally unsound financially and displaced by government intervention that selectively worked with larger, more professional banks which "contributed to the demise of these small, often ethnic competitors" (Cohen 1990: 276). This interpretation overlooks the ways that New Deal policies saved, rather than displaced, savings and loan associations and did so in ways that the industry crafted. But the ability of the industry to influence the New Deal rests in its own prior history with state and national governments before the financial crisis of the 1930s.

[35] Savings banks and life insurance companies each held 15% of the market and commercial banks, mortgage banks and individuals (such as real estate brokers) shared the remaining 35% (Ewalt 1962: 97).

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Industry leaders thought about national policy well in advance of the New Deal. As Secretary of Commerce Herbert Hoover initiated studies and meetings with the homeownership industry that culminated in the landmark 1931Conference on Home Building and Home Ownership, where nineteen appointed committees reported the results of one year of meetings and research. Through this venue building and loan associations (later called savings and loan associations) participated in a fledgling national policymaking structure and formulated policy positions designed to support their industry. As President, Hoover became the first chief executive to place homeownership on the *national* policy agenda by creating a central bank for the industry (discussed below). However the industry proposed such a bank even earlier in 1919. Other events alerted the industry to the relevance of national laws independent of White House overtures.

By 1930, savings and loan associations had existed for one hundred years and industry leaders had grown conscious of the need to update their regulatory structure to function effectively in a modern, industrialized society well before the New Deal. In the early 1900s, S&L leaders reluctantly acknowledged that the cooperative, voluntarism which defined the field's early decades increasingly functioned as business institutions as members treated the organizations like banks and the role of social and moral obligations diminished (Teck 1968; Flam 1985). At the same time, many state legislatures updated the laws governing S&Ls to reflect that fact that the limited roles originally envisioned for these organizations no longer fit the role they played in growing cities where most of an organization's members would not know each other. The most significant change involved a shift from terminal charters that expired after the original members paid off

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their mortgages (which lasted five to ten years) to a perpetual charter that allowed new members to join at any time. The perpetual charter represented a victory of the immigrant masses over traditionalists, often urban patricians who originally created building and loan associations as a form of moral uplift (Haveman and Rao 1997). These associations also recognized the utility of regulations to control the use of the term building/saving and loan after many urban workers invested in the National Savings and Loan Association only to learn that it was a fraudulent investment scheme rather than an off-shoot of their local S&L (Bodfish 1931). The inevitable failure of that investment vehicle damaged the reputation of S&Ls and demonstrated the need to use national laws to define and defend the legal use of the term building/saving and loan.

Famously provincial, their local orientations rendered them unable to combat national problems. Although S&Ls in the early 1900s created a national trade association, the United States Savings and Loan League (USS&LL), by the 1930s the industry still lacked a well-organized local structure to mobilize for national legislation. Local and county-level leagues existed but they did not see government lobbying as their purpose. A county banquet easily attracted 1,000 attendees but national conventions in DC never reached that number (Ewalt 1962: 113).

Immigrants were a well-established part of the industry. In 1916 Chicago was home to 74 Polish S&Ls (Bodnar 1985) and the city had a foreign language S&L trade association (Ewalt 1962). But there wasn't a distinct immigrant voice in national policymaking. Instead the USS&LL embraced its role as the industry's voice. It planned for the industry as a whole by including nonmember organizations in its strategic

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planning and in industry surveys.[36] The League quickly and actively lobbied to secure its place in the growing national regulatory regime (Ewalt 1962:95). The culture of localism kept the League painfully unrepresentative and politically weak, a fact probably unbeknownst to Congress.[37] It then used the process of implementing New Deal policies to build its membership base and construct a viable national association.

S&L interaction with the Reconstruction Finance Corporation (RFC) placed them on the radar screen of official Washington, and they looked good compared to banks.[38] During Hoover's presidency, S&Ls borrowed $118 million from the RFC but banks borrowed over $800 million.[39] As the legitimacy of commercial bankers ebbed during the Great Depression, S&Ls discovered that their once rejected initiatives found a warmer reception. A S&L proposal to Congress in 1919 to create their own central bank, comparable to the Federal Reserve, simply did not resonate. As the banking crisis deepened, Hoover sought new ways to strengthen the long-term viability of the home financing system and arguments for a separate banking system received a fresh hearing. When commercial banks collapsed, the deposits of savings and loan associations

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[36] There was very little local infrastructure for S&Ls below the state league. The Midwest and some rural areas had district and group leagues, like the league of foreign language S&Ls, which shared advertising expenses. But only the New York league tried to impose standardized practices on its member organizations (ibid).

[37] The League could say it represented the entire industry and it had thousands of members and present a prima facie case of strength. Its membership criteria limited its reach. Only state S&L leagues could join as members and individual S&Ls were allowed to join in 1924. Even after counting all the S&Ls in a state league as individual members, the USS&LL represented 2,700 associations in an industry with over 10,000 organizations (Ewalt 1962:119). The League built itself into an masterful lobbying army after the New Deal when it realized it needed an ongoing national presence.

[38] The Reconstruction Finance Corporation's stringent loan terms (six-month renewable at 51/2 percent interest collateral required) meant that the majority of S&Ls could not use its services. Consequently only the strongest and best S&Ls interacted with the RFC. RFC By 1937 S&Ls re-paid all but $2 million and on track to pay the rest (Ewalt 1962:35.)

[39] "R.F.C.'s Advances Near Two Billion," *NYT*, 31 December 1932.

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evaporated, hampering the S&Ls' ability to meet their obligations to their depositors.[40] They could not obtain loans from the Federal Reserve because only commercial banks were eligible for membership. If S&L deposits were kept in their own central bank, their capital would have been protected. These funds could have been invested in homebuilding which, in turn, spurred employment. Homeownership proved a crucial sector of the economy largely ignored by the federal government. But widespread foreclosures helped to place them on the national radar screen. In 1929 new residential construction began on 509,000 units, a 46 percent decline from its 1925 peak and a loss of $2.45 billion from the economy. In 1933 only 93,000 housing units were started and the number stayed flat in 1934 (Keith 1973: 22). In contrast, risk averse banks famously hoarded capital.

The building and loan industry first proposed a central bank in 1919 but was rebuffed. At Hoover's initiative, Congress created the Federal Home Loan Bank (FHLB). Hoover authorized the creation of a central bank to mortgage lenders. The FHLB functioned as the counterpart to the Federal Reserve but in ways that supported homeownership. Like the Fed, its member clients were institutions: savings and loan associations as well as the mutual savings banks and insurance companies who invested heavily in mortgages. Modeled on the Federal Reserve, the FHLB had twelve regional banks that served its members, the institutions that offered mortgages (savings and loan associations primarily, as well as mutual savings banks and insurance companies who often invested their capital in mortgages).

[40] Commercial bankers argued that the existing home finance structure had no defects. Failures were due to speculation and to lending to undeserving borrowers. They also felt the change this source of additional capital would lead to overbuilding.

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The small size, speculative loans and inept, unprofessional management seem as likely culprits for the industry's disproportionate share of losses. But these explanations are misleading and overlook how the ripple effect of the economic crisis could cause a crisis even in stable and well-run organizations. As a century old organizational form, they had weathered all previous economic depressions and did not lay prostrate with the Great Depression. In contrast to commercial banks that quickly foreclosed and dumped properties on the market, driving down property values, building and loan associations offered flexible re-payment arrangements to their customers. For example, instead of full monthly payments, they arranged for customers to pay only the interest[41]. They re-financed and lengthened terms to make monthly payments smaller. S&Ls differed from banks in other ways as well. By law, their savings accounts were not demand deposit accounts. This difference allowed S&Ls to refuse withdrawal request outright or alternatively, pay only a fraction of what depositors demanded. These actions angered customers but allowed associations to hold onto scarce cash. These arrangement also gave them the ability to re-negotiate re-payment terms with customers and avoid foreclosures. It also allowed them to keep some cash on hand to pay their creditors and stay afloat.[42] These accommodations reflected their closer ties to community members.

As the magnitude of the Great Depression became apparent, these valiant efforts faced stresses that unraveled even the strongest organizations. Many governors imposed a debt moratorium which recognized the longstanding nature of unemployment by suspending borrowers' needs to re-pay their debts. Even borrowers who could afford to continue mortgage payments ceased to do so in order to conserve their funds. This loss of

[41] The following descriptions summarize observations made throughout Ewalt 1962.

[42] The ability to deny cash withdrawals was also true of mutual savings banks.

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cash hampered the ability of S&Ls to meet their financial obligations. Pressure on associations mounted as commercial banks demanded the full re-payment of all business loans. Many S&Ls used these short-term loans to pay their quarterly or biannual interest on customers' savings accounts. Then they gradually re-paid the loan as they received monthly mortgage payments. But banks, flooded with customers withdrawing all their funds from their checking and savings accounts, called in their loans as a way to raise cash. The crisis that emerged in the spring of 1933 demonstrated the insufficiency of these modest efforts.

The direct service character of Roosevelt's Home Owners' Loan Corporation (HOLC) contrasted with the industry oriented efforts of Hoover; but the HOLC directly grew out of Hoover's initiatives. The FHLB's authorizing statute included a provision for direct loans to consumers. But an administrative structure designed to serve institutional lenders proved ill-suited for executing the direct loan provision. When borrowers deluged its offices with applications, the FHLB staff referred creditworthy applicants to local savings and loan associations. Two problems quickly appeared. First, cash-strapped S&Ls could not assist creditworthy borrowers. Second, a third of the counties in the US did not possess a S&L, even though almost every state in the nation permitted S&Ls.

Upon his inauguration, Roosevelt called upon existing FHLB staff to invent a solution (Schlesinger, Jr. 1958).[43] They created the HOLC as a more efficient way to fulfill the direct loan provision. The continuity between the agency and its staff explains why the farreaching HOLC proposal could be included in the bills offered in the First

[43] In fact, most of the banking provisions were worked out with Hoover's staff who, given the emergency conditions, stayed on and had the institutional knowledge, technical expertise, and contacts to quickly create new laws.

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Hundred Days. Further the HOLC functioned under the FHLB's auspices and shared the FHLB's governing board and director.

To serve distressed mortgagees directly, the HOLC opened 458 offices in 1934. An "office" included a desk at the post office or in the garage of someone's home. As a government corporation (instead of a standard agency), Congress exempted it from procurement and civil service rules that facilitated its unconventional approach to establishing offices and hiring staff. It quickly hired over 20,000 employees, with 18,000 of them working outside of DC.[44] The HOLC helped many borrowers by reaching back in time and assisting those whose properties foreclosed in 1929. Further, it accepted mortgages valued at twenty thousand and below. The HOLC purchased a borrower's mortgage from the original lender, then refinanced it on new terms. For the first three years of the loan, borrowers made interest only payments. The HOLC financed over one million mortgages valued at $2.75 billion.[45]

But S&Ls were not the primary users of the HOLC. Ultimately only thirteen percent of all S&L mortgage holdings were sent to HOLC. In contrast, banks turned over twenty-six percent of their mortgages even though their lending criteria was more stringent than that of S&Ls (Ewalt 1962: 41).[46] Far from displacing S&Ls, the HOLC relied on their presence. The HOLC simply could not address all the applications it

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[44] Congress ultimately required the agency to hire people from within the state, instead of attorney's who traveled into a state.

[45] The New Deal is often credited with inventing the amortized mortgage (Jackson 1985). But before the New Deal, only building and loans offered the amortized mortgage. To the industry's chagrin, the government stole and improved upon their core product by lengthening the terms to 20, then 25, then 30 years (Ewalt 1962). S&Ls retained one advantage. The interest they paid on savings accounts was higher than that of other savings institutions. This statutorily protected advantage made them relatively attractive to savers.

[46] Savings banks turned over twelve percent of their mortgages and insurance companies six percent. They had a smaller share of the market and were more conservative (and probably assisted more higher income customers) (Ewalt 1962).

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received. Although individuals could apply to the HOLC directly, its staff encouraged applicants to work with private lenders first and preferred applications where lenders assisted borrowers. It often referred borrowers it could not help back to their private lender.

The HOLC is celebrated as a form of relief that saved homes but it was a business that chose applicants least likely to default. Fifty percent of all refinancing assistance went to homeowners with low property values. Far from ailing the most distressed, the HOLC tried to minimize its losses, and aggressively pursued borrowers who defaulted. To insulate the Treasury from loss, the HOLC screened applications and only assisted fifty percent of those who applied.[47] Lenders felt that the HOLC stole their best clients, leaving them with the most difficult cases (Ewalt 1962). S&Ls accused the agency of cherry picking their best customers. Despite this, the agency still foreclosed on 10 percent of its customers.

HOLC activity did not displace or replace the role of building associations and other private lenders. The organization, for emergency purposes only, operated for a temporary period. It accepted applications from 1933-36 and serviced the mortgages until 1951, at which time it went out of business and turned its operations (and a small profit) over to the FHLB. Upon its dissolution, it sold its assets and mortgages to savings and loan associations. Most borrowers continued to use S&Ls and would do so well after the HOLC closed.

Similar to Hoover's initiatives, the majority of New Deal resources helped S&Ls directly. Assistance that stabilized organizations remained crucial. The New Deal did not

[47] Initially, patronage politics played a role in who received refinancing assistance. But a new Chair of HOLC halted this practice. As a result, a group of applications from Illinois had to be tossed out before they were processed.

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introduce S&Ls to government. By Roosevelt's inauguration, the S&L industry was aware of its role as an integral part of the structure of homeownership and sought to leverage this knowledge to craft a place for itself on the national stage that would place it on a footing comparable to that enjoyed by commercial banks. The Roosevelt administration authorized two other changes that constructed a separate administrative apparatus specifically for the home finance industry which institutionalized the field in the national government. Like the FHLB, these initiatives copied the systems established for commercial banks. A federal chartering system introduced a dual banking system that supplemented state charters. S&Ls also acquired a federal deposit insurance system similar to the FDIC. These initiatives preserved the local orientation of S&Ls even as they introduced a more stringent set of rules.

With the introduction of the FDIC in 1933, savings deposits in banks increased 16 percent. S&L representatives argued that this increase came at their expense because customers withdrew funds from uninsured S&Ls and placed them in insured banks (Ewalt 1962:99). The National Housing Act of 1934 authorized the creation of the Federal Savings and Loan Insurance Corporation (FSLIC). The introduction of national charters grew out of the pre-HOLC experience of the FHLB staff. They observed that a third of all counties did not have an S&L. To address this gap they constructed a system of national charters that they administered.[48] Applications for new S&L charters could be handled quickly and efficiently. Also the criteria would be uniform and more stringent than what existed at the state level. The national US Savings and Loan League had drafted a "Model Code" for savings and loans charters, which greatly informed the

[48] Only three states had no S&L legislation: Maryland, South Carolina and Alaska.

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structure of federal charters making the industry, not FDR's Brain Trust, the source of these changes.

The FHLB and FSLIC proved the permanent solution for the savings and loan field and its customers. The new federal administrative agencies worked primarily with lenders, not consumers, and did so in ways that reinforced local organizations rather than replace them. The bulk of federal intervention in the industry took less visible forms. In ways probably unanticipated by lawmakers, the new powers, personnel and financial resources of these new agencies allowed their staffs to offer formal and informal assistance to the industry. FHLB and FSLIC staff rolled up their sleeves and joined with the state and local S&L leagues to assist individual associations with the technical details of managing insolvency.[49] In many large cities, a local team of state bank supervisors, saving and loan association owners, and FHLB regional staff evaluated organizations and recommended either consolidation, liquidation or reorganization. They persuaded stronger organizations to take over the assets of weaker ones. This tedious, thankless work occurred out of the spotlight. The public remained unaware of these technical failures as old organizations were merged with healthier ones or given new management. The consolidation and professionalization of the industry occurred over time. With 10,500 associations in 1935, by 1943 there were 6,500. But instead of outright failures and losses to depositors, regulators reorganized and merged associations (Ewalt 1962: 114).[50]

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[49] One common tactic split an organization in two, separating good assets from bad. The second association was frozen and as funds slowly flowed in from sales of foreclosed homes (often at full value), then depositors would be fully reimbursed. This process often took years but for patient depositoris, it paid off (Ewalt 1962: 115-116).

[50] One common tactic split an organization in two separating good assets from bad. The second association was frozen and as funds slowly flowed in from sales of foreclosed homes (often at full value),

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The introduction of federal assistance did not eliminate trust in local organizations even though New Deal regulations furnished the impetus for revising and strengthening state laws and professionalizing the industry. The FHLB Board and USS&LL accommodated small, local organizations, which differed substantially from the administrative environment small commercial banks faced. For example, the national charter system was not a tool to eliminate state chartered S&L associations.[51] The FHLB Board avoided "overbanking" in an area by not approving federal charters for areas served by state S&Ls. The new federal S&Ls could only serve residents within a fifty-mile radius of their home office, which also diminished competition with existing S&Ls. Moreover, many savings and loan associations preferred state charters and did not convert. FHLB research revealed that by 1936, the associations which took this slow local approach, as well as those that obtained federal charters, attracted new depositors (Ewalt 1962: 116).[52] Obtaining a federal charter offered no real advantages as state chartered organizations continued to attract new depositors.

Where the USS&LL aggressively urged all existing associations to become FHLB members, it remained neutral on the question of conversion to federal charters and on joining FSLIC. Commercial banks had to obtain deposit insurance in order to re-open from the bank holiday; S&Ls did not. Their participation in the FSLIC insurance program was genuinely voluntary. It took five years for fifty-one percent of all associations to join the system and another twenty for 94.3 percent to be covered. Why so slow? In contrast

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then depositors would be fully reimbursed. This process often took years but for patient depositoris, it paid off (Ewalt 1962: 115-116).

[51] For example, policymakers could have restricted FHLB financial assistance to organizations with a federal charter which would force small S&Ls out of business. They did not.

[52] For a long time, state chartered associations outnumbered federals. This occurred even though the federal charters offered incentives such as matching funds and deposit insurance.

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to the image of frail organizations under assault, many S&Ls had already returned to sound financial footing without the insurance system, so joining the FSLIC offered no advantage.

National developments re-shaped local ones because federal laws often required state enabling legislation. The mandatory revisions of state codes could have been the means to insert more stringent national charter criteria at the state level. Instead New Deal innovations unfolded in a dance with local institutions who fiercely guarded their independence. Public policies did not trump private organizations. Many state legislatures adopted all or some of the provisions of the USS&LL's Model Code. But the USS&LL carefully pursued a flexible approach where old and new practices existed side-by-side in the code. For example, most associations required members to save systematically by depositing the same amount on a regular basis. With the New Deal many states added rules that made savings optional rather than obligatory.[53] Membership in the FHLB and the FSLIC required examinations and uniform data collection. Because these national standards informed how state laws were re-written, it affected state chartered organizations as well. These requirements placed new demands on local organizations that previously did not need to assemble this volume of data. The federal agencies' higher standards and increased scrutiny of the industry led the USS&LL to foster the American Savings and Loan Institute (created in 1922) to serve as its educational arm that trained industry personnel. By 1935 USS&LL helped standardize accounting procedures in the industry but it also created fifty to sixty chapters that offered courses in accounting and

[53] New laws also increased the options for loan repayment. Many associations used a sinking fund approach where borrower payments accumulated in a savings account, which included interest paid on their savings. When the amount saved equaled the amount of the loan, then the loan was cancelled. HOLC and the FHA popularized the direct payment method that directly deducted monthly payments from the principal of the mortgage (Ewalt 1962: 111).

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appraising. Although the League accommodated the voluntarism entrenched in the industry, it also encouraged professionalization and standardization.

By taking the lead in training the industry and creating standardized procedures, USS&LL created a cadre of examiners familiar with the local and voluntaristic character of S&Ls. As a result, savings and loan associations encountered a more understanding national administrative state of appraisers, examiners and accountants determined to bring the industry along. With increases in market growth (from the suburban housing boom) and the growing numbers of professionalized staff, modern techniques gradually displaced older ones. Far from New Dealers parachuting in with a new idea, the HOLC reflected hard-earned lessons from previous efforts to address the crisis.

Conclusion

Through a series of uncoordinated decisions, Congress constructed a national administrative infrastructure that legitimated, protected and supported small banking institutions. New Deal legislation spared small banks by including them in national deposit insurance programs, introduced national laws to govern credit unions, and gave savings and loan associations an entire federal administrative apparatus. Most histories take the New Deal as the starting point of community banking history but in many ways this period marked the culmination of decades (sometimes centuries) of developments in the banking industry. The era before the New Deal proved to be a period of significant development for community banks. They gained experience with state governments that yielded valuable lessons about better and worse ways to structure government intervention in the private sphere. As Novak (2001) demonstrates even nineteenth century self-help organizations, like fraternal societies, existed within a web of regulations. In the

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regulation of the private sphere, the state mattered and small banks and their immigrant customers knew this fact well before the New Deal arrived.

Despite their spectacular failings during the Great Depression, private organizations retained their primacy of place. State laws that regulated the private sphere in the public interest furnished an important template for New Deal policymakers. To take Novak's (2001) argument seriously, we mush recognize the relationship between government and community banks prior to the New Deal. By doing so, it is easier to identify the political dynamics through which small financial institutions leveraged their prior experiences with state and federal governments to construct a national administrative state for themselves. By the end of 1930s many had used the introduction of the federal responsibilities in the banking arena to shift the costs and benefits of regulation. Federal laws and administration demanded that private organizations operate more professionally and in return their affiliation with the national government re-instituted the public's trust in the operations of the private sector.

New laws and policy tools continued the pattern of regulating the private sphere in the public interest. Private organizations retained their primacy of place during the New Deal, despite their spectacular failings during the Great Depression. Small banks, credit unions and savings and loan associations galvanized themselves to create and protect their turf while large bankers either ignored them or miscalculated their ability to define a new status quo at a moment when the industry widespread condemnation. The new regulatory state possessed comfortably familiar elements by elevating state-level experiments. National policies preserved local structures via advocates preserving the tools and policy designs they developed. The challenge of the New Deal was create

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nation a national apparatus while preserving the local and community-based nature that made these organizations distinct and defined their role as institutions that catered to people of small means. Seen through the lens of the financial institutions that preceded it, the New Deal banking agenda preserved old institutions through new regulatory regimes. The extent of the accommodation of local organizations was remarkable given the upheaval and blame of the era. Small banks were genuinely at risk of elimination, but political negotiations turned the tables such that they staked their claim as a vital part of the national economy and received new administrative agencies under which they gradually professionalized and grew to become an integral part of the modernizing economy.

This new regulatory regime marked an important moment in the ongoing shift of community banks from specialized acts of social welfare to the mainstream of banking. But they did so in ways that protected the ability of small operators to continue to dictate who would receive loans and services. Where it is often held that mutual aid associations were replaced by the New Deal state, the social welfare financial institutions of the progressive era found new life in the New Deal. New Deal policies preserved the separate identities of these various financial institutions and enhanced them further through a new federal infrastructure. Small community banks did not lose their identities when they entered the federal government's embrace. Professionals dedicated to the preservation of their industries pointedly pursued national recognition from the very start of the New Deal and sought policies that retained the local character of individual organizations. In fact, their postwar viability rested mightily on possessing a government seal of approval.

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The New Deal institutionalized social welfare initiatives through financial institutions that extended the benefits of capitalism to moderate income workers and by doing so shifted marginal financial institutions that began as social welfare projects moved to the center of the industry. The introduction of national social insurance programs such as Social Security and public relief did not eliminate the importance of individual savings and the social welfare commitments that motivated the creation of these alternative financial institutions.

Ethnic institutions persisted but they also had to change, often by professionalizing. But professionalization did not erase the continued use of networks or the infusion of ethnic and racial markers in bank underwriting, especially for home mortgages. Within the credit union and building and loan sectors, fault lines between large firms and smaller ones existed and probably mapped onto differences between Anglo dominated firms and ethnics. But the conflict was not fatal. Those who sought to build an industry needed the minions of small unprofessional organizations in their ranks. They could not afford to jettison them.

By allowing local control and decisionmaking to continue, New Deal policies allowed many small organizations to persist. Although economic recovery occurred slowly, New Deal developments consolidated the foothold the great wave of Eastern European immigrants had obtained. Federal support did not fundamentally challenge ethnic institutions and the racial hierarchy in the delivery of financial services. The pressures of professionalization undoubtedly forced some organizations to close; for others it provided employment for an ethnic second-generation that had obtained more schooling (Stipanovich 1980). Some of the local character of these organizations

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persisted despite the presence of standardized administrative procedures. Identity and networks still mattered even as the character and depth of these organizations changed from family and village ties to social relations in a mass society. Ethnics were included in the postwar suburbanization boom facilitated by FHA and other federal programs. Race and ethnicity structured the access to suburbs and fueled the next generation of social welfare banking initiatives.

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Chapter 4

Community Reinvestment:

Reinventing Community Banking Policy

After the New Deal, mutual savings banks, unit banks, credit unions and savings and loan associations grew with their original constituencies. By the 1960s, they functioned as mainstream organizations. In recognition of this shift, and at the insistence of commercial banks, all except credit unions had lost their non-profit status. Because they no longer incorporated the working class and the poor into formal financial institutions, a familiar dilemma re-appeared: How to get financial institutions to respond to local needs and to serve groups largely seen as poor investments.[1] As in the past, it took political action to change market institutions.

In the 1960s and 70s, a new set of advocates marshaled new arguments and policy tools to address the gap the banking industry's norms and community needs. These advocates emerged from communities left out of the mainstream: economically vulnerable white ethnics and racial minorities. This new generation of advocates sought to re-create an era when neighborhood banking institutions "naturally" responded to local community needs. Where pre-New Deal advocacy had focused on obtaining legal recognition for new types of financial institutions (namely mutual savings banks, savings and loan associations and credit unions) as the principal means of addressing inequities in lending, by the 1970s the nature of decisionmaking *within* institutions took centerstage.

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[1] Bankers challenged the nonprofit status of credit unions as well but they created War on Poverty credit unions to demonstrate their commitment to address their admittedly racist membership policies of the past, see Robinson and Gilson 1993.

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The groups ultimately focused on underwriting – how existing lenders decided who and what was worthy of investment.

What became known as the community reinvestment movement shared many features with the previous generation of community banking movements. A dedicated group of advocates who observed the local impact of existing banking practices decided to fight it, sought government intervention, and leveraged a national network to change local and national policies. Local political mobilizations ultimately culminated in two national laws: the Home Mortgage Disclosure Act in 1975 and the Community Reinvestment Act of 1977. Together these policies furnished community groups with new tools for getting banks to respond to local needs.

This chapter traces the local political origins of the Community Reinvestment Act. Other treatments of this legislation usually focus on national politics (Sidney 2000; Christiano 1995; exceptions exist in Metzger 1999 and Squires 1992). The chapter shows the coordination of efforts across multiple localities but it also finds that patterns which exist in the two case study chapters appear here as well: the rise of dedicated civic professionals deeply rooted in community experiences who re-frame and re-define an accepted practice into an actionable public policy problem and the creation of new policy tools that allow customization at the local level to suit particular needs. The chapter first covers the role of New Deal policymaking and bank investment decisions in generating the urban disinvestment that plagued cities in the 1970s. It then covers the rise of the reinvestment coalition and the arguments they made. It then describes the strategic engagement in local political mobilization and policymaking that culminated in two national laws.

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As with previous social welfare banking efforts, the issues were not debated in terms of immigrants, nor did advocates politically mobilize immigrant communities. Politics was black and white and the ethnic descendants of European immigrants regularly cast their lots with whiteness (Roedigger 1991; Jacobson 1995; Ignatiev 1995). But reinvestment pioneers diligently sought to avoid casting issues in racial terms despite the fact that deep racial unrest shaped the policy context. Nevertheless, the policy tools they created and succeeded in getting institutionalized through federal laws were designed to combat racial and economic hierarchies and increase access to banks. The arguments and policies they forged would ultimately be extended to a future generation of immigrants.

Race, the New Deal and Urban Disinvestment

During the New Deal, as real estate industry professionals engaged in government service, the operating procedures and best practices of the industry found their way into federal policy. New Deal housing agencies centralized and nationalized the prejudices that existed in the industry. Foremost amongst these were racialized notions of worth that defined the norms of property appraisal. Homer Hoyt, a respected real estate economist based in Chicago, authored the classic, *One Hundred Years of Land Values in Chicago* (1970 [1933]). This history of Chicago's development addressed the tie between group membership and property valuation with a pointed list of that spelled out the hierarchy of worth from most to least favorable.

1. English, Germans, Scotch, Irish, Scandinavians
2. North Italians
3. Bohemians or Czechs
4. Poles
5. Lithuanians
6. Greeks

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7. Russian Jews ("lower class")
8. South Italians
9. Negroes
10. Mexicans

Although new Supreme Court decisions and antidiscrimination legislation challenged these practices, Rose Helper's sociological study of real estate brokers (1969) found that racialized valuation continued as unwritten norms that formed the rules of the game for brokers, sellers and lenders.[2] Racial and class homogeneity formed the bedrock of uran real estate. Consequently, the introduction of blacks, of any income-level, lowered property values. Values could hold if whites held numerical majority, but once the black population approached some unknown tipping point, a white exodus ensued. Because of this dynamic, population shifts that altered a neighborhood's stability became the key determinant of neighborhood change and trumped all other neighborhood assets. Frederick Babcock, a Chicago-based land economist who served as the Federal Housing Administration's chief underwriter in 1936, noted that residential areas can experience a "gradual decline in quality of people" over time that can lead to a district with a "slum character" (quoted in Metzger 2000). Consequently, maintaining racial homogeneity and stability became paramount in periods when a city's black population increased as it did circa World War I and again in the post World War II Great Migration of rural blacks to northern cities.

The New Deal cemented and professionalized racially exclusionary practices that already existed within community banking. The Home Owners Loan Corporation

[2] For an important overview of race and real estate practices, see Abrams 1955. For a fuller discussion of the racialized schema of real estate industry professionals and its tie to public policies that supported racial segregation, see Jackson 1985. For a recent re-consideration with important nuances, see Hillier 2003a and 2003b.

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(HOLC), a temporary New Deal agency created in 1933 to refinance delinquent mortgages, codified prevailing real estate conventions.[3] The HOLC constructed a four-scale rating system for use in home appraisals. The rating system ranked residential areas and placed the industry's common sense categories into the federal regulatory regime. "A" areas received top-ranking and these often were well-planned, high-income and racially homogeneous white areas (and newly built upper middle-class white suburbs ultimately served as the gold standard for this category). "B" areas had well-maintained homes (not necessarily newly built) and a stable population (by race and income). "C" areas were declining areas that had lower incomes, home values and were racially mixed (read: ethnic working class neighborhoods, often adjacent to black neighborhoods). "D" areas, outlined in red on insurance industry maps, were characterized by decline, low-income rentals and an undesirable population (read: black urban neighborhoods) (Metzger 2000: 9; Jackson 1985: 195-203; see also Helper 1969). On the heels of the Great Depression, the HOLC extended loans to C areas and saved the homes of many working class ethnics (Cohen 1990).[4]

The HOLC's conventions informed those employed by the Federal Housing Administration (FHA), the agency that played a central role in postwar suburban boom. Where the HOLC targeted existing homes, the Federal Housing Administration (FHA) applied the same underwriting schema to new construction. It insured mortgages in freshly built housing developments in the suburbs, and for decades did not finance the existing housing stock in cities. Consequently, the best investments were newly built,

[3] The HOLC re-financed mortgages from 1933-1936 and serviced them until Congress disbanded it in 1951.

[4] The racial exclusions in the residential real estate sector only mirrored black exclusion from other New Deal social programs. See Quadagno 1994.

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racially homogenous suburban homes. Because it was a permanent agency (it still exists today) and it fueled postwar suburbanization, the FHA had a more enduring role in deepening these practices.

African Americans had long challenged racial exclusions in the real estate industry. Civil rights anti-discrimination lawsuits consistently attacked racist real estate practices and won several victories. Most notably, in 1948 the Supreme Court in *Shelley v. Kraemer* ruled that restrictive covenants, contracts that barred the sale of homes to racial minorities, were illegal (Vose 1959).[5] The FHA *Underwriting Manual* added antidiscrimination language in 1949 (Metzger 2000: 8). However, these legal victories did little to alter the persistent reality of continued racial discrimination. These efforts focused principally on blacks seeking to move to white neighborhoods.[6]

Urban Disinvestment

The racial grading system that once assured that moderate-income white ethnics received New Deal government benefits now turned against them as demographic shifts changed the make-up of cities. Far from being a certainty, white privilege proved contingent and precarious. The changing population of urban neighborhoods revealed the racial vulnerability of many whites and the economic consequences of racial categories.

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[5] The savings and loan industry invented racial covenants to circumvent a court ruling that banned racial discrimination in housing. The covenant, a private contract between seller and buyer, forces the buyer to agree to not sell the house to specified racial groups, often blacks but sometimes Jews (Vose 1959). On the Chicago origins of restrictive covenants in response to *Buchanan v. Warley* (1917), which invalidated the enforcement of racial segregation by city or state law, see Tuttle, Jr. 1970: 277. On the reliance on local real estate boards and other associations to spread the use of covenants and institutionalize them as an industry standard, see Jones-Correa 2000.

[6] The NAACP became preoccupied with responding to whites who violently attacked blacks who moved into all-white neighborhoods. White rioting in response to black neighbors occurred frequently. The focus on upper-middle class blacks who could afford to move into white neighborhoods meant painfully little attention to the urban working class blacks, especially in the 1970s context of urban disinvestment. For examples of NAACP mobilization to address white violence, see The Papers of the NAACP: Part 5, The Campaign Against Residential Segregation, 1914-1955 (NAACP 1940-1955, Racial Tension, General 1943-1949).

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White ethnic access to stable property values was premised on the geographic containment of blacks and Mexicans. These boundaries, painstakingly constructed in the 1910s and 1920s, proved too small to contain the post World War II Great Migration of blacks to the urban north. For example, in the 1940s the black population of Chicago increased from 278,00 to 492,000 or 77 percent growth. In the 1950s, it grew to 813,000 or by 65 percent. Apparently, blacks moved to Chicago from the South at a rate of 2,200 a week (Lemann 1991). The demands on the housing stock multiplied exponentially and boundaries of the ghetto had to expand.

White ethnic property values proved highly reliant on the boundaries of the black population. Homeowners in neighborhoods contiguous to minority neighborhoods, which HOLC often labeled "C areas," were now cast as being at risk of minority "takeover" and *lost* their access to mortgages and home improvement loans, regardless of the racial make-up of the existing residents. The mass entry of blacks into Northern cities during the postwar era reminded white ethnics of the contingent nature of their admission to whiteness. Existing property owners could not finance home repairs and potential buyers could not receive conventional mortgages, though FHA or VA mortgages could be used. Starved for loans and the critical repairs they finance, properties deteriorated, blight set in, a slum declared and urban renewal bulldozers moved in to demolish unsightly sections of the city to build highways, shopping malls or other government endorsed economic development projects.

Whites had constructed the boundaries of black urban ghettoes during the pre-World War I black migration to the North (Bontemps and Conroy 1966 [1945]; Massey and Denton 1993; Hirsch 1983; Osofsky 1971; Scott 1973). A number of formal and

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informal mechanisms conspired to harden the ghettoes' boundary lines including violence (such as fire bombings of black homes in white neighborhoods), racial steering (where blacks are only shown homes in black areas), and zoning ordinances (that banned apartment buildings and mixed use properties in suburbs).

Chicago served as ground zero for many of these strategies with clearly segregated city of neighborhoods that delineated black, white and ethnic areas. The city also served as the national headquarters for the real estate industry.[7] Practices developed here were diffused nationally across the country (Jones-Correa 2000). For example, the United States Savings And Loan League vehemently opposed racial integration and low-income housing and stymied every Congressional proposal on these issues (Keith 1973). As early as 1917, the Chicago Real Estate Board created property owners' associations to build camaraderie among neighbors against selling to blacks (Tuttle, Jr. 1970). These community meetings were held at banks.[8] The industry revived its tactics of violence, coercion, and intimidation to address postwar pressures on limited urban housing (Sugrue 1996).

The real estate industry consists of a wide swath of actors including realtors, bankers, builders, appraisers, insurers and investors who share similar mental frameworks and incentives (Helper 1969). Individuals may depart from the norms, but the norms are well understood. The industry's norms for assessing worthy investments and the role of white homogeneity in maintaining property values function as a "racial common sense,"

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[7] National Association of Real Estate Boards and Affiliates (the American Institute of Real Estate Appraisers, Institute of Real Estate Management, National Institute of Real Estate Brokers); United States Savings And Loan League and its affiliates including the Society of Residential Appraisers; Mortgage Bankers Association of America; and the National Association of Building Owners And Managers (list from Metzger 2000: 12).

[8] At this time banks often served as community centers. Their architecture included extra offices and large rooms that they regularly made available for neighborhood functions (Tuttle, Jr. 1970: 281)

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to use Omi and Winant's (1994) well-known phrase, that was widely shared by owners, sellers and buyers. This racial "common sense," not new laws commanding antidiscrimination, determined the real estate market blacks and whites encountered.

Initially, the expanding black population was confined to the existing ghetto footprint. Illegal partitions and a variety of co-housing arrangements ineptly accommodated the overcrowding that resulted from restrictions on where blacks could reside. Public housing intensified segregation. The savings and loan (S&L) industry vociferously opposed the financing and construction of public housing as policies that promoted communism and racial integration at the expense of support for private markets. They astutely persuaded Congress to allow localities to decide where to build housing projects. Then the industry utilized its complete penetration of local real estate and politics to fan racial fears, undermine public support, and compel public housing agencies, mayors and city councils to build new projects in black neighborhoods, rather then white ones (Keith 1973).[9]

Realtors recognized that prevailing industry norms dictated that blacks were only "allowed" to expand to contiguous areas (Helper 1969). Some in the industry engaged in practices that assured the racial homogeneity of urban neighborhoods. To expand the boundaries of the ghetto, some realtors aggressively exploited racial fears. Streets and neighborhoods adjacent to black districts were the sites of block busting, racial steering, and other real estate practices that prompted whites to move. Unscrupulous realtors inundated white homeowners with phone calls, home visits and mailings urging them to

[9] Even public housing projects which were first built in the 1930s adhered to segregated policies. As a form of assistance to help the working classes get on their feet, housing projects did not admit the poor. The projects themselves were segregated (whites only in white neighborhoods). Integrated housing projects meant that blacks were confined to a few units in a particular section, it did not mean that they were dispersed throughout. In some instances, even their small presence sparked violent protest.

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sell their homes before the "black invasion." To encourage panic selling, where whites sold homes at bargain prices, some realtors engaged in blockbusting. A realtor would introduce blacks to white neighborhoods either by actually selling a home to a black family or by hiring a black woman with children to walk through the neighborhood. Then a realtor would visit white homeowners and fuel the notion of a black invasion to pressure owners to sell quickly and cheaply. Only marginal realtors engaged in block busting because most realtors did not want to risk marginalizing their white customers by being the first to break the color line (Helper 1969). But once panic sales began, all realtors entered the market. Panic selling quickly "turned" integrated neighborhoods into extensions of the inner-city. In this way, the boundaries of black residential areas expanded.

Once panic sales began, realtors or others would buy the property cheaply, subdivide it and rent it to blacks at inflated prices. The quality of the homes quickly deteriorated. Overcrowding increased the need for maintenance and slumlords increased their profits by neglecting needed repairs and ongoing maintenance. African American buyers often purchased homes via contract loans. With a contract loan, the realtor sold the property at an inflated price and retained title to the property. If the borrower missed a payment or was late, the home could be foreclosed and sold to another unfortunate buyer. To keep up with payments, the buyer might subdivide and rent rooms in their home. Stretched financially thin, borrowers often lacked the funds to repair and maintain the property. On the heels of reports by the Kerner Commission and the Douglas Commission, FHA ended its bias against cities and began insuring mortgages for urban homes. But its programs also fueled a wave of exploitative flipping of properties that

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bankrupted blacks and made realtors and their allies wealthy. FHA mortgages produced the same outcome of shabby neighborhoods, abandonment, and what was then called "blight."[10] This confluence of real estate industry practices exacerbated the process of abandonment.

Whites responded the realities of race and property values in one of three ways. First, some tried to manage residential integration. In this option liberal whites sought to allow a natural influx of people of any color and class to move in and out of a neighborhood, in much the way that real estate markets worked for whites. This option worked best in upper-middle class suburbs.[11] Except, of course, they could not let the black population hit the tipping point where whites would feel threatened and begin to leave. However, given the racial rules of the day, this effort was difficult to sustain and often only delayed white flight. In urban neighborhoods, the property deterioration and abandonment that ensued with black entry sent a clear message to whites – integration today, tomorrow...the slum. Needless to say, few traveled the path of managed integration and liberal whites conceded to racialized market forces and eventually abandoned urban neighborhoods.

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[10] After the riots in the late 1960s, federal commissions identified redlining as a problem. The Federal Housing Administration made a sharp U-turn and began to insure mortgages in old, urban neighborhoods (instead of new suburban developments only). It did so to detrimental effect. Realtors, appraisers and mortgage bankers collaborated in schemes that inflated the price of property and fed quick turnover that hastened abandonment. Low-income blacks often acquired homes that were worth less than their appraised value and needed repairs that they could not afford, which often led to them losing the home. FHA loans became a thing of scandal as these real estate professionals exploited the federal guaranteed insurance feature to profit from the quick turnover of properties.

[11] A Mike Wallace, *60 Minutes*-style documentary graphically illustrated this process in Mount Vernon, NY. An interracial neighborhood committee, chaired by an African American, actively recruited white families to move in to ensure that the area and its school system remained racially balanced. The group scrupulously ensured that every black family who moved in was matched by a white family moving in. See CBS News, 1964, *Segregation, Northern-Style—1964.*

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Second, whites could move out, and many did en masse. This dynamic occurred in all the great northern industrial cities including New York, Detroit, Chicago, Atlanta, Los Angeles, and Boston. Throughout the 1950s newly built highways and cheap cars made suburban homeownership affordable to many city dwellers. From 1960 to 1970 Chicago lost 500,000 whites and gained 290,000 African Americans.[12] By 1970, New York had 100,000 abandoned units, Philadelphia had 36,000 by 1973 and there were 15,000 in Detroit by 1974 (Metzger 2000). Racial restrictions made most suburbs racially homogenous (Massey and Denton 1993), which resulted in chocolate cities and vanilla suburbs. Ironically, whites could have preserved property values if they did not sell their homes. The chair of a New Jersey S&L association who opposed racial integration as violating private choices, admitted on camera that housing values plummeted because of panic selling, not because blacks moved in.[13]

Third, they could refuse to "allow" blacks into their neighborhoods and remain racially segregated. Working class white ethnics regularly pursued this path. They often could not afford to move or wanted an alternative to sacrificing their investment in their home, chose to stay (on the stresses of working class homeownership, see Edel et al 1984). Savings and loan associations played a crucial role in generating this response. They created neighborhood and block associations that sought to "defend" white areas from a "black invasion" (Sugrue 1996; Reider 1985). Some had purchased through their homes using highly leveraged contract loans. Martin Luther King's visit to Chicago in 1966 to demand fair housing and fair lending placed Northern white resistance to racial

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[12] "1,600 From Ethnic Groups Organize Protest Against Institutions They Say Are Destroying Central Cities," *The New York Times* (hereafter *NYT*), 20 March 1972.

[13] CBS News, 1964, *Segregation, Northern-Style—1964.*

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justice famously on display. As the TV cameras rolled, King and his supporters met a violent array of rocks, eggs and fists as they marched through a white neighborhood demanding integration. For cities in the 1960s and 70s, this racialized approached to underwriting continued to hold sway, despite the success of NAACP lawsuits that placed antidiscrimination language on the books and pushed for integration. For the majority of African Americans, urban housing meant living in apartments in a black neighborhood.

Far from being a "natural" process of racial change, real estate practices fueled how neighborhoods changed. Segments in the real estate industry fanned the flames of racial prejudice into a conflagration that fueled the cycle of neighborhood abandonment. Given the racial unrest of the period and the growing fiscal crisis, properties in black neighborhoods (and in adjacent white areas) lost value, and fleeing whites abandoned the cities. Riots, violence, crime, poverty, conflict and unemployment (due to the massive loss of manufacturing jobs) meant that those seeking profitable real estate investments abandoned cities.

The Community Reinvestment Alternative

A new group of advocates constructed a fourth option: stay and fight abandonment by demanding economic reinvestment in one's neighborhood. The white ethnics who created anti-redlining campaigns refused to move from their homes. But unlike their counterparts in the neighborhood defense movements, these activists targeted bank practices instead of blacks. Instead of blaming blacks, they re-defined the causes of urban decline and the actors responsible. By pinpointing the role of bank decisionmaking, they contested the notion of inevitable market forces. These activists introduced and popularized the term "redlining" to characterize the process through which lenders

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refused to grant loans in a particular geographic area. As a result, the redlines that delineated D areas on HOLC/FHA maps shifted from being a widely accepted industry norm that barely drew public comment into a highly contested social practice equated with bias and racism. The term politicized decisions made by private market actors by pointing to the public consequences of bank decisions, namely urban "disinvestment." With a clear target, advocates pushed for "reinvestment" as an alternative where banks would invest in urban neighborhoods.

But in a process strikingly similar to previous advocacy campaigns, new problem definitions and policy solutions paid scrupulous attention to the role of social relations and stereotypes in structuring access to credit. They viewed patterns and biases as evidence of systemic flaws, rather than evidence of the failings of individual borrowers. Similarly, they pursued policy solutions that would alter systemic patterns yet preserve responsiveness to the local knowledge and situations.

As the negative consequences of suburbanization became clear to the urban dwellers left behind, groups organized to contest their fate. Although the Community Reinvestment Act (CRA) is easily considered a racial policy that supports African Americans and addresses decades of discriminatory banking policies by encouraging banks to pursue lending of low-income and minority neighborhoods (a sort of affirmative action in lending), the policy originated in white ethnic activism and not black civil rights advocacy.[14] Reinvestment grew out of anti-redlining activism of a local Chicago branch of the Industrial Areas Foundation (IAF), a national organization committed to grassroots

[14] In fact, bankers opposed to minority lending most often characterize the Community Reinvestment Act as a law that compels banks to make risky loans to poor lending risks in urban black neighborhoods (see Sidney 2000 and Dennis 1978 on these arguments in 1977 and White 1993 for an example of contemporary objections.

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political mobilization and policy change. At this time, the IAF was a predominantly white ethnic organization with close ties to the Catholic Church and an unshakeable commitment to avoiding race as an issue.

Saul Alinsky created the IAF after he became frustrated with his career as a social worker in Chicago's settlement houses. At Hull House he learned that all political work begins with problems community residents encounter in their lives (Horwitt 1989). But he ultimately rejected the paternalism of elitist social reformers who devised answers for the community instead of working with residents to find solutions to neighborhood problems. The IAF's approach, drilled into its organizers at national trainings, is to find natural neighborhood leaders and involve them in local struggles that demand and produce tangible changes for neighborhoods (Alinsky 1971). Backed by paid IAF staff, neighborhood leaders voluntarily took the lead on local struggles. Finally, Alinsky's IAF also embraced confrontational style known as "direct action" that employed unorthodox tactics, such as the public shaming of elected officials and agencies through media events and at public hearings, as a way to coerce policy action. These tactics proved exceptionally effective with image conscious politicians and businesses.

Ironically, the previous era of racially exclusionary community banking fueled both the conservative politics of racist neighborhood defense movements and it generated the alternative politics of community reinvestment. The center of the reinvesment movement rested in Chicago and the efforts of Gale Cincotta. Widely hailed as the "Mother of the Community Reinvestment Movement," Cincotta was the wife of a gas station owner and the mother of four. Her family lived in Chicago's working class Austin neighborhood for four generations. Cincotta and the movement traded in the image of an

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upset housewife as a dedicated citizen who obtained concessions from democratic institutions.[15] This appealing storyline obfuscates her ties to professional community organizing (Reitzes and Reitzes 1987). She began her civic activism by intervening in issues around her children's education and attracted the attention of IAF organizers who searched for "natural" local leaders to train and involve in political activism. Alinsky's IAF sent local leaders to national training sessions where they networked with others and learned tactics that aided in community building as well as confronting the political establishment. These tactics included the effective use of confrontation, use of the media, creating networks of organizations (rather than individuals), and avoiding framing issues as racial.

Cincotta began with the IAF in 1967 and worked with the organization as it tried to stop panic peddling real estate agents and forced slumlords to clean up abandoned and run-down properties in the Austin area. By 1977, when Congress passed CRA, Cincotta was a seasoned, full-time political organizer. As a volunteer she for spent forty hours a week working with the IAF neighborhood group, Organization for a Better Austin (Trapp n.d.: 28). A large woman with a bombastic personality who effectively won concessions from others, IAF's professional organizers regarded Cincotta as "the best leader Gaudette or I had ever seen" and treated her as "another staff-person" (Trapp n.d.: 28). By the early 1970s, Cincotta was a paid professional surrounded by voluntarist community

[15] "Speak Up! You Can Be Heard," *U.S. News and World Report*, 19 February 1996. The article warmly reports that the Home Mortgage Disclosure Act "was first written on scratch pads in a Chicago church basement by volunteers led by housewife Gale Cincotta." There is no mention of political organizing, training, conflict or strife. Instead it appears that in a democracy, talented housewives can get national laws passed as democratic institutions naturally concede to the requests of determined citizens. The tone is similar to accounts of the civil rights movement that valorize the efforts of the tired washer woman, Rosa Parks, who refused to give her seat on the bus to whites. Such accounts stress individual initiative and often ignore Parks' history as a volunteer secretary in the NAACP who had attended training sessions on political activism and who was well aware that the NAACP sough test cases with which to challenge the laws that mandated racial segregation on public transportation.

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residents (Trapp n.d.: 53). Through a series of organizations – Organization for a Better Austin, West Side Coalition, Metropolitan Area Housing Alliance, National People's Action on Housing (later renamed National People's Action), and the Housing Training and Information Center (later renamed the National Training and Information Center or NTIC) – Cincotta's experiences deepened and she gradually evolved from a neighborhood volunteer to the leader of the national community reinvestment movement. Through the NTIC Cincotta and her IAF mentor, Shel Trapp, developed and disseminated strategies to combat redlining and promote reinvestment (Trapp n.d.: 50-55).

Neither Cincotta nor the IAF began their activism to create CRA. Rather, the movement sprung organically from earlier efforts to combat slumlords. Reinvestment evolved gradually as a way to respond to local needs when neighborhood residents learned they could not receive bank loans to repair their homes nor buy a home in the area and they complained to IAF staff and organizers (Naperstek and Cincotta 1977). Their strategies were based on local experiences in Chicago as well as those of IAF organizers and other political campaigns across the country. The rootedness in local experiences is authentic but instead of amateur volunteers, experienced professional organizers engaged local constituencies across the nation to forge and execute a response.[16]

The Role of Banks in Community Building

The classic Christmas film *It's A Wonderful Life* illustrated the virtuous and vicious circles of community lending. Jimmy Stewart portrays a savings and loan officer whose knowledge of his community leads him to invest in borrowers who do not meet

[16] Despite the presence of local residents, the presence of a paid IAF staff led other neighborhood residents to view IAF organizers as outsiders who used divisive (but often effective) political tactics to get their way on local issues (Berry 1979).

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the standard underwriting criteria, but are nonetheless good credit risks. Further, he constructs a housing development that places homeownership within reach of the town's working class families. His actions help to build a stable neighborhood reflecting diversity in class and ethnicity. In contrast, a very different path for the town comes to light when Mr. Potter, the town's millionaire, took the lead. Seeking only to maximize profits, Potter constructs and manages overpriced and blighted apartments that drain the pockets of working class families. Instead of wholesome small businesses, Main Street becomes home to strip clubs, bars, and gambling joints. The movie dramatically demonstrated the different community banking made. Investment choices, guided by a knowledge of and commitment to a local community, could change a neighborhood's future. It can launch virtuous cycles of growth and community building where greedy desires to maximize profit generated vicious cycles of abandonment.

Suburbanization found banks chasing after their white urban customers. Bank mergers grew and branch banking replaced neighborhood-based unit banks. As the racial make-up of urban neighborhoods changed, bankers refused to learn the needs of new residents. Banks exercised substantial autonomy in their lending decisions and followed the dominant view that profitability laid in the suburbs and they too abandoned cities. The local banker who invested in urban homeownership and business development now facilitated the suburbanization of people and enterprise. Both bankers and customers had to adjust to natural market forces. Bankers followed borrowers to the suburbs because they sought property that would hold or increase in value and borrowers who would repay loans in full. Conceding to the market also meant that communities had to be live with panic peddling and other speculative practices.

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However, neighborhood groups contested this logic. Urban disinvestment was not natural but the result of choices by market actors. Panic selling, and the quick racial turnover it fueled, could be short-circuited if whites had continued access to conventional loans. With continued access to capital, whites and blacks who wanted to move into a neighborhood could receive conventional mortgages and white homeowners would be able to do home improvements and a neighborhood's property values would not fall. Conventional (i.e. non-VA or FHA) loans would also help to combat racial steering where realtors showed blacks and whites different neighborhoods. With loans, whites could buy property in nearby urban neighborhoods (rather than the suburbs), existing owners could renovate their homes, blacks could purchase homes in white neighborhoods without triggering negative economic impact on home values and blacks could receive fair loan terms for housing in the black neighborhoods. Reinvestment could end the cycle of panic selling which drove urban abandonment. The choices made by bankers and realtors could alter a neighborhood's fortunes.

Instead of the natural workings of the market, anti-redlining activists pointed to the conscious choices of investors. Redlining decisions rested on subjective assumptions about race, age of housing stock, and projections of financial loss. For bankers, the current or potential racial mix of a neighborhood overshadowed all other features of a property. The disinvestment consensus neglected good investment opportunities in urban neighborhoods. Community reinvestment's proponents asserted that community knowledge, not industry norms of abandonment, furnished a better guide to finding profitable investments in cities. Advocates argued that bankers assigned no value to a neighborhood's positive assets. Redlining ignored the condition of the housing (a well-

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kept historic home should count positively rather than dismissed for being old),[17] the creditworthiness of individuals, and whether new buyers were interested in moving in. A lender with knowledge of a community would distinguish good loan risks from bad ones, worthy investments from poor ones, and make decisions that contributed to community stability and economic growth in ways that would alter the fortunes of a neighborhood. Lenders committed to a community would see assets like locational advantages (such as proximity to downtown and to industry) and make profitable investments (Metzger 2000: 22).

Informed by an image of a golden past, white ethnics pursued new policy tools to re-capture an era of neighborhood-centric banks that had built Chicago and made it the "city of neighborhoods."[18] *Community banking,* which focused on financial services to low- and moderate-income customers and on urban neighborhoods, fundamentally challenged the norms of the banking profession. Bankers, not community members, controlled lending decisions. But reinvestment advocates rejected the industry's unilateral control over underwriting. They wanted bankers to change how they determined who and what was creditworthy by deferring to community members instead of industry practices. Neighborhood residents saw value where bankers did not. *Underwriting*, the methods for determining creditworthiness, involves assessing the riskiness of an investment and

[17] Oak Park, Illinois, an inner-ring suburb adjacent to Chicago was redlined, even though it was the birthplace of Ernest Hemingway and home to 15 Frank Lloyd Wright houses.

[18] Advocates were powerfully informed by the neighborhood bank model and by role of local savings and loan associations in building urban neighborhoods. In his legislative history of the Community Reinvestment Act of 1977, Dennis notes that in 1978 only 119 banks had assets of $1 billion or more, which represented over half of the banking assets in the US. However, these banks were less than one percent of the 14,000 commercial banks nationwide (see Dennis 1978: 67-68). See also Squires 1992 for advocates admitting that the Chicago unit banking structure strongly informed their vision. Unfortunately, the banking literature focuses on the activities of the large money center banks as a barometer for the industry because of their tremendous influence on the financial sector. But this focus overlooks the local banking experience.

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whether an individual will repay a loan. By the 1970s the start-up capital needed to create new banks and the skills required to run a financial institutions made it difficult to turn to new voluntary worker-owned cooperatives as a solution to credit inequality.[19] The Community Reinvestment Act proved a new way for neighborhood knowledge to penetrate bank decisionmaking at a time when community ownership of banks was unrealistic as a systemic solution.

The Reinvestment Coalition

Warren et al (2001) astutely observe that the conversion of social to political capital is not automatic. Community responses to urban disinvestment was neither natural nor inevitable. Apathy proved the norm and community activism the result of outside stimuli. The savings and loan industry played a critical role in creating "neighborhood defense movements" by prompting white ethnics to create local neighborhood organizations (like block associations) designed to stop the in-movement of black homeowners (Sugrue 1996). Similarly, the community reinvestment movement blended political outsiders and neighborhood insiders. The reinvestment coalition brought together the IAF with longstanding housing activists as well as civil rights and consumer advocates. All these groups shared a national network as well as critical analysis of the causes and consequences on society's inequities.

A wide range of housing and community organizations welcomed the anti-redlining movement and joined the cause. Cincotta and Trapp cold-called these organizations after finding their numbers in the telephone book and invited them to the

[19] An effort to create low-income credit unions as part of the War on Poverty, largely failed. See Robinson and Gilson 1993.

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first, ever national meeting on redlining (Trapp n.d.: 51-52).[20] Some began their activism by protesting urban renewal plans that had targeted their neighborhoods for demolition. Some had worked on contesting housing programs financed by the Federal Housing Administration that hurt urban neighborhoods. Some organizations had histories in tenant organizing and tenant rights. All of these organizations had hit serious obstacles that thwarted their effectiveness: urban renewal and highway building continued to destroy low-income neighborhoods; downtown development projects demolished affordable housing to build malls; and the riots of 1968 only worsened the situation, as did the impending urban fiscal crisis. As one organizer observed, community groups needed "a whole new instrument to deal with the housing problems of the central city." Reinvestment offered a new solution to old problems.

Working with the National Center for Urban Ethnic Affairs (a Catholic policy organization), Cincotta's West Side Coalition, organized and hosted the first annual National Housing Conference held in Chicago in 1972.[21] Over 1,600 persons attended from 50 cities. Redlining took center stage at the conference as a key factor in urban disinvestment, as did a "new enemy" – the real estate, lending and insurance interests who privileged suburban homeownership over cities.[22] The conference launched a

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[20] According to Trapp, the idea for the conference occurred to them spontaneously while they were in a drunken haze. The conference became the first national gathering that launched the redlining/reinvestment movement (Trapp n.d.: 50).

[21] The IAF relied heavily on the Catholic Church for institutional and financial support. That relationship had valuable and unanticipated effects for the budding reinvestment movement. The resources for organizing the national conference existed only because a local family foundation gave Cincotta a $40,000 grant. Later Catholic Charities hired Shel Trapp, once one of the lead IAF organizers in Chicago and Cincotta's mentor, to run their Chicago organizing efforts. Through Trapp, Catholic Charities became a major funder of the conference (Trapp n.d.: 50-55). As early as 1971, the National Center for Urban Ethnic Affairs sought to turn a local issue into a national one and they supported redlining/reinvestment movement because it fulfilled that aspiration.

[22] "1,600 From Ethnic Groups Organize Protest Against Institutions They Say Are Destroying Central Cities," *NYT*, 20 March 1972.

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national anti-redlining initiative (Naperstek and Cincotta 1977). Organizers created the National People's Action on Housing, headed by Cincotta, as a permanent network of organizations from 110 cities. It relied on concepts and strategies that originated in local policy battles but lobbied on urban issues nationally. In addition, the conference launched the National Training and Information Center (NTIC), also based in Chicago and headed by Cincotta, which furnished information and technical assistance to local organizing efforts across the country.[23] Core strategizing and training emanated from Chicago and disseminated nationally when Cincotta and Trapp traveled the country training other community organizers in their tactics (Trapp n.d.: 56-63; Naperstek and Cincotta 1977).

Cincotta and Trapp focused on organizing and training professional political organizers who in turn mobilized ordinary citizens to fight the decisions of local banks. The political mobilization of community residents departed from past banking efforts, which overwhelmingly relied on elite lobbying. Although reinvestment proved a genuine example of bottom-up policymaking (Christiano 1995), civic voluntarism fails to capture the linchpins for this brand of political engagement. Political organizing better characterizes this effort because of activists with longstanding commitments to social change formed the backbone of the movement. These activists in turn organized neighborhood residents to act. Rather than actions stemming from internalized norms of cooperation, critical analysis of and challenge to social and economic norms drove much of this civic engagement. DeFilippis (2001) criticized Putnam's approach to social capital for lacking an analysis of power relations and ignoring the distribution of capital. Here, as elsewhere, the lion's share of activism rests in professional advocates more so than in the

[23] Ibid.

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frustrations of the banking industry's customers. Metzger (1999) termed this combination of community organizing and financial issues "social capitalism."

Chicago activists pioneered many of the reinvestment movement's organizing strategies and disseminated them to groups across the nation via the National Training and Information Center. NTIC employed a five-pronged strategy of organizing local communities, research, confrontation with industry and public officials, negotiation, and policy development. This Alinsky-style organization was national in scope, had organizations (not individual) as members and maintained a decentralized structure that tapped into local needs and issues. New strategies from other locales could quickly filter out nationally.

The coalition that formed around reinvestment gave the movement a multi-racial cast. But movement leaders, reflecting another IAF pattern, never cast reinvestment in racial terms. As one of the lead organizers in Chicago explained how early reinvestment approached the issue of race: "NPA [National People's Action] is based on issues, and your race, religion, ethnic group makes no difference if you are willing to fight with me on the issues" (Trapp n.d.: 58). Alinsky made the avoidance of race a lynchpin of IAF culture because of the racism it elicited from whites. He arrived at this conclusion when the white ethnic Back of the Yards neighborhood rejected his efforts to encourage racial integration of housing. Shocked by the vicious racism of expressed by community members (including the clergy), Alinsky decided that race was not "issuable." Even today, IAF's organizing strategy avoids casting issues in racial terms (Osterman 2002; Cortes 2000). Redlining was about economics, fairness and justice; not race. Advocates focused on neighborhoods, not individuals; on banks, not borrowers (Sidney 2002

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content analysis of Congressional floor debates of CRA; see also Dennis 1978). The movement's internal racial politics could become contentious. Racial issues were debated at the national conference in 1972. Michael Glabare, a black community activist in Milwaukee in the early 1970s, reports that black organizations that pursued redlining activism did not trust their white counterparts and utilized a strategy of independent organizing and strategic alliances to ensure that racial issues were addressed (Glabere 1992).

Aside from the variety of housing and neighborhood groups that formed the core of the reinvestment movement, two additional movements proved important strategic allies: civil rights and consumer protection. The major thrust of civil rights organizations was integration of homes, schools and jobs. The NAACP's integrationist Open Housing movement reinforced the logic of disinvestment. Blacks should have the same opportunities as whites to move to the suburbs and leave the troubles of urban ghettos behind. In effect, this meant that those blacks who could afford to move should be allowed to. The black suburbanization rate increased by 34 percent between 1970 and 1977 and after 1975 it exceeded the rate of white suburbanization (Berry 1979).[24] Reinvestment pointed in the opposite direction: staying and investing in an existing neighborhood with its messy mix of class and race issues. The NAACP opposed reinvestment because it undermined the integration strategy (von Hoffman 1998). The differences between the integrationist and reinvestment strategies temporarily split the

[24] Integration worked as long as whites retained "racial dominance," to use Downs' term. Schelling's research opinion surveys located a tipping point where whites become uncomfortable and began to move out when black numbers climbed beyond 15 percent of a neighborhood's population (Cashin 2004; Schelling 1978). In contrast, blacks considered a neighborhood integrated when they were fifty percent of its population. Under these circumstances, integration proved a temporary circumstance that existed until an area transitioned to a black enclave.

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alliance between two civil rights organizations. Where the NAACP staunchly pursued parity with whites, the Urban League decided to change course and pursue a policy strategy that would bring along the black poor instead of leaving them behind (Berry 1979).[25] The Urban League and the Leadership Conference on Civil Rights joined the reinvestment coalition early on (Leadership Conference on Civil Rights n.d.). The National Urban League co-authored *The National Survey of Housing Abandonment* (1971) that documented, among other things, that mortgage lenders cut off all funds to the city of St. Louis and an adjoining black suburb, but granted mortgages to one all-white neighborhood. In later years, the NAACP embraced reinvestment as part of its fair lending strategy.

The consumer rights movement proved another source of alliances. With *Unsafe at Any Speed,* Ralph Nader launched a career and a movement that held corporations accountable when government agencies failed to do so because they were "captured" by those they were meant to monitor. Nader's Raiders, as the large staff and spin-off organizations that used Nader's style came to be known, published an expose on Citibank that documented customer abuses. In 1973, a Ralph Nader study group published a lengthy and critical report of First National City Bank, popularly known as Citibank (Leinsdorf et al. 1973). The report concluded that banks were secretive, greedy and manipulated information to maximize the bank's ability to invest funds with the highest returns with minimum accountability to customers. Customers were exploited by incomplete information on interest charges for different services and the poor were

[25] By approaching housing strictly in racial terms, the NAACP remained silent on the intra-group sorting by class and had no agenda for addressing the increasing economic isolation of the black working class. For this reason the Chicago Urban League publicly abandoned housing integration as a strategy and joined the reinvestment cause (see Berry 1979 for details).

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swamped with high interest consumer loans, in excess of their ability to pay. By documenting these and other customer abuses, the widely publicized report concluded that Citibank did not pay enough attention to serving the public interest. The consumer rights movement emphasized public disclosure of information to individual consumers to strengthen their "right to know." Armed with information, the buyer could make better choices and so allow markets to function appropriately. This 'empowering the consumer with information' approach prompted the passage of a wave of legislation, which included the Truth in Lending Act and the Equal Credit Opportunity Act (Brobeck 1997).

The reinvestment campaign borrowed two tactics from the consumer rights movement. First, it employed the "consumer's right to know" rhetoric to advance its efforts to learn where banks made loans (i.e. to document if banks red-lined city neighborhoods). Second, it argued that banks needed to serve the public and not just shareholders because banks enjoyed an array of unique privileges because their activities directly affected the public. Nader's *Citibank* report specified the privileges and benefits banks received, such as the implicit subsidy banks received by virtue of the fact that their monopoly on non-interest bearing checking accounts meant they received access to interest free capital. For example, banks received government checking accounts (amounting to $700 million in funds from New York State and City to Citibank), which banks freely invested without paying any interest. Banks received deposit insurance, which attracted funds to banks as opposed to other institutions, by increasing public confidence in banks. These privileges, Nader's report argued, should obligate banks to comply with laws designed to serve the public interest, which included increased disclosure of bank investment and lending practices to assess the level of its investment

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in local communities (including home and business loans). Nader's consumer movement legitimated the notion that legislatures could require private organizations to serve the public's interests. The reinvestment movement pursued the view that banks could serve the public in newly specified ways because existing laws granted banks unique privileges and profits.

Creating Community Banking Laws From the Bottom-Up

Local Origins of National Laws

Advocacy efforts culminated in the passage of two national laws: the Home Mortgage Disclosure Act of 1975 (HMDA, pronounced *humda*) and the Community Reinvestment Act of 1977 (CRA). However, the origins of these laws in local experiences often takes a back seat to analysis that treats Congressional authorization as the starting point for these laws (Sidney 2002). Like earlier generations of community banking pioneers, new groups cut their teeth on local policy battles before making it to the national stage. Community organizations were conscious of their relative powerlessness on questions of urban investment and aware that they were not a part of the decisionmaking processes in the financial services industry. Cincotta and her colleagues reflected on their lack of social and economic power and observed that, "Neighborhood groups are often treated as lacking the legitimacy and the presumed competence of formal institutions. Because voluntary associations at the neighborhood level naturally tend to be composed of those who are economically, educationally, and socially unprivileged, they are often viewed as unqualified to assess problems, let alone to develop solutions" (National Commission on Neighborhoods 1979). They pursued two strategies to overcome the credibility deficit between citizens and bankers on loan

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decisions. The first emphasized collecting data that demonstrated inequities in lending patterns. Such information would demonstrate the gap between the neighborhoods where banks received deposits and the suburban locations where they made loans. The second strategy sought to compel banks to find new rationales for investing in urban neighborhoods.

Community groups effectively re-defined redlining as a social problem, but they needed evidence that redlining occurred. Lenders claimed that they did not redline and refused to furnish data on their lending decisions to substantiate their claims. To dramatize how redlining occurred, neighborhood residents went "undercover" and posed as potential borrowers. Advocates wanted to demonstrate that a lender's biased views of a neighborhood's worth trumped examination of other factors such as the creditworthiness of the borrower (Naperstek and Cincotta 1977: 25). At public hearings hosted by legislative committees, residents testified about their experiences as borrowers. One resident reported that a loan officer told her, "if she were smart; she would sell right away because of the possibility of racial change in an adjoining area."[26] These testimonies helped to combat the industry's attempts to discredit the community's criticisms as uninformed and to assert the appropriateness of its professional judgments. As private organizations, banks did not have to share the details of their business practices with the public. To address the data vacuum, community groups invented ways to document a consistent pattern and practice of exclusion and combined these with public exposés to hold bankers accountable.

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[26] "Drive to Curb 'Redlining' in Run-Down Neighborhoods," *U.S. News and World Report*, 9 June 1975.

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But the narrative power of anecdotes lacked the persuasive power of systematic data. Again, conscious of their weak position as community groups, organizers realized that they needed systematic data collection to "strengthen their credibility...with government and financial institutions" (Action-Housing 1978: 34). However, lenders refused to share the details of their decisions. Advocates and volunteers invented new ways to use public and private databases to demonstrate disparities in mortgage decisions and the location of home improvement loans. They spent hundreds of hours combing through the records of the County Recorder of Deeds to document property transfers and cross-referenced the information with census tract data. They examined city and county tax records for mortgage data. They used local "Real Estate Guides" to obtain details on foreclosures such as the property's location, condition, and sale price. They pressured state associations of real estate appraisers to release their annual surveys. They compared this information to census data to identify correlations with income and race (Action-Housing 1975).

They used data as a political organizing tool that leveraged access to lenders, oversight agencies, and elected officials at local, state, and national levels. When lenders criticized these studies as inaccurate, organizers countered that lenders should furnish the facts needed to prove local groups wrong. Organizers pressured government and legislative agencies to do additional studies and to use their legal role as oversight agents to extract data from reluctant banks (Flint, Michigan and Toledo, Ohio) (Urban-Suburban Investment Study Group 1977: 90). Groups also advocated for the creation of task forces to study redlining, to monitor the industry's lending practices (Los Angeles, Seattle, Rochester, Pittsburgh, Milwaukee, and Washington, D.C.) (ibid).

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Some groups included an electoral strategy in their efforts to obtain policy change. This involvement proved similar to one employed by Hull House where Jane Addams played a crucial role in organizing the Bull Moose party and reformers regularly ran against ward bosses and aldermen. The IAF employed this strategy in Chicago to good effect. Cincotta and other Chicago groups successfully worked to elect the Governor who ran against Mayor Richard Daley's legendary machine. The resulting state hearings and bills from the Governor's office forced Chicago's Daley into a competition with the Governor on issues, especially one of keen interest to the ethnic working class (Christiano 1995).[27] The Illinois hearings, combined with a national conference on housing, formed the venue for pressuring Mayor Daley to endorse, pass and sign the first anti-redlining ordinance in the country (Naperstek and Cincotta 1977: 28).[28] The passage of similar laws across the nation reflected the NTIC's training and diffusion of its organizing strategies. Three other cities – Minneapolis, Cleveland and Los Angeles – outlawed redlining or refused to deposit funds in banks that redlined. They required banks that did business with the city to disclose where they made loans. California, Illinois and Massachusetts required disclosure by law and New York by regulation (Urban-Suburban Investment Study Group 1977: 50-53). By 1975, eight states either passed new laws, or had banking agencies initiate new regulations, or were considering such actions. These laws both relied on community-based research *and* they created

[27] The Governor appointed a Commission with community representatives to examine redlining and formulate policy changes. Cincotta's West Side Coalition worked closely with the Governor's staff to ensure that the community representatives would constitute fifty percent of those appointed and that the Commission would pass resolutions that community groups favored.

[28] The Chicago City Council passed the first home mortgage disclosure ordinance in the country in June 1974 (Urban-Suburban Investment Study Group 1977: 50). Banks that submitted bids to be city depositories (i.e. hold City funds) signed a redlining pledge and promised to disclose where they made loans as well as where their depositors were located by census tract.

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opportunities to obtain new information sources when they included disclosure requirements. This local groundwork proved critical to the passage of HMDA in Congress.

The steady accumulation of studies garnered media attention and pressured banks to change their investment decisions. In Chicago, Milwaukee, Pittsburgh, Denver, Cleveland and Cincinnati, local governments created Mortgage Review Boards. Community activists sat on these Boards. In Illinois, negotiations with banks led to community groups participating in monthly meetings with the County Savings and Loan Board where they reviewed rejected loan applications. But these interventions proved too small a scale to satisfy organizers who reversed fifteen mortgage rejections through their participation. But Cincotta concluded that, "the burden of proof was still on the community, and still the necessary data were lacking" (Naperstek and Cincotta 1977: 23).

Legislating Community Reinvestment from Congress

All local organizing had occurred with the eye to national policy changes. National legislation consolidated lessons learned from local battles. Local groups desired national laws that strengthened their position as local actors seeking responsiveness to local needs. The laws could affect the process but shouldn't impose a one-size-fit-all result because of the variation in neighborhood needs. At the same time groups wanted laws strong enough to reverse the typical calculus employed by lenders who withdrew capital from urban neighborhoods. Now as in the past, groups sought policy solutions that used government intervention as a means to scale up their local activities yet preserved the responsiveness to community needs, knowledge and actors.

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The first generation of social welfare banks addressed underwriting through their unconventional structures. The original savings and loan associations and credit unions pooled member savings to create loan capital and used its members to make lending decisions which decreased the cost of information gathering. The specific details of individual loan decisions (underwriting) was placed in the structure of S&Ls and credit unions, while for commercial banks trained lending officers exercised professional discretion in deciding to whom to grant loans. Member-based and neighborhood based organizations like unit banks and savings and loan associations built on the existing structures of social and spatial segregation. And, as in the past, the policy solutions traveled from local, state, and national venues and found new ways to help social groups that traditional market institutions no longer considered worthwhile.

The HMDA and CRA created a new generation of national social welfare banking policy. Unlike the generation that advocated for credit unions, postal savings banks, building and loan associations, and mutual savings banks, reinvestment proved a completely new invention rather than an import of European models. But these new policies retained a familiar ring; they sought to re-capture a golden past where local neighborhood-based bankers "naturally" served their communities. Of course, such outcomes only appeared natural.

The Major Actors

Community Groups

The relatively weak position of communities in the urban debate did not guarantee that the community reinvestment perspective would gain much traction. However, the redlining/reinvestment movement self-consciously organized its local efforts to achieve

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national impact and gathered coalition partners as it grew. Advocates engaged in neighborhood, city, state and national reform simultaneously. As early as 1973, Cincotta testified in Congress and called for public disclosure by financial institutions of their lending practices and proposed legislation to that effect.[29] By pursuing changes with local banks, city and state legislatures, neighborhood organizations built meaningful experiences, contacts and expertise that directly translated to the viability of a congressional proposal.

The movement gained a wide array of allies through its organizing. An urban coalition of big-city Mayors, low-income and public housing advocates, and urban housing professionals saw value in compelling banks to invest in the inner-city at a time when cities faced a burgeoning fiscal crisis. By 1975, local groups generated 10 studies in 9 cities (Urban-Suburban Investment Study Group 1977: 21-22). By doing so the coalition expanded as community groups interacted with staffs in housing agencies, regional planning commissions and various departments at universities (such as urban planning, economics, social work, and political science) who conducted their own studies. For example, Baltimore's Housing and Community Development agency found that banks did not furnish loans for houses that were under $15,000 or more than 20 years old. But 75 percent of homes in the city were priced below $15,000 and most homes were built before 1939.[30] Two federal agencies, the Department of Housing and Urban Development and the Federal Home Loan Bank Board, sponsored a 20-city urban reinvestment program as a national demonstration project that replicated work pioneered

[29] The occasion was a 1973 House hearing on the effect of interest rates and credit shortages. "Loan Reforms Asked By Self-Help Groups," *NYT*, 18 September 1973.

[30] Drive to Curb 'Redlining' in Run-Down Neighborhoods, *U.S. News and World Report*, 9 June 1975.

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by Neighborhood Housing Services, a nonprofit in Pittsburgh (Naperstek and Cincotta 1977; on NHS in Chicago see Trapp n.d.: 55).

For the 1975 Senate hearings on the Home Mortgage Disclosure Act community groups sent 150 representatives from 20 cities and they were "armed with the fruits of local research."[31] Consumer and civil rights victories assisted reinvestment efforts indirectly. Redlining and housing discrimination were already declared illegal, outlawed in the Civil Rights Act of 1964, the Fair Housing Act of 1968, and the Equal Credit Opportunity Act of 1974. New laws strengthened this existing commitment by creating new ways of tracking and combating such discrimination.

Lenders and Regulators

The community reinvestment approach placed advocates directly at odds with the industry's prevailing norms. Where an earlier generation of community banking advocates targeted fringe banks but anti-redlining advocates directly targeted traditional, established bankers. Commercial banks, S&Ls and credit unions had evolved into priviledged private organizations focused on shareholder accountability. They faced a well-entrenched real estate and lending industry accustomed to the privileges of privacy and unfamiliar with the notion of community (as opposed to shareholder) accountability. However, opposition grew from the fact that reinvestment sought to use regulations to change the current behaviors of bankers. Earlier advocacy campaigns sidestepped this nasty business by creating alternative organizations that did not compete with banks when they were created.

[31] "Homeowners Ask 'Redlining' Curb," *NYT*, 6 May 1975

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Weighing against the community was the existence of an iron triangle between bankers, their oversight agencies, and Congressional committees (Ralph Nader Congress Project 1975). Bankers offered several objections against the intrusion of redlining protestors into their area of expertise. They asserted that being forced to invest in high-risk areas mismanaged depositors' funds. If loans were not being granted, this occurred for sound economic reasons rather than irrational discrimination against blacks. Despite the simmering array of local developments, lenders largely ignored these groups. Bankers argued that lending patterns did not cause redlining. Studies by university-based academics hired by lenders demonstrated that neighborhood decline had already begun and lenders followed market trends. A MIT-Harvard Joint Center for Urban Studies report concluded that lenders began to withdraw funds *after* decline began.[32] Besides, they believed urban communities received plenty of credit through FHA and other government loan programs which reduced the need for conventional loans.

As an alternative to legislation, lenders proposed voluntarist partnerships where government and community groups would defer to the industry's professional judgment. Federal oversight agencies often agreed with bankers. Garth Marston, acting chairman of the Federal Home Loan Bank Board (which oversaw S&Ls which held 50 percent of all home mortgages), rejected anti-redlining laws by local and state governments and instead urged bankers to "'reaffirm their interest in mature neighborhoods'" and make sound loans. Of course, lenders often concluded that no sound loans existed in those neighborhoods. The Comptroller of the Currency advised bankers to avoid voluntary

[32] The major sticking point is whether the disparities observed were due to race. This question is difficult to answer because statistically the racial variable needs to be disentangled from other variables with which it is highly correlated, such as income, crime, and property values. Illegal discrimination remains commingled with legitimate market-based reasons. See Canner 1982.

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participation in Massachusetts's anti-redlining regulations.[33] As the battle moved to the national stage, lenders remained unresponsive.

The handful of studies and cool professionalism presented by bankers proved little match for the avalanche of community studies conducted by neighborhood groups, media attention and ambitious politicians. Bankers underestimated the determination of community advocates and simply did not marshal an effective opposition. Bankers who contended that redlining did not occur were discredited. Bankers who asserted industry norms found those norms were under attack. Bankers who asserted professional privilege and private sector discretion found themselves portrayed as collaborators in urban decay. The sheer weight of all the community studies shifted the debate and challenged the unquestioned norms that governed how lenders arrived at decisions. Faced with an avalanche of studies, increasing media coverage, national consumer and civil rights victories, and a loss of legitimacy, bankers stood vulnerable to new solutions crafted by community advocates and backed by ambitious politicians (Vogel 1978; Vogel 1989).

The basic outlines of the process and rationales for urban disinvestment were not fundamentally in dispute. What continues to be debated, even today, is whether bank lending practices are rational or discriminatory. The influential urban economist, Anthony Downs, recently defended his past policy recommendations that advised the real estate industry to abandon urban ghettos, by arguing that, "for financial institutions to withhold credit from areas likely to undergo near-future transition to more serious poverty was an act of fiduciary prudence [not racist attitudes], even though it may also

[33] "Marston Against 'Redline' Curbs," *NYT*, 26 September 1975. New York and New Jersey passed redlining laws and regulations after the Federal law.

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have had a partially self-fulfilling aspect [of hastening abandonment]" (Downs 2000: 50).[34]

Congress

Community organizations enjoyed support from strategically positioned Congressional allies, most notably, Senator Proxmire, chair of the Banking, Housing and Urban Affairs committee. Proxmire established his reputation as a maverick in his first term. He ran for the Senate office without the endorsement of the Democratic party and once in the Senate functioned independently. Proxmire is best known for his Golden Fleece awards that highlighted government misspending and he was a strongly considered for the vice presidency and as a presidential candidates, paths he ultimately did not pursue. Proxmire modeled his Senate career on other Senate mavericks, past and present (Huitt 1966). He was media savvy, relied on research, served constituents which ensured his continued re-election and believed in compromise. He made his career, in part, by supporting consumer rights and civil rights groups. He shepherded both bills through the Congress.[35]

Mavericks are unlikely candidates for powerful committee chairmanships but luck sided with Proxmire. In 1975, the incumbent resigned and Proxmire ascended to the chairmanship. In a move closely analyzed by Nader and his allies, Proxmire injected a healthy dose of public interest laws in contrast to the previous chairman who almost always deferred to bankers' requests. Proxmire first encountered redlining through

[34] In this article, Downs also challenges the claims of the success of a community banking strategy by pointing to the continued existence of ghettos, which indicate the failures of this approach. He also observed that his more progressive suggestions, like racially integrating the suburbs, were ignored by policymakers while policy recommendations that supported the status quo were pursued.

[35] He was once considered for the Vice Presidency but his colleague, Walter Mondale, took the post instead.

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advocacy efforts in Milwaukee (Glabere 1992; Christiano 1995). He admitted that he was drawn to the issue because, "the impetus for reform came so directly and persuasively from grass roots organizations."[36] The Senate's Banking Committee studied redlining in D.C. and found that 90 percent of savings and loan mortgages occurred outside the city and 50 percent of those within the city went to white, upper-middle-class locations.[37] The issue gained other Congressional allies, such as senators Mondale and Cranston who introduced HMDA bills of their own.

Many recognized that the link between race, disinvestment, and the cycle of decline did not rest on unassailable studies of causation. Although no one disputed that redlining existed and had a negative effect, no studies decisively proved that racist biases caused redlining or that redlining caused decline. Although the causal arrows were unclear, the correlations stirred concern especially because industry norms appeared to violate the antidiscrimination mandates of the Fair Housing Act of 1968. Bankers could not avoid the issue. They found themselves pulled into a public dispute over whether redlining existed. Fuzzy but damning facts, a call to action by politically mobilized constituents, and a low-cost response to the rising fiscal crisis combined to crack the iron triangle, leaving banks vulnerable as ambitious Congressmembers sided with community groups.

Measuring Discrimination: The Home Mortgage Disclosure Act of 1975

Because no definitive data source existed, HMDA offered a means to adjudicate these data disputes. HMDA would furnish the "hard, statistical documentation required

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[36] Proxmire authored the Forward in Naperstek and Cincotta 1977.

[37] Drive to Curb 'Redlining' in Run-Down Neighborhoods, *U.S. News and World Report*, 9 June 1975.

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for ending redlining and beyond that, for prompting active reinvestment" (Naperstek and Cincotta 1977: 38). In response to bankers' resistance, Proxmire concluded, "I can't understand what other real objections you [bankers] have to getting the facts out" (quoted in Naperstek and Cincotta 1977: 36 on Proxmire statement at Senate hearings held in May 1975). Uniform data collection could better determine these relationships.

Once news report noted that the federal Home Mortgage Disclosure Act was "first written on scratch pads in a Chicago church basement by volunteers led by housewife Gale Cincotta."[38] But Cincotta worked closely with the Proxmire's staff to convert those early church basement notes into a draft of the first HMDA bill. Her Chicago organizing experience held a number of key lessons on obtaining information from banks. Data collection must be mandatory. Banks often declined to participate in voluntary programs. Zip codes were too large a geographic area to capture a neighborhood; census tracts proved more precise (Naperstek and Cincotta 1977: 24-26).

The Home Mortgage Disclosure Act of 1975 promised uniform, standard data collection from banks, by government agencies, publicly disclosed for individuals and community organizations to use to hold lenders accountable. HMDA required lenders to furnish the public with information on the total numbers and dollar amounts of the following the mortgages granted by census tract. Only lenders with assets greater than $10 million must comply and the data would only cover the previous year (this eliminated retrospective data analysis of lending patterns prior to 1975).[39]

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[38] "Speak Up! You Can Be Heard," *U.S. News and World Report*, 19 February 1996.

[39] Mortgage banks were excluded from coverage. The following mortgage types were included: FHA and VA mortgages, conventional and multi-family mortgages as well as home improvement loans.

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These wins consolidated the data strategies of community groups. It also shifted the burden of data collection from community organizations to bankers and the bureaucracy. This shift was a valuable resource by relieving community groups of the burden of collecting disinvestment statistics, "one mortgage at a time," in order to document redlining (Naperstek and Cincotta 1977: Forward by Proxmire). According to Proxmire, "HMDA is the best kind of reform legislation because it merely provides community groups and local officials with information, and leaves the precise remedy to the locality" (Ibid).

The law served as an opening volley in a long battle over the accessibility of the data. By creating the law, Congress validated the position of community groups. This shift in institutional structure proved the most decisive call (Douglas 1986). Even with the HMDA victory, advocates continued to push for ways to make the data more accessible. In the spirit of compromise, banks only had to make the data available in a branch or home office. This reflected the individual information disclosure model behind the law. The argument went that people should know about a bank's investment patterns when making a decision about where to put their funds. But the truth is that Joe Bank Customer did not request this information and this structure required community groups to visit individual bank branches to get information and then aggregate the data. Advocates wanted local governments to compile the data from individual lenders and disclose it.[40] The National Urban League sued on this score and won. Subsequent amendments to the law in 1980 and 1989 further simplified access.

[40] "Four States Backed on Redlining Appeal," *NYT*, 10 December 1976.

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Encouraging Reinvestment: The Community Reinvestment Act of 1977

Community organizations immediately utilized the new data available via HMDA. All studies based on HMDA showed evidence of redlining. Armed with new data, community groups marched to the bureaucracy to participate in the clubby and obscure world of public hearings on changes in a bank's charter status. This strategy, like many others, first originated at the local level. Prior to this, protests by the Organization for a Better Austin (the IAF organization where Cincotta began) pressured regulators to deny a local S&L permission to open a branch in the suburbs.[41]

On the heels of HMDA, Ralph Nader contested the merger of local bank at a procedural administrative hearing on this topic. He quickly learned that data was not enough. nonbanks (such as Nader's nonprofits) lacked legal standing to participate in the public hearings. Agency staff paternalistically heard and ignored community objections. The Community Reinvestment Act (CRA) of 1977 addressed this point directly.

Advocates offered a disarmingly simple premise: lenders should give loans to those from whom they received deposits. The CRA institutionalized this perspective by requiring lenders to consider local investments and charging regulatory agencies to include this criteria in official reviews of a bank's performance. The Community Reinvestment Act of 1977 required regulators to review a bank's community involvement and make it a normal part of the review of bank operations. Further, when banks applied to regulators to merge or open new branches, the law allowed community organizations to participate in public hearings and raise objections. The CRA passed with

[41] The Illinois Commission recommended that the state amend regulations governing the "charter, relocation, branching, merger, or redesignation" of savings and loan associations to "better protect the interests of the original service area" (Naperstek and Cincotta 1977: 24).

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strong support of the Carter administration, with Vice President Mondale introducing the administration's new regulations.[42]

Analysis

Mass mobilization strategy proved more fruitful than elite lobbying pursued by an earlier generation of community banking advocates. There was only one year between Chicago's disclosure law and the federal one. Only five years lapsed between the first national housing conference on redlining and passage of the CRA in 1977. Using a strategy of professional advocacy, postal savings bank experienced a forty-four year lag between the first bill introduced in the Congress and its passage in 1910. Credit unions took twenty-six years (from a state law in 1909 to the national law in 1934).

By acting on these issues, Congress legitimated advocates' arguments and treated redlining as a national problem within the public's interest to address. Although both laws were narrowly tailored, however, they shared a key virtue: they shifted the burden for documenting and addressing lending disparities from community groups onto banks and regulatory agencies. More importantly, they legitimated the role of community organizations as decisive players in banking policy.

Reinvestment legislation had several advantages. It used existing agencies to pursue enforcement and avoided the need for new budget lines. It promised new financing for cities without any expense to government, because it pressured banks to lend. Finally, it seemed to satisfy two urban constituencies that often opposed each other: urban ethnics and racial minorities. It promoted urban homeownership without the resistance that racial integration and public housing often triggered (Ralph Nader

[42] "Federal Agency Acts to Prohibit 'Redlining' in Move Praised by Mondale," *NYT*, 10 November 1977.

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Congress Project 1975). It allowed Congressional representatives to cater to the urban portions of their districts in ways that did not anger their suburban constituents.

Civic groups could not keep banks accountable. Lenders hid behind their legal status as private organizations to stonewall requests for information from community groups. The new laws reach banks through their status as quasi-public institutions whose charters entailed some public obligations. Advocates succeeded in turning the obscure language of charters into negotiating leverage for public accountability of banks.

Lenders asserted their authority to properly assess a community's creditworthiness, despite the fact that they historically failed at this task. Further S&Ls, credit unions and mutual savings banks originated in struggles whose arguments were similar to those of reinvestment advocates: traditional financial institutions lacked the community knowledge or commitment to profitably find good loans and invest in social groups that society deemed marginal. New policy tools functioned differently than those in the past. The earlier generation of advocacy that led to neighborhood banks, credit unions and other locally-based financial institutions created organizations that were not owned or fully controlled by reformers. The new tools sought to change the behavior of lenders and regulators rather than give those already interested in pursuing this business a legal route to do so. The new wave of entrepreneurs interested in community banking worked in nonprofit organizations rather than in small businesses or mutual aid societies of an earlier generation.

The laws legitimated the presence of a new player in the banking scene. The laws furnished tools for local organizations to continue their reinvestment battle. HMDA and CRA placed new tools directly in the hands of the advocates who pushed for the changes.

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Community reinvestment shifted the burden for action onto federal agencies and banks. This shift in responsibility did not diminish the participation of community organizations. Instead of using their energy to make the case for redlining, they could now focus on pursuing the task of reinvestment. The laws routinized their dissent and established a new community banking "issue network," to use Heclo's (1978) term distinct from the existing array of civil rights, public housing, low-income housing, and consumer rights advocates.

What is most striking about HMDA and CRA is their failure to mention the two groups most important to its aims: urban nhds and nonprofits. HMDA invoked consumer rights rationales. Supporters pitched it as a way to help individuals make decisions about where to deposit their funds by allowing a potential depositor to assess whether a bank made loans to the local community. But the only individuals who ever used the law in that way were participants in social change organizations dedicated to holding banks accountable, not choosing where to place a checking account.

Although they are the direct concern and causes of the law, the policies' direct targets are lenders and their regulatory agencies. In fact, there are 4 layers of targets: lender/regulators; nonprofits; urban nhd residents and their nhds. The true nature of the laws do not exiwst in their statutes but in the web of relationshipships between advocates and lenders. Their actions bring the law to life.

Conclusion

The crafting of community-based economic institutions was anything but apolitical. When socio-economic changes eviscerated the dynamics that once defined community banking, advocates invented new tools to pursue similar ends. Guided by

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images of the lost era of neighborhood banking, advocates questioned the operations of market forces, challenged its "naturalness" and the fate it assigned to various social groups. Reinvestment honed in on the fact that choices and beliefs shaped lending decisions. The norms of lending industry paraded as immutable realities of the market appeared accurate only because lenders had money, power and professional consensus.

A national coalition of local groups successfully politicized the private decisions of lending institutions and brought public attention to the negative externalities of those investment choices. This strategy proved especially important because bank ownership. Local solution negotiated with individual banks would leave structural nature of the problem untouched but federal laws that furnished tools for such negotiation facilitated the entry of new groups into the field and made local reinvestment plans a national phenomenon.

One of the primary results of this historical moment is that it incorporated new actors into the field of financial services policy. Nonprofits gained standing in policy debates and decisions, their critiques received legitimacy from policymakers, and their policy proposals achieved scale beyond the local efforts from which they began. Both approaches recognized that local problems were responding to the same pattern of market forces and that government policy could intervene to alter these dynamics. The CRA was crafted as a tool that could be tailored to address a variety of local concerns. Like the earlier generation of social welfare banking policies, this new tool was adaptable to local needs. But where New Deal policy tools reinforced prevailing racial hierarchies, the CRA offered a means to dismantle them.

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The main point is not to see everything as an extension of electoral politics. There are other forces that also figure as political actors for immigrants and the tools they use matter. Community development is a different approach to the neighborhood-based strategy of reformers. Reformers were state-centric in preferring direct government control over policy; Alinsky-driven community action promulgated policy tools that legitimated the participation of community groups and gave them leverage against the private sector. Reformers led from the front; Alinsky-style community organizers led from behind. Both had city, state and national strategies to leverage public bodies and resources in service of communities. This intersection of the national and the local is crucial and the forging of direct neighborhood-federal tie matters or federal-nonprofit ties. More importantly, both used as well as bypassed local electoral elites. Both used a politics of issues/policies rather than ethnic politics to frame their work (though such politics are at work on the ground). In the banking case, at different points and in different ways, both sought to use regulations as a tool to replicate their home-grown policy solutions on a wide-scale.

The 1980s and 90s brought deregulation, mega-bank mergers and internet banking. Developments that advocates did not anticipate. As the economic context shifted and banks physically disappeared, especially from low-income urban neighborhoods, it dulled the efficacy of policy tools designed to make banks invest in communities. Further, changes in the structure of capital markets meant that Wall Street investors displaced local banks as the source of underwriting criteria. By the 1990s, the trickle of minority immigrants entering the country under the 1965 Immigration Act became a flood. Groups who were firmly off the radar screens of policymakers in the

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1970s began to make demands on local financial institutions. But like advocates for community-based lending before them, the new immigrants lacked credibility with traditional lenders. It is the persistence of these activists and their policy tools that explain the paradox of weak immigrant political power and the presence of banking policies responsive to immigrant needs. The arguments and policy tools forged by the reinvestment coalition proved easily adaptable to the needs of the newest residents of urban neighborhoods.

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Chapter 5

Haitian Essos and the Politics of Mortgage Underwriting, 1989-2000

This chapter analyzes a set of local negotiations where banks permitted first-time Haitian homebuyers in Miami to use funds raised through *essos*, an informal savings system, to apply towards the downpayment. The esso system in Miami works as it does in Haiti, relying on trust and reputation to have participants live up to their obligations. Its successful operation depends on reciprocity, mutuality and trust—the building blocks of social capital and effective civic action. Esso participation, for all its virtues, is not a recognized social and economic asset in the formal economy. As a result, good borrowers were overlooked by bankers who would not extend mortgages to borrowers who raised the downpayment using essos. In the late 1990s, Fannie Mae, a government sponsored enterprise, created a nontraditional underwriting accommodation that applied funds raised through essos towards the costs of buying a home, a departure from standard underwriting methods. Essos appear on the public radar screen because of a nonprofit's efforts to bring homeownership to low- and moderate-income families. The chapter traces the convergence of local actions and national policy changes that brought this specific change about. However, the process examined here has occurred all over the country.

Changing bankers' minds about who is a good credit risk is a political task that involves educating lenders and devising an appropriate lending product. Putnam's approach to civil society suggests that esso members would parlay their social skills and savings network to the public sphere to obtain these changes. Participation in, and the administration of, essos certainly utilizes skills relevant to political action. But intervening variables of immigrant status, race, language and poverty muted the turn to a

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civic response. But focusing only on immigrant political behavior as the starting point for policy change misses policy developments and dynamics that have real consequences for immigrants.

Underwriting assesses the creditworthiness of the individual borrower as well as the value of a property. In the 1970s, borrowers were portrayed as fundamentally eligible and the valuation of property in urban neighborhoods commanded the bulk of the attention. Individual creditworthiness took a backseat to neighborhood valuation of underwriting. But community reinvestment set the stage for ongoing battles where, as circumstances changed, the industry's norms for assessing individual creditworthiness increasingly came to the fore. The Community Reinvestment Act of 1977 required lenders to take affirmative steps to assist urban neighborhoods and it legitimated the role of community organizations in the banking sector. The principles and players that shaped new policy tools in the 1970s continued to shape community banking struggles in the 1990s in ways that permit a new generation of immigrants to employ these policy tools but without engaging in political mobilization.

The chapter situates efforts in Miami to obtain bank recognition of essos within national policy changes. The chapter covers activities in Miami and Washington, DC. It begins by discussing essos and the efforts of a local Miami nonprofit to secure changes from local banks that would recognize this Haitian cultural practice. The next section examines the role of community reinvestment advocates in DC who in the 1990s obtained new national policies that altered the role of social groups in banking processes. These policies had distinct consequences for immigrants at the local level, even though immigrants did not participate in national policymaking. The chapter returns to Miami

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and traces how the new policy tools strengthened the negotiating position of immigrant borrowers facing large banks. The combination of national advocates and new policy tools altered the effectiveness of local efforts in Miami leading to new industry concessions to immigrant needs.

Essos and Homeownership

How Essos Work

The informal savings system at issue, known as *essos* or *sole*, is a pooled lending and savings system that can be found among a number of immigrant groups and is more generally referred to as *rotating credit and savings associations* (RoSCAs) (Ardener 1964; Geertz 1962; Light 1972).[1] Typically RoSCA participants contribute the same amount of funds every week to a common fund, the full sum of which is given to one member until everyone has received a payment, at which point the association dissolves. Most studies of RoSCAs explain how they function as part of the informal cash economy that operates in the immigrant private sphere.[2] Indeed, essos are a cultural resource that allows Haitian immigrants to keep themselves financially afloat, despite being marginalized by race, language, and income.

Haitian working class immigrants recognize that essos are a way to reliably raise a large sum of money. It is a trust-based savings system but it does not rely on every member knowing and trusting each other. Rather, it functions through a series of social

[1] RoSCAs are also known as *sous-sous* or *partners* among many English-speaking West Indians, as *tandas* among Mexicans, as *kye* among Koreans and *hui* among the Chinese. See Bonnett 1977; Bonnett 1981; Chotigeat 1991; Light 1980; Light and Bonacich 1988; Sterling 1995, Velez-Ibanez 1983.

[2] Among economic sociologists RoSCAs are a culturally-based mechanism that operate outside the formal system yet facilitates immigrant integration. Popular examples of Korean and Chinese immigrants demonstrate that ROSCAs are often used to create a pool of capital for small business development. Access to this community-based capital helps immigrants to side-step discrimination and exclusion they would face if they sought a regular bank loan (see Light 1972 for the earliest formulation of this argument as well as Portes and Sensenbrenner 1993 for a more theoretical treatment).

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bonds where friends and strangers are temporarily bound together for this activity, but disperse upon its completion. Failures are rare. With their reputation on the line, as well as their ability to participate in future essos, participants work to ensure that each person keeps their agreement. One researcher noted that, "Trust among family or friends in the Haitian community is a very important commodity that makes the *sous-sous* [a.k.a. essos] and other traditions viable" (Listokin et al. 2000: 341).[3]

An esso begins with a treasurer who is committed to administering it until it is over. She invites a small core group to join her. Individuals accept this invitation *only* if they trust the reliability and organizational skills of the treasurer. Any doubt on their part causes them to decline the invitation. Those who agree to begin the esso invite two to four additional participants whose trustworthiness and reliability they are persuaded of, usually family members, friends, church or work colleagues. The treasurer schedules when each person will be paid. She is the only one who has regular contact with every participant in the esso. She collects weekly payments from each participant and pays the lump-sum to the person scheduled to receive it that week. If one of these participants cannot make a payment, their sponsor is responsible for making the payment to the group, a circumstance that rarely occurs. In Haiti, the risk that a defaulter will not be able to marry in that town prompts family members to step in and make payments in order to preserve the family's standing and its ability to join savings clubs in the future. The same ethic exists in the US.

Most essos function in the immigrant informal private sphere and never become a public issue. But Fannie Mae's decision in the 1990s departed from this, making essos an

[3] This description on the basic rules of Haitian essos is based discussions with staff at the Little Haiti Housing Association. For a similar description of Anglophone West Indian susus, see Bonnett 1977 and 1981.

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intergroup issue rather than simply an intragroup practice.[4] A local nonprofit with a budget under $500,000 budget and the handful of low-profit loans from low-income Haitians succeeded in persuading Fannie Mae, the mortgage finance behemoth with over a trillion dollars in assets, to create a loan product for essos. Many immigrant groups across the country have successfully made similar requests for underwriting changes. This change appears to conform to the "civil society writ small" view where bank customers or local nonprofit organizations parlay their organizing skills to the public sphere. LHHA's role in Miami certainly fits this explanation. Although the story of the mobilization of hundreds of immigrant community-based organizations fits civil society predictions and our aspirations of how democracy works, inequities in power, knowledge and resources suggest otherwise.

Essos and Mortgage Underwriting

Little Haiti is a poor, segregated community with a reputation for crime, violence and drugs. It is the first area of settlement for many Haitians who arrive in Florida. The official poverty rate is 45 percent, unemployment is measured at 48 percent and the median income is $14,000 (Listokin et al. 2000).[5] Housing is a critical need in Little Haiti. Population estimates for this small three-square mile area range from 39,000 to 70,000 depending on whether official or unofficial statistics are used. As a result, there is

[4] *Fannie Mae* is the official name for Federal National Mortgage Association (FNMA), which began as a New Deal government agency and was privatized in 1968. The corporation requests that all entities refer to it as Fannie Mae exclusively, Similarly, its sister agency, Freddie Mac, was formerly the Federal Home Loan Mortgage Corporation and created to serve savings and loan associations. Both operate as specially chartered government sponsored enterprises that are traded on Wall Street but governed by Congressional charters.

[5] Little Haiti differs from Miami's Cuban enclave of Little Havana which serves as an economic engine for mobility driven by Cuban entrepreneurship and capital (Portes 1987). The Haitian community possesses a thriving middle-class but it is not concentrated in Little Haiti, nor is it marked by business ownership. The small businesses present in the Haitian community are not well integrated with the formal economy (Laguerre 1998; Stepick 1989).

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a housing crisis. Many of the homes in this single-family district are subdivided and overcrowded. The Little Haiti Housing Association (LHHA) is a nonprofit housing and community development corporation (CDC) dedicated to the improvement of the Little Haiti neighborhood and its residents.

LHHA was founded in 1987 by a group of clergy as a way to change the fortunes of a neighborhood in dire need. Its mission is to make "housing affordable for the families that have no other choices," meaning assisting those who cannot afford to move to another neighborhood (Listokin et al. 2000). Approximately half of LHHA's staff are bilingual Haitian college graduates. Two are ministers in local Haitian churches. Haitian families interact with staff members who share their background and serve as a bridge between Haitian ways and US institutions. The fact that LHHA's Haitian staff emigrated as adults facilitates their connection with the Haitian immigrant community. Elsewhere, tensions between Haitian-born immigrants and US-born Haitian Americans have acted as a barrier to community building (Stepick, Stepick and Kretsedemas 2001). A study of the organization concluded that, "LHHA has earned the trust of the Haitian community and is viewed as an insider rather than as an intruder by this community" (Listokin et al. 2000: 341).[6]

Like most CDCs, LHHA's primarily focuses on housing but it also provides an array of social and recreational services. CDCs themselves are themselves a tool in antipoverty strategies. President Johnson's Administration created community development corporations as part of the War on Poverty in the 1960s. These nonprofits furnished a means to generate economic development in low-income neighborhoods. By

[6] LHHA's staff is racially mixed. For many years the organization's director was an Anglo-Canadian and whites on the staff hold a variety of positions including construction management. The ethos of serving the Haitian community as an insider and advocate defines the organization's culture.

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encouraging the creation of new businesses and affordable housing, they try to improve the fortunes of the residents of poor neighborhoods while avoiding the displacement gentrification brings when higher income resident "discover" low-income neighborhoods. Most CDCs eventually specialized in building and selling affordable housing. Many engage in other economic development projects such as attracting full-service grocery stores, transportation improvements, and other amenities that will boost the resources available in low-income neighborhoods.[7] LHHA provides a range of housing, economic, community and social services but its primary activity rests in housing. It renovates, constructs, and sells homes to residents of Little Haiti, mostly in the Little Haiti neighborhood.

Box 5. 1 LHHA Programs and Services

HOUSING AND HOMEOWNERSHIP ACTIVITIES
Pre-Purchase: Credit counseling, Credit clean-up, Homeownership classes *Purchase*: Finding a lender, Affordable housing subsidies, Closing costs and documents *Post-Purchase*: Informal check-ins, Homeownership club, Service exchange program[8] *Other Housing Services*: Rehabilitate homes for rental and sale, Construct new housing for sale
OTHER COMMUNITY DEVELOPMENT ACTIVITIES
Reclamation community garden, Youth art and cultural studies program, Community organizing project, Block association, Computer classes, After-school program

LHHA plays a distinct role in the homeownership process. It serves as an intermediary between Haitian immigrants and the complex homeownership industry. The

[7] There is a large literature on CDCs that addresses their political history, the limits of micro strategies to address macro inequalities and the perils and payoffs of avoiding political mobilization. See, for examples, Hevesi 2003, Johnson 2004, Sviridoff 2004, Stoecker 1997, Squires 2003.

[8] Home-related skills and services can be traded by barter.

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organization works closely with these families to ensure they successfully negotiate the complex world of homeownership (see Box 5.2). Many of these families are low-income, mono-lingual and unfamiliar with the series of requirements needed to own a home in the US. It does not grant mortgages; instead it introduces Haitians to the mortgage system and then assists them in developing the credit history and other criteria that loan officers use to grant loans. The foundation of its efforts lay in its well-regarded seven-week homeownership class, which is offered in Creole. Of all the families LHHA assists, only a subset express interest in homeownership and pursue the training. Only a handful of these proceed to purchase a home through LHHA, while the majority pursue homeownership on their own after completing the training program. LHHA employs an intensely personal work style. Its staff serves as a peer, partner, advocate, friend, protector, and promoter for Haitian families.[9] This approach proves extremely valuable as the organization works to orient immigrants to homeownership in the US. It works to bridge the gap between the conventional credit assessment tools of the lending industry and their clients by making Haitian applicants "mortgage-worthy." As needed, LHHA reviews credit reports and assists in cleaning up or explaining blemishes on a client's credit record. It advises families to pay by check instead of cash as part of establishing a credit history and a relationship with a bank. As a result of intensely educating and preparing families, no LHHA family has ever defaulted on a mortgage. However, the time commitment needed to guide families through the process means that very few families are helped. LHHA forges strong relationship with everyone it serves, but the investment in classes and counseling required to ensure successful completion of the

[9] For a general discussion of the role and importance of counseling in the homeownership process, see McCarthy and Quercia 2000.

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homeownership process means that the organization can only help around forty families a year to buy a home.[10]

Box 5.2 Homeownership Preparation at Little Haiti Housing Association

Documents needed to apply for homeownership	*Home Ownership Training Program (7 classes in Haitian Creole)*
1. Signed two years personal income tax return with W2s 2. Verification of employment (recent paystubs) 3. Birth certificate, school records, and/or immunization cards of all dependents 4. Last three months of bank statements (saving/checking) 5. Divorce decree and property settlement agreement, if applicable 6. Rental verification – name and address of landlords of the last seven years 7. Voter registration card and/or resident alien card 8. Social security card 9. Credit report 10. Recent information on monthly consumer debt 11. Enrollment into Home Ownership Training Program (offered by LHHA) 12. Florida driver's license	1. Introduction to LHHA and mortgages 2. Pros and cons of homeownership 3. Budgeting and credit 4. Homeowner's, medical and life insurance 5. How to obtain a loan, closing process and amortization 6. Being a homeowner and citizen (including maintenance and landscaping expectations) 7. Mock closing with a loan officer from a local bank. (Source: LHHA flyers and brochures on file with author.)

Mortgages constitute a new use for essos. Ordinarily, essos are used to purchase major consumer items like furniture, appliances and cars. It is also used to cover other major expenses such as the purchase of plane tickets and remittance payments. Because

[10] This number is specific to the mortgages involved in the sale of the buildings they own and manage. They serve many more families than this in all their programs combined. Most graduates of the homeownership seminar obtain mortgages on their own for non-LHHA property.

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the homeownership process requires a large amount of cash, it appeared natural to apply esso savings to this expense. Immigrants can use any means, including RoSCAs to raise downpayment funds without any government intervention (Light 2000). However, as the esso case revealed, income levels affect whether and how private practices intersect with government.

Essos became a public issue through LHHA's efforts to serve low-income Haitian families by using state and local government subsidies that placed the cost of homeownership within financial reach. Its efforts make homeownership available to Little Haiti residents who earn as little as $12,500 in annual income. It relies on a variety of local, state and federal home financing programs, many of which are targeted to low- and moderate-income families. But the remaining $1,000 to $3,000 needed for the downpayment or the closing costs remained a major expense. Approximately one-third of LHHA families used essos to met this expense. However, banks largely refused to accept these funds. The source of this large amount of savings, just in time for a major expense, baffled bankers. How could a family with an official income at or near the poverty line gather thousands of dollars in a few months? This stereotype prevailed because of the low socio-economic status of Haitians and the reputation of the neighborhood for drugs and crime. The sudden appearance of a large sum of cash from a poor resident of a poor neighborhood suggested the use illicit funds and money laundering. Once told of essos, bankers remained incredulous. They wondered if a viable trust-based savings system could actually exist in modern society. One banker recalled the typical response of her colleagues, "Why would you want to go ahead and take your money and put it into a pool

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and have somebody else look after it?" She notes that to bankers, "that just didn't make sense to us."[11]

Adhering to anti-money laundering laws, banks required that esso funds be deposited in the bank for three months prior to use. But this requirement nullified the very features that made essos an efficient way for the poor to save. Unlike bank savings that can be withdrawn at any time, esso funds are unavailable until the moment a lump-sum payment is made to a participant. This "just-in-time" form of payment makes essos a superior savings mechanism.[12] Bank rejection occurred near the end of the homeownership process and jeopardized completing the process. This rejection administered a serious blow to those with a limited income and with limited familiarity with the US banking system who were well on their way to becoming homeowners. From LHHA's vantage point, the waiting period effectively meant that a family might lose their chance of owning a home if another expense arose. The staff found that the pressing financial needs made it difficult for low-income families to hold onto a sizeable sum of savings for three months. Essos are primarily used by Haitians from a working class background and is largely shunned by those from an upper-class background. Only esso users with higher incomes could afford to keep funds on deposit for three months without undue hardship.

Haitians who pursued homeownership on their own may not encounter this problem if they saved through conventional methods or if they could afford to keep their

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[11] Interview with Anita Bernstein, Vice President, Community Lending, SunTrust Bank. Miami, Florida, 2 November 2000 (hereafter Bernstein Interview).

[12] Interview with Marc Francois, Little Haiti Housing Association. Miami, Florida. 3 November 2000. Because the treasurer creates a payment schedule at the beginning of an esso, participants often schedule themselves to receive funds time their receipt of funds to coincide with a major expenditure.

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savings in the bank for three months. Those who did not meet this criteria might perceive the inability to use essos in the homeownership process as an individual failing or as further evidence of their outsider status. LHHA knew the mismatch stemmed from the banker's lack of knowledge about the Haitian community. This mismatch occurred often enough that LHHA decided to push for a more systematic way to address it.

LHHA's role is pivotal. It understood the systems and players in the mortgage process and it had relationships with banks. Banks relied on LHHA to learn what is occurring with borrowers. The organization's knowledge of Creole, familiarity with landlords, along with its doggedness and trustworthiness allows its staff to obtain information crucial to the mortgage process that bank loan officers cannot. LHHA leveraged these relationships in an effort to persuade banks to accept esso funds. LHHA hoped to affect the opportunity structure for all Haitians in Miami who wished to use essos for homeownership, and not just the families that it served. Aware of the impact of poverty on the economic chances of Haitian immigrants, homeownership promotes asset-building and a path to upward mobility. If successful, this immigrant self-help savings mechanism could extend beyond serving as a survival mechanism by financing consumer purchases and instead function as a way for low-income immigrants to establish themselves in the US on a firmer financial basis.[13]

CDCs and Immigrant Civil Society

Esso users certainly possess civic skills but race, language and poverty muted the turn to a civic response on this issue. The commitment to pursue the homeownership

[13] Essos are not used for business start-up (as is the use most commonly studied in the literature based on studies of the Chinese and Korean communities). As Jacques Saint Louis explained, business is seen as risky and if the business fails, then the owner will be unable to continue their esso payments.

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system already impinged on lives beset with family, work, church, and other obligations. These responsibilities, coupled with English language skills and relative unfamiliarity with US-style homeownership, had bearing on their availability as civic activists on this score. The lack of immigrant civic engagement on esso rejection is not the absence of civic skills as immigrants may well be active in local or transnational politics or other activities. A local study observes a paradox where Miami's Haitians have elected several Haitians to local elected office but their involvement in civic organizations like parent-teacher associations, block associations and neighborhood watch groups is low (Stepick, Stepick and Kretsedemas 2001).

In theory, LHHA could have mobilized the families it served to lobby banks. It engages in civic training by encouraging all the families it serves to join homeowner and block associations and to actively participate in the public life of their neighborhood. Currently, the task of acquiring and renovating abandoned properties, as well as the new task of building and managing an apartment complex absorb most of the organization's resources. The focus on services and projects to change the systemic inequalities of a low-income neighborhood without community organizing and political mobilization places LHHA solidly in the mainstream of CDCs. As a 501(c)3 it cannot engage in partisan political efforts. However, it could have mobilized families to protest banks, it could have gone to the press and engaged in a host of high profile activities to draw attention to community issues in the way that Alinsky affiliated organizations (Warren 2001). However, this is not the organization's style.

LHHA could be considered a part of the Little Haiti's civil society, but that term unhelpfully applies to membership in a bowling league to membership in the National

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Association of Manufacturers. Even Dahl acknowledged that political professionals (what he called homo politicus), not civic voluntarism (homo civicus), drove the policymaking machine (1961: 305). More recently, in an empirical analysis of civic engagement patterns of different kinds of groups, Kaufman (1999) found that civic professionals, not voluntarist organizations, participated the most. LHHA sits in the civic professionals camp and did not rely on the political mobilization of esso users to makes it lobbied bankers to change their views. As a nonprofit designed to marshal public and private resources to the community, it has foot in the general political economy of Miami and a foot in the community it serves. Its function is to pull resources from elsewhere into the community. Here bridging social capital, to use Putnam's (2000) term, occurs at an organizational and institutional level, not at the level of individual esso users.

Haitian Essos and the New Rules of Underwriting

The issue here is not whether Haitian immigrants possess enough social capital to engage in civic and political activities. The political issue around social capital was rooted in the fact that formal lending institutions dismissed a community practice which invalidated the reach and utility of this community asset. The dismissal of essos occurred as part of a broader disregard and marginalization of Haitians in society. As an organization staffed with full-time, college-educated, professionals (rather than a voluntary society), LHHA had the time, staff resources, and sufficient knowledge about the nature of the U.S. banking structure to intervene with banks on behalf of the families it serves. It acted not because esso users asked for this but because it perceived the gap and saw the need. As a professional nonprofit organization it also had an incentive to address the gap between esso use and bank rejection. If successful, it could increase the

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number of families who could obtain homeownership. Also, if banks changed their underwriting, LHHA could decrease the time it invested in explaining essos to each loan officer and spend its time on other tasks that helps families. For esso users, bank rejection probably served as just another market of their outsider status in American society and didn't warrant political mobilization in and of itself.

Loans to LHHA families helps banks fulfill their Community Reinvestment Act (CRA) obligations. Knowing that lenders had the flexibility to develop mortgage underwriting guidelines that could respond to the mortgage needs of low-income Haitian immigrants, LHHA approached Miami banks about creating a way to accommodate essos, in particular a new underwriting accommodation that standardized how a bank treated essos. Two banks responded and both had representatives who served on LHHA's Board of Directors. [14]

Underwriting is both science and art. There are formal rules and formulas but these co-exist with the application of discretion and special accommodations. They exercised discretion in underwriting by creating new loan products that met local needs and kept these loans, as they historically had, in portfolio. Banks traditionally kept most of their loans in their own coffers or in industry terms, in their *portfolio*. Through portfolio loans, banks had the ability to create customized lending products that depart from standard mortgage underwriting because it meets a local need. Both banks were eventually persuaded that essos were authentic. SunTrust's accommodation recognized that funds came from essos (rather than drug dealing) but it included a ninety-day waiting

[14] Both banks had officers who sat on LHHA's board and who spearheaded the process in their organization. For Citibank, it was Emilio Fernandez who was then a Vice-President in the Credit Policy Department. For SunTrust it was Anita Bernstein, Vice President for Community Lending.

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period. Citibank also recognized essos and did so without a waiting period. The ninety-day waiting period mirrored the problems LHHA faced at other banks and Citibank's accommodation only helped those families who already had an account there or who chose to get their mortgage through Citibank. This was a far cry from all banks changing their underwriting.

Neither lender created a strict portfolio loan; both wanted to (and did) sell their loans to Fannie Mae. In both cases, it was important to the lenders that their mortgage product could be sold to Fannie Mae (described in the next section). Mega-mergers and the rise of an international capital market had diminished an individual bank's autonomy. Lenders' ability to sell loans to investors had risen in importance as a result. Fannie Mae, and its sister agency, Freddie Mac were the key intermediaries in this system. Instead of each bank going to the market, banks sold most of their loans to either Fannie or Freddie.

It only purchases loans that meet its criteria. Loans ineligible for sale remain in a bank's portfolio. The role of the secondary market—where lenders sold their mortgages to investors or in other words, converted loans to securities (securitization of mortgages)—had expanded considerably in the 1980s. In 1980, only five percent of all conventional mortgages originated under this system, roughly $22 billion. By 1989, fifty percent of all mortgages were repackaged as securities, roughly $195 billion.[15]

Fannie Mae is the largest investor in home mortgages in the world, having financed the homes of over 30 million American families. It is the largest non-bank financial services company in the world and is directly tied to one out of every five mortgages in the U.S. It had $887 billion in assets in 2002. Its purchases from lenders

[15] U.S., Congress, House, Committee on Banking, Finance, and Urban Affairs, *Government-Sponsored Housing Enterprises Financial Safety and Soundness Act of 1991: Hearings before the Subcommittee on Housing and Community Development*, 102d Cong., 1st Sess., 18-19 July 1991, pp. 315, 327. Mortgage originations in 2003 hit $3.7 trillion (Fannie Mae 2004).

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support the home building industry by smoothing capital flows in the industry. GSE activity transfers funds from areas with high mortgage funds (such as urban areas) to those with low amounts (namely rural areas). As areas in the South and West grew in population, homeownership was not constrained by the capital limits in an individual bank because the bank received infusions of new capital from Fannie Mae.[16] The secondary market affects consumers, though most consumers are unaware of its existence and never directly interact with these two agencies.[17] The mortgagee makes payments to the bank, but the bank now functioned as a pass-through organization that sent the payments on to investors, who now owned the loan. As GSEs grew, their influence on underwriting decisions grew as well. Their underwriting guidelines ensured that the mortgages they purchased were safe, desirable "investment quality" loans suitable for sale via the New York, Chicago and Pacific stock exchanges. Their buying criteria standardizes these loans, which attracts investors (and their capital) to a market they would otherwise ignore. They shaped the mortgage industry's view of what is "bankable."

A bank's ability to sell loans to GSEs had become a top priority. Most banks sold as many loans as they could from their portfolios to the securities market. Because investors specified the kinds of loans they found desirable, banks had an incentive to

[16] The activities of secondary mortgage market affect the entire mortgage industry and shape the flow of capital and credit. They accomplish the following: correcting interregional imbalances in mortgage credit within the United States by making funds available to capital deficient areas of the country to finance new mortgage originations; allowing lenders to originate mortgages for sale rather than portfolio investment; and standardizing mortgage loans, thereby attracting investors who traditionally have not invested in the primary market, thus further strengthening this market.

[17] In the 1990s, both GSEs launched advertising campaigns to increase their visibility and the public's awareness of their role. However, these campaigns involve warm images of homeownership as part of the American Dream without directly addressing the tie to the consumer. Fannie Mae created the Fannie Mae Foundation, an independent nonprofit, that increases consumer access to information about homeownership through homeownership fairs, multi-lingual information brochures, amongst other activities.

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keep the number of unsale-able loans to a minimum. Portfolio loans came to mean the loans banks opted not to sell or, increasingly, loans they could not sell because investors would not purchase them. SunTrust's Anita Bernstein explained, "If Fannie Mae has a program, everyone else falls in line with that program. ... Fannie Mae's guidelines are our guidelines."[18] Both lenders sought to create products that would meet Fannie Mae's underwriting standards. One bank created a conventional mortgage that conformed to standard underwriting criteria and the other created a portfolio loan. The two loan products differed in who bore the costs of selling the mortgage to Fannie Mae.

Fannie Mae required a ninety-day waiting period before it would purchase the loan. To conform to Fannie Mae's conventional underwriting, SunTrust included a ninety-day waiting period. For SunTrust, the borrower bore the cost in the waiting period. Citibank had negotiated a special arrangement with Fannie Mae about the terms under which Fannie Mae would purchase its mortgage. For Citibank, the bank bore the cost by creating an unconventional product then bearing the burden of negotiating with Fannie Mae to create terms under which the loans could be sold.[19] These accommodations demonstrated that underwriting could be adjusted to include essos. Even though banks can in theory create a true portfolio loan that is not sold to the secondary market, they have little incentive to do so, especially on mortgages that target low- and moderate-income borrowers on which there is little to modest profit gained.

LHHA's pursuit of an esso-based mortgage product poignantly demonstrated Fannie Mae's influence on local lenders. The incentive to sell as many loans as possible

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[18] Bernstein Interview.

[19] This included the bank buying the loan back if the borrower failed to make payments. Taking back failed loans is well-accepted but bankers work to minimize this occurring, less they develop a reputation of selling bad loans. The differences are due to location. The farther one is from the local milieu, the more stringent the loan terms. SunTrust did the mortgage via an affiliated mortgage company headquartered in Virginia. Citibank did the loan in-house and negotiated terms with the local credit policy department. Citibank's Fernandez notes that since then, Citibank has merged with another bank and the credit policy department has moved to out of state. As a result, he doubts he would have been able to negotiate a similar loan product today.

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to the securities market makes a preference for standardization the rule. Having made limited progress with bankers, Fannie Mae was the next obvious target. Because of the standardization power of its underwriting, Fannie Mae's involvement could alter how *all* Miami banks treated essos. If this occurred LHHA could serve more families because a standard way of addressing essos could speed up the loan process. LHHA also realized that underwriting essos also held implications for Haitians beyond the Little Haiti neighborhood. If all banks accepted esso payments, then moderate-income Haitians throughout Miami would benefit, not just those working with LHHA. In addition, it would legitimate essos as a genuine community practice and deal a blow to the negative stereotypes Americans have of Haitians.[20]

However, Fannie Mae was out of reach to LHHA. Lenders, not consumers, are Fannie Mae's customers. Fannie Mae's structure reflected its focus on industry activities, not consumer needs. It functioned through six regional offices. The closest location to Miami was in Atlanta. SunTrust and Citibank, as longstanding institutional clients, made only limited headway with Fannie Mae after repeated negotiations. LHHA, stuck at the roadblock of Fannie Mae and its effect on the underwriting decisions of local banks, had just encountered the new rules of underwriting. The flexibility that historically allowed banks to respond to local needs had shriveled. A structural shift had occurred in lenders' role in underwriting loans. The impasse that faced LHHA reflected a national phenomenon. The banks pointed to Fannie Mae, an organization to which LHHA had no access.

National Policy Change: Extending Community Reinvestment to GSEs

Before returning to Miami in the late 1990s, we first venture to Washington DC in the early 1990s. Problems of structural exclusion usually need solutions on a comparable

[20] Interview with David Harder and Jacques Saint Louis. Director and Assistant Director, Little Haiti Housing Association. Miami, Florida. 4 August 1998 (hereafter Harder and Saint Louis Interview).

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scale. The new rules of underwriting circumscribed the bank officer's ability to exercise discretion in granting exceptions to the rule. This diminished flexibility restricted the viability of community lending programs originated under the Community Reinvestment Act (CRA). As one advocate declared in a Congressional hearing, "We are no longer in the 'It's A Wonderful Life' day of portfolio lending."[21] Congress explicitly considered the mismatch between lender norms and community needs and in 1992 authorized new policies that would strengthen the position of community-based organizations in underwriting decisions. In the march of the democratization of credit, it was time for a new policy tool.

The secondary mortgage market began in earnest during the New Deal when in 1938 Congress created the Federal National Mortgage Corporation, an obscure government agency created to support homeownership. It purchased federally insured Federal Housing Association mortgages from mortgage lenders (commercial banks, savings institutions and mortgage companies from whom most homeowners receive their loans i.e. the primary mortgage market) and sold them to investors. It later did the same with Veterans Administration mortgages. There was no secondary market for conventional mortgages, which the savings and loan industry dominated.[22] By selling their loans, lenders receive the full value of the loan immediately, rather than at the end of the loan term (be it twenty or thirty years). With its loan capital replenished by the sale of the mortgage, a lender can offer more mortgages. In 1968, the Johnson administration

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[21] U.S., Congress, House, Committee on Banking, Finance, and Urban Affairs, *Government-Sponsored Housing Enterprises Financial Safety and Soundness Act of 1991: Hearings before the Subcommittee on Housing and Community Development*, 102d Cong., 1ST Sess., 18-19 July 1991, p. 367.

[22] Unlike conventional loans, mortgages via the Federal Housing Administration and the Veterans Administration (FHA and VA mortgages) are subsidized or guaranteed by the government.

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privatized Fannie Mae to remove its expenses from the federal budget. This change authorized Fannie Mae to deal only in conventional mortgages. The Administration created Ginnie Mae to handle the secondary mortgage market for FHA and VA mortgages and it created Freddie Mac to create a secondary market in conventional mortgages originated by the savings and loan industry.[23] Fannie Mae and Freddie Mac operate as public/private hybrids. Technically known as Government-Sponsored Enterprises (GSEs), their shares are traded on Wall Street but operate under special federal charters which Congress periodically revises and they are regulated by the Department of Housing and Urban Development. All references to GSEs and the Enterprises refer to Fannie and Freddie.

With privatization, the agencies retained their public mission of supporting homeownership and a unique set of public benefits. They are exempt from federal taxes; they are not required to file papers with the Security and Exchange Commission (even though they are publicly traded); and their debt obligations are treated as U.S. agency securities in the marketplace, which gives them access to low interest loans via the US Treasury. The last benefit is passed on to consumers in the form of one-quarter to one-half percent savings in the mortgage interest rate. The growth and influence of GSEs were unanticipated outcomes of the federal government's support for homeownership as a form of social and economic policy.[24]

Community-based organizations played a key role in both analyzing the problem and proposing changes. The advocates who had fought the redlining/reinvestment battle

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[23] Freddie Mac was privatized in 1989.

[24] They now voluntarily make SEC filings furnish information voluntarily and they pay taxes at the state (but not federal) level. Their unique ties to the government give them leverage in the market place. Private corporations in the secondary mortgage market do not have tax and interest rate benefits. Further, they are limited to jumbo loans, which are mortgages above the GSE ceiling. GSEs buy mortgages up to a set ceiling to ensure that they serve average Americans.

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stayed involved in policy formulation and did so while simultaneously working with individual banks to create community reinvestment programs. By the late nineteen eighties, they found lenders increasingly reticent about crafting new loan products and blamed their conservatism on the GSEs. By going to Congress, advocates hoped that Congress would compel the GSEs to give community perspectives more weight in determining underwriting guidelines. GSEs did not interact with consumers and lacked deep knowledge of how different communities operated. But the high volume of business they did made them experts in conventional mortgage underwriting. As with HMDA and CRA in the 1970s, advocates challenged GSE claims in their area of expertise and they pursued legal changes that would shift the burden of responsibility onto the GSEs' shoulders to work with communities as partners.

GSEs were (and remain) formidable political forces. Because they are politically and economic powerhouses, their opinion on policies governing their operations matters matter. To ensure that their views are seriously considered, both GSEs cultivate relationships with Congress and the Executive. Both adeptly keep Congressmembers abreast of homeownership initiatives in their districts and invite elected representatives to groundbreakings and the press coverage these events generate in the local media and makes major contributions via its PAC (Koppell 2001). The GSEs also agreed that with the reasons for a charter revision. Mortgage bankers, savings institutions, realtors, builders, and investment banks often take policy positions favorable to the GSEs. Their fiscal health is contingent on the continued vitality of the secondary mortgage market. The autonomy from government that hybrids enjoy help the GSEs to get their way and make them more difficult to control than traditional federal agencies (Gattis 2001; Koppell 2001).

Throughout the 1980s, community groups tried to get the GSEs more involved in

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community reinvestment lending but found their efforts largely re-buffed and only token promises made. They found unwhitting assistance by the policy window created by the savings and loan bailout. The political opportunity to address the GSE's effect on the affordable housing market occurred in the wake of the two hundred billion dollar public rescue of 1,700 failed savings and loan associations. The experience generated a bi-partisan consensus to "do something" about GSEs. Public officials sought to place GSEs on a stronger financial footing to deter the need to bail them out in the future.[25] In 1990, the Bush administration introduced a bill to revise the charters of GSEs, with bipartisan co-sponsors. Such revisions occur periodically, approximately every ten year but this revision had exceptional urgency. Everyone agreed that the Congress needed to modernize the operating structure to improve the "safety and soundness" of GSEs.[26]

To the chagrin of President Bush and the GSEs, the Democrat-controlled Congress attached the Affordable Housing Program (AHP) to the bill that included much needed upgrade of the safety and soundness rules. The Bush administration objected to the affordable housing amendments, but signed the bill into law given the importance of all the other provisions and the effect of the watchful financial markets on the GSEs' health.[27] The AHP required GSEs to attend to the needs of low- and moderate-income

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[25] GSE securities are *not* guaranteed by the United States government and "do not constitute a debt or obligation of the United States or of any agency or instrumentality thereof other than Fannie Mae" (Fannie Mae. 1999. Introducing Fannie Mae. Washington, DC: Fannie Mae.). Consequently, there is no public obligation to meet the GSEs' financial obligations in times of loss. But the GSEs' ties to the government constitute an *implicit guarantee* to many investors who believe the government will step in to bail out these industry giants. This implicit guarantee contributes to the popularity and profitability of GSE stocks. Congress was aware of the perception that GSEs were "too big to fail" which would lead the government to intervene if a financial crisis occurred, despite the absence of a legal obligation to do so.

[26] The two major changes were an increased capital requirement as a hedge against failures and a new regulatory office within the Department of Housing and Urban Development devoted solely to the two GSEs.

[27] The ranking Senate Republican who co-sponsored the introduction of the original GSE bill voted against the final law. He believed that affordable housing matters were "misplaced with respect to a bill initiated for the purpose of and devoted primarily to, establishing a regulatory structure to ensure the safety and soundness of Fannie Mae and Freddie Mac." (U.S., Congress, Senate, Committee on Banking,

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(LMI) communities. As a result, relatively weak nonprofit housing advocates obtained a policy against the wishes of opponents significantly larger and stronger than they.

The Politics of Affordable Housing and Revising GSE Charters

The strongest rationales for including these provisions came from public interest groups who supported fair housing and fair lending policies. Their participation in these issues was well-established in Congress with the advent of fair lending legislation in the 1970s (Cincotta 1991). A large coalition of advocacy groups participated in the hearings and negotiations, including the NAACP and a variety of state and city housing finance agencies. They had a well-established network of supportive Congressmembers. They successfully worked with the House and Senate banking committees to pass revisions to three major laws prior to 1992: amendments to the Home Mortgage Disclosure Act of 1989, the Cranston-Gonzalez National Affordable Housing Act of 1991, and the Community Reinvestment Act of 1992.

Local experiences between advocates, banks, and GSEs were actively part of the policy debate. Prior to 1992, GSEs "voluntarily" responded to complaints about the lack of low- and moderate-income (LMI) lending. This voluntarism, however occurred within the context of Congressional scrutiny in the late eighties.[28] By 1987 Fannie Mae had

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Housing and Urban Affairs, *Federal Housing Enterprises Regulatory Reform Act of 1992: S. Rpt. 102-282 on S. 2733*, 102nd Cong., 2nd sess., 1992, S. Rpt. 102-282, Dissenting views, Senator Garn.)

[28] For example, Senate Report 102-282 noted that following a Congressional hearing in 1991, "both Fannie Mae and Freddie Mac undertook several important voluntary initiatives to direct their business towards serving the needs of low- and moderate-income families. On March 14, 1991, James Johnson, the new Chairman and CEO of Fannie Mae, announced a $10 billion commitment to affordable housing. ... Freddie Mac subsequently made an analogous, if less ambitious, pledge to do $3 billion." It further noted that, "On January 27, 1992, Leland Brendsel announced the results of a year-long review of Freddie Macs underwriting guidelines. Guidelines were changed or clarified in a number of ways which were both responsive to concerns raised at the Consumer and Regulatory Affairs Subcommittee hearings and significant, in particular, for their likely effect on access to mortgages for minority loan applicants." Ibid.

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created an Office of Low- and Moderate-Income Housing and Freddie Mac created a community relations office. Both were headquartered in D.C. with counterparts in each of their six regional offices. These Offices designed new loan products that responded to community needs as articulated by nonprofit organizations. For example, many LMI clients did not possess standard credit reports. By 1989 GSEs began to accept evidence of on-time payment of rent and utility bills for borrowers who lacked a standard credit history.

Advocacy organizations wanted GSEs to devote more resources to developing more specialty products geared to the LMI market. They pursued policy action to overcome the deadlocks in GSE programs. The GSEs and the community groups used their experiences with these programs in different ways. The CEOs pointed to these programs as evidence that they were taking action in this area, making new legislation unnecessary. GSEs refused to acknowledge that the industry's incentives increasingly determined bank decision making. They contended that, as always, final decisions on loans rested with local lenders whose knowledge of the borrower determined lending decisions. They also insisted that they functioned in the background, removed from the local situation. If lenders interpreted GSE guidelines conservatively, it was only due to "misunderstanding."

Conversely, community groups used their experiences with the GSEs to indicate the limits of voluntarism and the need for a stronger policy direction dictated by Congress. By this time, many of them had CRA programs with banks that they wanted to keep viable. Some had received funds via the Fannie Mae Foundation to support the promotion of homeownership (through housing fairs and other activities) and they

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worked with the GSEs to establish the pilot programs. They pulled on these experiences in making their critique. Fannie Mae had embarked on a ten-city pilot program with Cincotta's National Training and Information Center, a non-profit based in Chicago and a pioneer in CRA organizing. Freddie Mac had a pilot program in five cities. Advocates found that GSEs were willing to experiment with new programs but not institutionalize them and make changes in the mortgage industry's standards. The GSEs kept these programs small, did not inform lenders of the changes, and withdrew from following through when they could. Experience showed that once community organizations "turned their backs," the GSEs backslid on their promises. In 1978 GSEs inserted anti-discrimination and anti-redlining language in the underwriting guidelines sent to lenders. Advocates moved on to other issues but learned that by 1989 the language had been removed from underwriting documents. Cincotta conveyed to Congress that Freddie Mac "dragged its feet" and its five-city pilot program was reduced to three cities.

Advocates questioned the depth of GSE commitment and the willingness of the Enterprises to follow through without being watched by advocates. They complained to Congress that GSEs did not aggressively inform lenders and brokers of the new programs to the degree needed to change the norms in the industry. They wanted more evidence of a strong and unwavering commitment to embracing anti-discrimination principles and the LMI market as new industry norms.[29] On the need for government action, Cincotta

[29] GSEs could purchase a bank's portfolio loans without Congressional intervention, but they did not. They could purchase unconventional loans. If these loans could not or did not sell to the market, they would remain in the GSE's portfolio rather than the banks. Further, if riskier loans don't perform, GSEs can require banks to buy the mortgages back. Loans sold to GSEs were returned to lenders if they didn't meet the GSEs' criteria or if the borrower defaulted. If too many loans were returned, the bank could ultimately lose their ability to sell to the GSEs

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argued that, "unless they are watched and held publicly accountable, they [the GSEs] will go back to redlining and the plain vanilla mortgage as soon as they can."[30]

Like bankers in the 1970s facing the antiredlining assault, the GSEs responded with denials and minimizations that Democratic Congressmembers found unpersuasive. The Senate's final report noted that,

> The GSEs testified that they do not discriminate, but Freddie Mac's testimony acknowledged that lenders perceive their underwriting guidelines as discouraging lending to certain lower-income people and to certain older, ethnic or minority neighborhoods. This conclusion was the primary result of a study that Freddie Mac had commissioned. The study also concluded that "community lending" need not be riskier lending and that the secondary market needs to better communicate the flexibility intended to exist within underwriting guidelines.[31]

Banks were deafening in their silence. Of the few banks that testified, none directly complained about the inability to sell portfolio loans to GSEs. Banks worked with either Fannie Mae or Freddie Mac via long-term contracts. They did not wish to jeopardize those relationships by publicly complaining. For bankers who did not support community lending, silence proved the best route. If GSEs won, a bank could shrink its CRA programs and blame GSEs. If GSEs lost this debate, the banks did not offend advocates and Congress who were crucial partners in CRA programs. In addition, with liberalized GSE underwriting criteria, more of a bank's portfolio loans could be sold to GSEs.[32] Advocates realized that they were placed in the position of "being rowdy" and bringing complaints to Congress because bankers "feared retribution" from the GSEs who, as a

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[30] U.S., Congress, House, Committee on Banking, Finance, and Urban Affairs, *Government-Sponsored Housing Enterprises Financial Safety and Soundness Act of 1991: Hearings before the Subcommittee on Housing and Community Development*, 102d Cong., 1st Sess., 18-19 July 1991, p.368.

[31] U.S., Congress, Senate, Committee on Banking, Housing and Urban Affairs, *Federal Housing Enterprises Regulatory Reform Act of 1992: S. Rpt. 102-282 on S. 2733*, 102nd Cong., 2nd sess., 1992, S. Rpt. 102-282.

[32] Loans are packaged in bundles of one million dollars and then sold to the GSEs.

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duopoly, offered the only access to the capital markets for conventional loans. But both banks and advocates would benefit if GSEs liberalized their underwriting criteria and purchased unconventional loans that sat in a bank's portfolio.

Others in the GSEs' orbit and the powerful residential real estate industry split over the AHP. For example, the Mortgage Bankers Association and the League of Savings Institutions supported the inclusion of specific housing goals, but the National Association of Home Builders and the National Association of Realtors did not. Although their interests were intertwined with the GSEs, that did not translate to uniform support for every position the GSEs took on the legislation.

Both Congressional committees supported the AHP concept. Throughout the 1980s, the Reagan Administration had severely cut (by 80 percent) the budget of the Department of Housing and Urban Development. The loss of affordable housing greatly contributed to the rise of homelessness in that period. Battle-hardened Democrats sought alternative sources of funding for affordable housing in cities.[33] In the House and Senate, the committee responsible for banking policy also had responsibility for housing and urban affairs. Three events made the social consequences of lending inequities salient. The Los Angeles riots in April 1992 dramatically demonstrated the consequences of abandoning the inner-city. Access to capital and credit was seen as one of the solutions to the pressing needs of Watts. Second, the *Atlanta-Journal Constitution* ran a four-part investigative report on redlining which drew a lot of public attention (and for which it subsequently won a Pulitzer). Another research study also received a lot of media coverage but had deeper implications for the lending industry. Financial institutions had

[33] The Low-Income Housing Tax Credit was one solution. So was the expanded use of Section 8 housing vouchers.

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long disputed racial discrimination as the cause of the observed disparity in loans to racial groups. Economists at the Boston Federal Reserve used their oversight authority to obtain and analyze 3,062 loan applications from banks throughout the Boston metro area (Munnell 1992). They concluded that lenders rejected blacks fifty-six percent more than whites who shared the same qualifications. Further, white applicants received attention and assistance in negotiating the mortgage process while blacks with the same qualifications were simply denied loans.[34] Changes to the GSE charters presented an opportunity to bring new resources into affordable housing without any additional cost to taxpayers by diverting some GSE resources.

However, when the House required advocacy groups to spend the weekend with the GSEs to create compromise language for the Affordable Housing Program, they emerged with a bill that emphasized voluntarism over legislative directives. It later came to light that Fannie Mae's foundation arm contributed fifty thousand dollars to each of the nonprofit advocacy groups involved in the legislation and did so weeks before they entered into final negotiations. Despite this disappointment, their compromise did not become law. The House passed a version of the bill that reflected the compromise the advocates and the GSEs negotiated. The Senate Committee took up the bill one year later. Democratic Senators who supported anti-discriminatory lending and affordable housing inserted stronger language than the House. The House agreed to the changes in conference.

[34] The industry disputed these findings and indeed the data contained some flaws. But in their data cleaning and re-analysis, Carr and Megbolugbe (1993) found that the study's core findings held stronger than ever.

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The Affordable Housing Program

The first issue was whether Congress could legitimately alter the charters of the GSEs to include affordable housing and LMI concerns. As with CRA, the public advantages granted through charters became the principal hook through which to re-define the public need these organizations were already pledged to serve. The prevailing view held that the continued healthy operation of GSEs de facto satisfied affordable housing goals. The GSEs argued that the majority of their services assisted middle-America. First, they could only purchase mortgages valued up to an amount set by regulations (known as the ceiling) which was at that time $191,250.[35] They argued that eighty percent of their mortgages were valued at $100,000 and served those with a household income of $60,000. Advocates argued that the GSEs had evolved to serve primarily the middle- and upper-classes, not low- and moderate-income families earning approximately $40,000. Further, they charged that the "plain vanilla" financing of the conventional mortgage favored newly constructed units often found in suburban developments, which overlooked urban and rural areas.

Congress concluded that the public good borne from the normal operations of GSEs no longer satisfied their public service obligations. GSEs now needed to attend to the groups left out of their largess—low-income populations, racial minorities, rural and urban areas—to continue to meet their public mandate. Because they were granted financial privileges that were key to their profitability and growth (valued anywhere from two to four billion dollars), the government was entitled to have something in return. The

[35] The mortgage ceiling is adjusted annually. For 2005 it is $359,650 for a single-family mortgage loan. The ceiling ensures that the Corporations serve average Americans and that their benefits from the state help them to fulfill their mission of strengthening homeownership. Fannie Mae reports that most of the loans it purchases falls below the ceiling. The average loan size for single-family homes in 2004 was $160,000 (http://www.fanniemae.com/newsreleases/2004 Accessed 11 March 2005).

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affordable housing goals Congress inserted into GSE charters specified additional public duties and obligations GSEs must meet as the price of its favored status in the marketplace.[36]

The second issue was how to design this new commitment. The requirements took two forms. One was numerical targets. The Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (PL 102-550, October 28, 1992) required that 30 percent of all of the housing units GSEs finance serve low- and moderate-income borrowers and underserved neighborhoods. This specifically included mortgages financing low- and moderate-income housing, special affordable housing, and housing in central cities, rural areas, and other underserved areas. The law empowered Department of Housing and Urban Development to raise the target amount as needed. The Senate Committee Report explained its rationale,

> The Committee believes that barriers to affordable housing especially for very low-, low-, and moderate-income families and minority- and female-headed families are a major concern. Similarly, the Committee believes that the disinvestment in central cities and rural communities must be addressed by the federal government and federal government-related entities. ... This doubt stems from a variety of factors, including the contrast between the GSEs increasing financial success and the worsening availability of affordable housing (especially in our cities), the GSEs lack of support for CRA lending, the increasing evidence of discriminatory

[36] The Senate Committee Report concluded, "Given the public benefits conferred upon the enterprises, the vital national affordable housing need and the dominant influence the enterprises exert over the mortgage markets, the Committee concludes that it is appropriate and necessary to require that Fannie Mae and Freddie Mac serve low- and moderate-income families and families in cities and rural areas. Since the entities enjoy a special relationship with the federal government, it is incumbent on the government to ensure that citizens throughout the country enjoy access to the public benefits provided by these federally related entities. ... Because of their leadership position, their programs can significantly improve the ability of such families [low- and moderate-income families] to obtain affordable housing." U.S. Congress. Senate. Committee on Banking, Housing and Urban Affairs, *Federal Housing Enterprises Regulatory Reform Act of 1992: S. Rpt. 102-282 on S. 2733*, 102nd Cong., 2nd sess., 1992, S. Rpt. 102-282.

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> effects in lending policies, and new data about the distribution of the GSEs mortgage purchases.[37]

Second, the Senate not only agreed with advocates, it committed the GSEs to work with advocates. By requiring GSEs to "lead the mortgage finance industry" in the area of LMI products, Congress obligated GSEs to continue cultivating partnerships with community groups and local lenders who knew how to serve LMI communities better than they did. Specifically, Congress directed the GSEs to,

> bring the significant levels of expertise of community based organizations, non-profit and for-profit organizations, and state and local government agencies actively engaged in the promotion, development, or financing of affordable housing to the assistance of enterprises in designing programs to meet the housing goals.[38]

The move from voluntary to required partnerships gave community groups standing in the GSE underwriting process. This was true of the groups that directly participated in the legislative process as well as groups that were not. By placing specific LMI goals in the law, Congress compelled the GSEs to serve LMI areas through community partnerships. It also gave banks leverage. Those with strong community lending portfolios could educate the GSEs on the nature of this lending and how to underwrite for it.

Congress placed the GSEs on a new path by making the goals and methods explicit, however they left the details to the discretion of the GSEs. The GSEs vehemently rejected an early proposal that smacked of a form of obligatory subsidy. Supported by statements from their investment bankers, they testified that investors

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[37] Ibid.

[38] Ibid.

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would respond negatively to this move to "bureaucratize a private organization." They encouraged Congress to pursue solutions that respected the GSEs as competitive market actors and housing finance experts who needed the autonomy to develop products and respond to market forces. Congress relented.

The charter change was a vehicle for market-based redistribution, a means to get more funds to underserved areas (defined as central cities and rural areas) and underserved groups, especially low- and moderate-income borrowers and minorities. One Senator complained that GSE policy continued a pattern where the public permitted the "privatization of profit coupled with the socialization of cost and risk."[39] Corporations kept the profits when things went well but taxpayers absorbed the costs of failure, as they did in the S&L bailout. The affordable housing goals moved in the opposite direction; they privatized the social responsibility and costs of extending credit to lower income groups and neighborhoods. Instead of using safety concerns to ignore neighborhoods and income groups deemed risky, Congress forced the GSEs to take risks and to find ways to do so safely by developing innovative but prudent underwriting. GSEs now had to create a secondary market for affordable housing, meaning homes at the lower end of the mortgage spectrum. In essence, this mandate shifted the costs and burdens of mortgage underwriting from borrowers to lenders by compelling the GSEs to develop mortgage products that better suited the needs of low- and moderate-income borrowers.

This legal change facilitated actions by local organizations. By using policy to pry open historically conservative institutions, they expanded the nodes of access available to many. The same systems and norms in underwriting that worked to disadvantage racial

[39] U.S. Congress, House, *Congressional Record*, 137 Cong Rec., 102nd Cong. 1st sess. Vol 137 no. 134. 25 September 1991. p. H6815.

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minorities also disadvantaged immigrants. Advocates' arguments focused on the structure of decisionmaking. By doing so, immigrant organizations that were not part of the policy analysis or policy change could easily participate in the outcome. This solved some problems but not others.

The New Community Banking: Liberalized Underwriting and Local Partnerships as Public Policy

National policy acts affects who participates in the decisionmaking process. Fannie Mae, in response to its new mandate, launched an effort to find and cultivate local partners. After a two-year planning period, Fannie Mae emerged in 1994 to announce its One Trillion Dollar commitment, an initiative to bring homeownership to ten million families in six years. The key to the strategy rested in newly created Partnership Offices (POs) designed to discover markets in previously ignored areas. Pos would assist Fannie Mae in learning how to transform the way the industry does business by virtue of their knowledge of local needs. The mission of the POs is to "reach their target populations minority families, low-income households, underserved populations, and first-time home buyers–through innovative programs."[40]

Since1994 Fannie Mae has opened POs in over fifty-four locations, many in metropolitan areas with high numbers of immigrant settlement.[41] The POs supplement the work of the six regional offices that served Fannie Mae since its inception in 1938. Through POs, Fannie Mae would become more innovative, flexible, and accommodating by willingly designing new tools that addressed community needs. The shift in Fannie

[40] See www.FannieMae.com/neighborhoods/commitment/partnr.html (accessed December 2000).

[41] These include traditional immigrant cities of New York, Los Angeles, Chicago and Boston as well as newer centers that emerged post-1965 of Houston, Miami, and Atlanta. There is also good coverage of rural areas with offices in Jackson, Mississippi; Charlotte, North Carolina; and Cheyene, Wyoming.

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Mae's operations stems from a policy design that instructed GSEs to cultivate community contacts. POs are "designed to create long-term partnerships with lenders, local governments, public officials, housing organizations, community non-profits."[42] It is within this context, that the Little Haiti Housing Association encountered Fannie Mae and proposed esso recognition.

In creating POs, Fannie Mae began a process of routinizing its contacts with the community and trolling local organizations for innovative ideas. This approach permits politically weak groups (like immigrants) to influence decisions that affect the economic resources in their communities. In Miami a significant economic and political gap exists between Cubans and Haitians.[43] Observers of Miami politics note the race and class hierarchy of a city vacated by whites, dominated by Cubans, and whose longstanding black community seems permanently marginalized from the halls of power. Esso recognition is not the result of Haitians joining the local governing coalition of Miami and leveraging political contacts to achieve favorable policy changes. Instead, changes unfolded within the professional work and norms of the housing finance industry and the organizations that occupy the field.

The Miami Partnership Office and Haitian Essos

Fannie Mae opened a local office in Miami that solicited ideas for bringing more homeownership to nontraditional customers. Cecilia la Villa-Travieso, who was primarily

[42] See www.FannieMae.com/neighborhoods/commitment/partnr.html (accessed December 2000).

[43] One indication rests in the disparate treatment group members fleeing oppressive regimes receive once they arrive in the U.S., often on the shores of Miami's beaches. Undocumented Cubans are granted legal status as refugees and receive government services; undocumented Haitians meet arrest and deportation (Pedraza-Bailey 1985; United States Commission on Civil Rights 2002).

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responsible for lobbying for the esso variance within Fannie Mae, explained how the PO works.

> We always tell...lenders, everybody, 'If there is anything we're not addressing, please let us know.' We're just passing the word and telling everybody, 'Let us know if there is something else that we can do.' So that's the way we're getting most of the needs.[44]

The Miami Partnership Office (MPO, it later expanded and is now the South Florida Partnership Office) learned of LHHA and other local organizations through a variety of local contacts. LHHA is well-known by many in Miami's affordable housing field, including government agencies and politicians who create and administer low-income housing finance programs. LHHA actively works with and lobbies local agencies to create new programs and works with agency staff as it pursues its mission. But this is not exceptional. Many groups in the housing field engage in these tasks, which stand at the heart of their work. The MPO found LHHA and other community organizations through a number of local contacts. Unlike the pre-Partnership Office era, LHHA now had a direct line of communication with Fannie Mae.

Miami's different immigrant communities have to request what they need, then the SFPO will respond. For this strategy to work, lenders and community organizations must know that Fannie Mae is ready, willing and able to listen to their requests and act on them. In a joint interview, David Harder and Jacques Saint Louis, respectively executive and assistant director of LHHA, shared their understanding of the role of the new POs.

> We bring a problem that needs addressing to them, perhaps also suggesting a solution. They will say yes, no, maybe and/or write it up. If they think it is something they can do, they then lobby Atlanta

[44] Interview with Cecilia la Villa-Travieso, Senior Deputy Director, South Florida Partnership Office, Fannie Mae. Miami, Florida. 31 October 2000 (hereafter la Villa-Travieso Interview).

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> [the regional office] and DC [the main office] for the change. They go to bat for it within Fannie Mae. They are wonderful at it. They see their role as helping us.[45]

The PO exercises discretion in choosing which projects to pursue. Its success depends on finding and supporting good projects. The outcome – new housing developments, more homeowners – benefit local politicians who co-sponsor the projects and share the headlines at the press conferences announcing new programs and groundbreakings. However, the details of financing packages and partnerships also have a technical aspect which leaves most of Fannie Mae's work within the realm of its professionals. LHHA embraced the SFPO's invitation to share ideas about how Fannie Mae could help expand lending. LHHA did not have to leverage political contacts in City Hall or Congress to be invited to the negotiating table with Fannie Mae. At the same time, the organization is well-known and has an excellent reputation for the quality of the work it does.

The Sole/Esso Account: Negotiating Incorporation

The creation of *sole/esso accounts* furnishes an example of a negotiation process where the institutional details of immigrant incorporation are worked through. In this venue, the value of the social capital inherent in essos is questioned and assessed on terms different from those its participants employ. The differences in knowledge and power persist,

The resulting "variance" from standard underwriting (*the sole/esso account*) is by no means an unmitigated success. The financial gains were quite meager and it fell far

[45] Harder and Saint Louis Interview.

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short of altering lending in all Miami banks. However, the variance is evidence of a meaningful re-orientation of a financial behemoth that is learning to work with and learn from local partners. POs across the nation are engaged in variations of this process that brings community-based concerns into underwriting descisions.

Like their local banking colleagues, Fannie Mae staffers expressed skepticism when they first learned of essos. They did not understand how anyone off the street could be trusted to make their payment.[46] They wanted to know: How strong is the tie to the group? What compels club members to keep their agreements with each other in the absence of a bank charter, regulations, and contracts? Can oral agreements prevail? They also wondered about the presence of other funds. Paul Buecheley of Fannie Mae's Risk Management Unit in Atlanta, explained the persistent concern. "One of the issues was that you're eligible for a certain amount of money out of the fund regardless of who has contributed to it. I think we had some problems with that."[47]

After nine months and conversations between staff of three Fannie Mae offices (the Miami PO, the Atlanta regional office, and DC headquarters), Fannie Mae introduced a standard for handling essos in Miami. The final decision on whether and how to create a loan product rested with the risk management staff in the Atlanta and DC offices. The MPO served as an internal advocate within Fannie Mae for the creation of the accounts. Working with LHHA, la Villa Travieso repeatedly furnished verbal and written descriptions of essos. [48]

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[46] Harder and Saint Louis Interview.

[47] Interview with Paul Buecheley, Risk Management Unit, Fannie Mae. Atlanta, Georgia. 25 October 2000.

[48] Harder and Saint Louis Interview.

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The MPO's written description of essos stated that the proper analogy for essos is a bank savings account. The steady deposits of esso payments could be lodged in a bank, but instead was entrusted to esso members. It concluded that in light of the fact that no one leaves the club, over time, one is simply getting one's own money back. They recommended that "[t]he borrower's contribution [be] treated as a contribution to a savings account...." The risk analysts disagreed. As Buecheley explained, "*we still wanted that money to be the borrower's own funds* as opposed to a portion of it being theirs and the remainder, say, coming from others who had contributed into the fund in that community."[49] Consequently, the analysts decided to treat essos as loans, not savings, because of the presence of commingled funds. The difference in perspective may reflect distance from the local mileaux.

Fannie Mae created the *sole/esso account* and it reflected this interpretation. Fannie Mae would purchase esso-based mortgages originated under a pilot program, if they met five conditions, termed variances. The variance required the esso's treasurer to furnish a list of all esso participants that specified the amount each person would pay into the system each week and the date when each member would receive their lump-sum payment. This list verified that a borrower was genuinely a member of an esso. Second, it required that the funds the borrower receives from the esso be their own and not those of other participants. This provision disentangled the borrower's money from those of other esso members and ensured that only their portion of the savings applied to the mortgage. A third requirement treated the remaining payments into the esso as debt payments.[50]

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[49] Buecheley Interview, emphasis mine.

[50] Technically, essos are *both* savings and credit mechanisms depending on when one receives payment. To those early in the payment queue it is a loan, to those later in the queue it is more like a savings mechanism. Despite this technicality, its users regard it as a savings mechanism. The treasurer's list

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In effect, esso funds could apply to the mortgage process in only three instances. The potential mortgagee needed to be the last person in the esso to receive funds. Or they could be first but, the esso must be over at the time they seek the mortgage. Or a borrower could use only the portion of the lump sum payment that is equivalent to the funds the borrower saved. All three instances guaranteed that the borrower received her own funds. A final provision limited the use of this variance to those who lacked a bank account or traditional credit history, which targets those most disconnected from the financial system. As Fannie Mae extended its credibility to an unfamiliar lending system, it imposed a series of requirements to mitigate the risks it perceived. The risk management analysts held to a strict interpretation of the nature of the savings. Finally, they limited participation to two banks: Citibank and SunTrust. Doing so minimized loan loss by working with lenders with excellent track records in community lending. Imposing the program on banks with little interest risks a higher failure rate.[51]

The *sole/esso account* acknowledged the existence of essos as a distinct system and did not require any changes in how essos operated—an important victory. It acknowledged the existence of lump-sum payments that were neither mattress nor drug money as the borrower's source of funds. This addressed the most crucial aspect of a bank's concern about money laundering. It also validated that a genuine cultural practice existed. Fannie Mae's stamp communicated to those unfamiliar with the practice that this unique savings arrangement was genuine. It did not reflect how Haitians utilized this

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independently confirmed where the borrower fell in the payment queue and, by extension, how much of the lump-sum payment was the borrower's own funds. For example, if the borrower is the fifth payee among ten and each contributed one hundred dollars, then only five hundred of the one thousand dollar payment could apply to the mortgage process. To return to our example, the remaining five hundred dollars would be regarded as a loan and counted in the debt/income ratio used to evaluate the mortgagee's financial status.

[51] la Villa Travieso Interview.

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savings mechanism. The limits placed on esso recognition reflect the continuing inequities between the partners at the negotiation table. The flexibility GSEs retain allow them to innovate but also allows them to control the pace and nature of change. In the absence of binding, written, legal documents, Fannie Mae risk analysts wanted LHHA to place its organizational weight behind essos. In Los Angeles where immigrant churches and other nonprofits agreed to do so, the underwriting was less stringent.[52] LHHA wanted Fannie Mae to "trust" essos as they actually functioned in the community without an artificial buffer that mitigated an ill-placed sense of risk.

These limits reflected some of the structural problems advocates raised in a 1989 hearing on GSEs and redlining. There was a lack of information sharing. In 1989 Fannie Mae testified that it created a *susu* program in New York, demonstrating its flexibility in responding to the unique needs of the West Indian community. However, knowledge of this program did not permeate the organization and no one involved in creating essos was aware of this precedent. Each PO responds to local needs but there is no systemic sharing of information between the POs. Further, there is a lag between creation of new products and lenders' familiarity with them. One PO staff member noted that bank staff tended to think of FHA loan products first because of Fannie Mae's historic inflexibility. But even before the *sole/esso account*, knowledge of the esso accommodations with Citibank and SunTrust was not common knowledge among loan officers and this remained the case after the *sole/esso account* was created. As la Villa Travieso described the PO's style, "we're not trying to be out there promoting it [any specific program]. This usefully avoids a one-size-fits-all standardization, but leaves the task of synthesizing lessons to others.

[52] Los Angeles PO accommodation mentioned by la Villa Travieso Interview and Bucheley Interview. They learned about it after they created the sole/esso account but noted that it would not have altered what they created because the details in Miami were different.

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The narrowness of this extreme boutique approach risks "buying off" critics. The two local banks could now easily sell their esso mortgages to Fannie Mae. And in operation, only LHHA families would really learn about the *sole/esso account* and only the poorest and most disconnected from the formal financial system would be eligible. LHHA counseled families to join a club early to ensure that the borrower would receive all of their funds before the down payment was due.[53] Advocate critiques of the lack of GSE commitment and the reticence with truly taking projects to scale continue to persist at the local level. The danger is that only immigrants who work with nonprofits will access this underwriting. Though aspirations for more radical underwriting were not fulfilled in this instance, Fannie Mae did learn something about community needs. The real gain occurred in the partnership forged between Fannie Mae and LHHA. Each learned of the other's willingness to work together. Fannie Mae went on to finance a multi-family condominium complex built by LHHA.[54]

National Trends

But GSEs have changed and so has underwriting. Each PO has autonomy. Only a handful of decisions require approval from DC. This leaves the PO more leeway in its decisionmaking. In addition, the Immigrant Initiative office located at headquarters in DC works with all the POs and regional offices. From its position, its staff can develop new

[53] LHHA admits that not many people have used the sole/esso variance but they maintain that it is good that it is there for those who need it. LHHA counsels those who wish to use an esso to offset costs to join a club well in advance of when the equity is due so they can save efficiently (Interview with Jacques Saint Louis, Assistant Director, Little Haiti Housing Association. Miami, Florida. 18 August 2000).

[54] The 1992 charter revision also expanded the GSEs' ability to engage in the financing of multifamily housing (i.e. apartment buildings).

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products that can be offered across the nation.[55] These products are informed by innovations developed by POs. The DC office launched the *Welcome Initiative* in the late 1990s to facilitate mortgage lending to immigrants by creating loan products that better matched how immigrants live their lives. For example, traditionally, frequent job change was a sign of financial instability but this program recognizes that for immigrants it is a sign of dogged determination to be employed. A consistent income, not two years of employment with the same employer, would be sufficient to obtain a mortgage. This accommodation appeared in Miami years before as part of the same pilot program which authorized the *sole/esso account.*

The *Welcome Initiative* also allows legal nonpermanent resident immigrants to qualify for mortgages and allows credit histories from overseas or regular payment of rent, utility and other bills as substitutes for a standard US credit history. These programs target immigrants in general, not just Haitians, but they emerge from a similar process of where Fannie Mae tries to learn how communities work and adjust accordingly while adhering to standards of safety. Standard underwriting has changed as well. Of interest is the national standard for esso-type pooled lending systems.

But formal changes take time and effort to become common knowledge amongst lenders, especially the loan officers on the front lines. Community-based organizations remain a crucial link, especially as partners in developing new products. They educate both lenders and the community members they serve about new underwriting flexibilities. Because they are primary information conduits, it remains unlikely that a random walk into any bank will produce the same result for any immigrant .

[55] Information for this section based on interview with Irma Munoz (Director, Immigrant Initiative, Fannie Mae. Washington, DC. 30 August 2000) and on printed ephemera on file with author.

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Lenders have noticed a genuine shift in Fannie Mae's role. As one Miami banker observed, "The Fannie Mae of ten years ago to the Fannie Mae of today—it's two different companies!"[56] By the end of 1999, Fannie Mae financed the mortgages of 10.6 million families and met its One Trillion Dollar commitment six months ahead of schedule. HUD's Office of Policy Development and Research concluded that "Lower-income and minority families have made major gains in access to the mortgage market in the 1990s. ... [M]ost industry observers believe that one factor behind these gains has been the improved performance of Fannie Mae and Freddie Mac under HUD's affordable lending goals" (Office of Policy Research and Development 2001).

As presently constructed, the *sole/esso account* will not make much difference for most low-income Haitian homeowners, but the shift in Fannie Mae and the industry that caused its creation has made a difference. Between 1991 and 1995, home mortgage loans to African Americans tripled while loans to Hispanics more than doubled (Eggers 2001). The percentage of African Americans and Hispanics who perceive obstacles to homeownership due to race and ethnicity has declined by a third since 1993 (Fannie Mae Foundation 1998). But the percentage who perceive obstacles still remains fairly high: fifty percent of African Americans and thirty percent of Hispanics.

However, the benefits that result from political advocacy are easily explained as rewards for individual, family or cultural traits. A Fannie Mae Foundation study suggests the following marketing strategy:

> Messages about home buying aimed at Hispanics should soft pedal the issues about the 'system' – anti-discrimination actions, steady home prices, declining interest rates – and instead should focus on

[56] Interview with Emilio Fernandez, CitiMortgage. Miami, Florida. 31 October 2000. At the time he was Vice-President in the Credit Policy Department of Citibank.

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> the individual and the family benefits to homebuying (Fannie Mae Foundation 1998).

Systemic changes crucial to opening the opportunity structure for many social groups can, ironically, strengthen individual explanations of mobility that reinforce the hard working immigrant as cultural myth and symbol. Most immigrants, and indeed, many in Fannie Mae do not perceive the political and policy changes that structure their work.

Turning to Fannie Mae staff to explain the change in the Corporation's orientation, staffers mentioned market forces. Immigrants are responsible for population growth in this country and are the future of the housing market. The immigrant market could no longer be ignored. Others mentioned Fannie Mae's dual mission to make a profit and serve the public ("we are a private corporation with a public mission"). Others mentioned that advances in technology which allowed more sophisticated data analysis made the turn to underwriting flexibilities possible.[57]

All were unaware of Congressional intervention, tied to decades of community banking policy, which re-defined the mission of the institution. The misattribution is understandable. Like credit unions and earlier community banking interventions, the policy design from above dictated a "bottom-up" strategy. But the policy design also perpetuates the myth that market forces, corporate genius, or deserving immigrants "naturally" brought the changes about.

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[57] Interview with Jim Park. Community Relations, Freddie Mac. Arlington, Virginia. 6 September 2000.

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Conclusion

The case study allows us to closely examine the convergence of community banking policies and immigrant informal banking. Like the Chicago chapter, this chapter began with an examination of a policy decision. The Miami office of a government sponsored enterprise decided to recognize an informal savings practice used by Haitian immigrants. Even though there are major differences in time, location, race, and ethnicity, a close examination of the details of the decision found surprising similarities to the Chicago case. Namely, political inaction by users of the informal practice, vigorous involvement by an immigrant-serving nonprofit organization, and the existence of public policies designed to democratize access to formal financial institutions. Once again, the case points to a politics centered on institutional changes rather than the civic voluntarism of the users of informal banking.

The effect of these policy changes on immigrant communities is not the result of the influence of immigrant organizations. But these longstanding community-based organizations did not frame the issue in immigrant terms. Those based in urban neighborhoods, however, had already noticed the demographic shifts taking place as more immigrants moved into urban neighborhoods.[58] The effect of this community banking policy on immigrants occurs because the core issue is the same: the mismatch in knowledge and power and the resulting inequality in who receives financial services. The problems some immigrants faced was one variation of a host of exclusions that originally motivated the passage of the CRA. Even though immigrants were mentioned once in the

[58] On immigrant settlement in urban neighborhoods more generally and the debates they generated, see for examples Sanjek 1998 and Waters 1999. For an example of a community development organization aware of demographic changes and active on lending inequity issues, see a case study of New York's Asian Americans for Equality in Listokin et al 2000 and "Chinatown Journey: From Protestors to Developers," *NYT*, 12 January 2003.

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Congressional hearings, the policy tool created is one that immigrant organizations across the country could all use. Community lending advocates brought these underwriting issues to Congress in the late 1980s.

The creation of formal financial institutions that are responsive to immigrant needs is not apolitical nor the result of a simple civic voluntarism. What appears as benign immigrant civil society in the 1990s reflects the institutionalization of prior political battles. Immigrant informal banking practices come into the public spotlight because of the actions of nonprofit actors who critique systemic inequities in knowledge and power. The tools they pursue to change the balance often require government intervention.[59] At the same time, when the tools are applied in specific contexts, they often permit negotiation in the details (postal savings banks are the exception to this). A certain degree of customization can occur. The measure of any tool is the degree to which is permits autonomy and responsiveness to local needs. But such degrees of freedom are a double-edged sword that both permit innovation and access along new lines as well as the perpetuation of existing biases.

In the 1990s, the terms of the debate and the policy tools employed differ from those in the past. National policy changes altered the standing of local actors, creating an opportunity for a local non-profit to more effectively address a seemingly local problem. Because of new policy tools to democratize credit, the Little Haiti Housing Association gained standing as a local partner with Fannie Mae. Recognition from Fannie Mae of this immigrant savings practice legitimated a community-based approach to lending, in other words underwriting from the bottom-up, rather than from investors alone. Through

[59] Currently, there is a lawsuit against Fannie Mae that claims its automated underwriting computer program violates antidiscrimination mandates and does not permit needed flexibilities.

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Fannie Mae, solutions to esso recognition could possibly go to *scale* by changing underwriting in all Miami banks and, possibly, banks in other urban areas.

These changes can occur even in the absence of immigrants voting more or lobbying more. To be sure, voting and lobbying occur, but not necessarily by immigrants. These changes did not require the Haitian community organization examined in this study to participate in the politics of policymaking on the national stage. Florida representatives sat on the banking committees in both the Senate and the House, but no exceptional participation on their part appears in the record. The policy design places tools to address these problems within reach of a wide array of social groups. As a segment of the hidden welfare state, the advances of social welfare banking perpetuate the view that civil society and self-help alone explains the observed outcomes.

In this assessment of government's impact on immigrant incorporation, the institutional dimension of immigrant social capital proves more important than the political mobilization dimension. The chapter highlights the importance of policies designed to address inequities in the financial system to overcome inequities in the financial system. Immigrant informal banking practices come into the public spotlight because of the actions of nonprofit groups. Nonprofit actors at the local and national levels critique the inequities in knowledge and power that limits immigrant access to mainstream financial services. Further, they seek systemic solutions, which usually involves public bodies: legislatures, agencies, and courts.

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Chapter 6

Conclusion:

Top-Down Policymaking and Bottom-Up Banking

Immigrant scholars have been right to acknowledge the considerable effort immigrants exert to make their lives in the US and on the prominence of social networks and group resources in those struggles. These resources have given these groups distinct advantages. Individual efforts allow the pursuit and creation of opportunities. Group networks can consolidate gains in ways that benefit family members and co-ethnics. These processes have undergirded entrepreneurial energy, innovation and economic development. These outcomes can be achieved despite the presence of social hostility and gains can be made by children, if not by first generation immigrants themselves. The variety of groups that have succeeded legitimate the belief in the US as a land of opportunity. This depiction of the immigrant experience captures many truths and affirms the promise, and for many the reality, of the US.

However, these truths are partial. They often sanitize the process by which such benefits were obtained. Even when scholars acknowledge inequality, only differences in determination and effort matter. If we turn our attention to the state, its presence does not replace individual effort but it affects how far and how comfortably that effort will take the traveler. The familiar distinction between the public and private spheres may characterize certain extreme ends of the spectrum but the vast and complicated middle is inappropriately cast as strictly private. It is the public regulation of the private sphere that matters and the network of social ties that are cultivated, legitimated, and, eventually, ossify, around publicly legitimated institutions. The political decisionmaking that drives

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these developments often occur among political elites, which leaves the majority of the population focused on their individual effort. Rather than displace the myths of socio-economic and political bootstraps, which appears impossible to dislodge, this research helps to explicate the political dynamics and policy designs that contribute to its production.

My argument is not that self-help does not exist. Rather all forms of self-help are not on an equal footing. As a result, the politics of service delivery that affect the institutional incorporation of immigrants. Institutional incorporation addresses how immigrants become integrated into the institutions of society. Policy affects how these institutions function. There is a mismatch between immigrant practices and formal institutions that make credit decisions. To be sure, it requires political engagement to bring these two elements into alignment, but not necessarily the engagement of immigrants. The introduction of new social groups automatically entails the renovation of institutions if society is going to tap the best of those groups. Such renovation is not automatic, often painful and rolls through institutions in an uneven and uncertain way. Access to institutions is mediated through social structures which vary in transparency and penetrability.

How do immigrants obtain access to financial institutions that build assets, especially at moments when immigrants are socially, politically and economically vulnerable? Explanations that interpret immigrant mobility as the outcome of traits the group possesses (such as entrepreneurialism, political savvy and whiteness) are wanting. Possessing these traits may explain the creation of individual banks but doesn't sufficiently explain the construction of banking systems that many groups utilize rather

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than being the province of one particular group that excludes others. Why and how would Italians, Greeks and the Irish aggregate their interests to construct new banking laws when ethnic rivalries defined their political associations? Dahl noted that ethnic politics involves divisible goods, not the generation of public goods. Groups seek jobs, licenses and contracts for their particular group.

My project suggests that perhaps the observed outcomes of entrepreneurial immigrants do not simply reflect or reward a pre-existing supply of social capital, financial resources or political savvy. An argument that stresses the primacy of self-help overlooks how the public debate about these institutions and their internal design, entailed conversations about their connection to the social structure of financial service delivery. The history of advocacy in the financial services sector is an important, yet often overlooked, context within which immigrant financial activity occurs. To insist that immigrant self-help and the state exist in separate spheres obfuscates the presence and impact of public authorities on private institutions. The investigation of political controversies that surrounded unregulated immigrant banking practices uncovered the politics of creating new financial organizations.

In this concluding chapter I sketch a theory of the political construction of bootstrap banking organizations that accounts for the political vulnerability of immigrants as well the creation of strong local banking organizations. Based on patterns shared by the case studies as well as examination of related areas of banking, I identify a set of political dynamics that consistently explain how immigrants gain access to banks, even at moments when they are economically and politically weak.

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Social Rights Banking: Politics and Policy Designs

Banking laws are so basic to the operation of the financial sector, there seems little reason to attend to them unless one is an economist or there is a major financial crisis. Like the paper these words appear on, the black ink draws the attention but the white paper on which it rests, barely warrants notice. The white paper of bank regulations slips into liberal market assumptions that presume laissez faire market processes or clashes between bankers to create the observed institutional outcome. However these presumptions overlook inequality in the banking sector. The boundaries seem clear and well established: a bank is a bank is a bank. It accepts our deposits, invests them safely, provides an array of conveniences such as car, personal, business loans and real estate mortgages.

Most customers desire financial institions that value them as cutomers and that meets their needs. However a wide-range of organizations at very different price points and service contexts apparently foot the bill. Customers repeatedly demonstrate that they will pay more and accept less as long as they feel comfortable and services meet their immediate needs and goals. Despite their importance, banking rarely generates mass movements.[1] Although banking transactions are essential, the average customer devotes little time thinking about or gaining knowledge about the laws governing banks and monitoring the actions of their individual bank. Hence, banking is a site for the classic collective action problem. Although customers are interested in the health of their individual account and their bank, few have reason to organize politically to monitor the industry. Bankers are certainly organized but their interests (higher profits) are not

[1] Key moments include the free banking movement of the early 1800s, free silver movement of the agrarian populists in the late 1800s, the bank failures in the Great Depression, and a rash of laws in the civil rights/public interest era of the 1970s.

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necessarily those of their customers (lower fees, easy and cheap loans, and more conveniences).

The language of market dynamism masks the realities of inertia and neglect. Established lenders can serve existing customers better than new markets. They also pursue markets who profitability seems certain. Further a market may be profitable but is not worth the investment of creating new business model and information systems. In savings and credit, information is the lifeblood of the enterprise. Established institutions often lack the tools, staff and strategies needed to obtain valid information needed to profitably tap into newer arenas such as immigrant markets. Because traditional lines of business remain profitably and bankers obtain the capital within neglected markets via their correspondent relationships with smaller businesses and banks, mainstream actors and institutions can comfortably leave working class, minority and immigrant markets to small, second and third tier institutions. The development of new large and significant markets outside of those served by established traditional financial institutions is one of the recurring patterns of this field. But so is the emergence of political movements to fill the gap.

A Hidden Welfare State of Social Rights Banking

Scholars of the welfare state are increasingly expanding their view of what properly constitutes its boundaries. Traditionally, it included transfer payments for family, disability, health and retirement benefits funded by tax dollars and administered by state agencies. However, tax policy and benefits delivered via employers are alternative vehicles for pursuing social policy. Christopher Howard (1997) terms the pursuit of welfare goals via tax deductions, like the Earned Income Tax Credit, the

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"hidden" welfare state. Similarly, in his influential work, *The Divided Welfare State*, Jacob Hacker (2002) argues that the thick realm of government regulated benefits delivered by employers constitute the "private" welfare state that rivals traditional welfare services in size. These formulations are a useful lens through which to perceive the presence of welfare-oriented policies in non-traditional sectors and areas. This study points to developments in the banking sector that fall outside of the traditional approaches to social welfare that presume the presence of a government agency delivering charitable services.

Though the area considered is banking, social welfare sensibilities dictate policymaking. Banking born of public interest advocacy is a distinct segment of the financial services sector that has a long and enduring history, which forms the fundamental context within which to understand immigrant banking. I call banking regulations created to achieve charity and welfare goals *social rights banking* (SRB). Through SRB, the state actively played a role in democratizing access to credit (Hoffman 2001; Metzger 1999; Wadhani 2002). Social rights in banking arises from a social welfare ethos. Working Americans, and the many immigrants amongst them, gained wide-scale access to savings accounts, mortgages and personal loans due to the creation of banking institutions designed to serve the less well-off. Social reformers created mutual savings banks (1850s), savings and loan associations (1830s), and credit unions (1910) to provide low cost alternatives to the high-interest rate loans available from fringe bankers. As a result, three of the four major depository financial institutions (commercial banks are the fourth) originated in a tradition that sought to reduce the economic vulnerability of the working classes through social service-oriented market institutions. Because they served

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presumably unprofitable markets, they functioned as a public service operations with their non-profit status indicating their public (as opposed to market-based) purpose.[2] The arrival of a more robust welfare state in the 1930s did not eliminate this array of institutions. Instead they grew with their respective markets to offer a wider array of financial services (See Box 6.1).

Why does the state approve these laws? Four patterns recurred whenever government authorized social rights banking initiatives. These four elements often converged to create new policies. First is the persistence of public interest advocates. One of the most intriguing aspects of this study is the persistence of the advocates who pursue banking for the poor. They often lobby for over a decade before achieving legislative success. Whether acting from a commitment to philanthropy, democracy, consumer protection, equity, or the idea of co-operativism, these advocates critiqued the financial system and proposed alternatives to expand access. These actors often drive public debates about the nature and extent of services to different social groups. Advocates articulate a public responsibility for broadening access to financial services.

New laws also gain approval because of shifts in the structure of political opportunity, to use McAdam's term, that allow public interest groups to gain policy victories over much stronger political adversaries. SRB laws may be passed because of the absence of strong competition to block the entry of "do-gooder" bankers. For example, large commercial banks acceded to the creation of savings and loans, credit unions and mutual savings banks because they never expected to provide these services

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[2] Savings and loan associations and mutual savings banks lost their non-profit status in the 1950s. In addition, deregulation of the 1970s and 1990s decreased the differences between these organizations, except credit unions that have retained their unique nonprofit status but have professionalized.

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to average people. The profitable and politically savvy fringe bankers (check cashers) sometimes opposed the introduction of new organizations but they were often branded as loan sharks and have historically been unable to resist the introduction of these new initiatives.[3]

A third reason why government endorses social rights banking initiatives is that these efforts stimulate or reward savings and productive debt (like homeownership), especially among the working and middle classes. Certainly by the New Deal, a consensus emerged that homeownership was good for the economy. A final reason for state action is that these approaches are relatively cheap to authorize and administer because private actors, not government employees, bear the costs of service delivery. In these efforts, government rarely delivers financial services directly to the populace. Instead, its interventions often take the form of authorizing new institutional vehicles for delivering financial services or on forms of regulation including tax credits and other policy tools. Authorizing new categories of organizations allows the state to take some action, but without responsibility for the results.[4] It does not guarantee a service will be provided, only that there is a legitimate organization through which the goal can be achieved. It gives advocates the means to prove that financial value exists by giving them the legal right to operate. Nonprofit status reflects these shaky financial prospects and the

[3] Once strong opposition emerges, however, it can be formidable. In the nineteen fifties when commercial banks were facing declining profits, they decided to pursue the consumer market and began to treat the other financial institutions as competitors. Commercial banks lobbied the federal government to rescind the designation of S&Ls on the grounds that they no longer met the terms of their original charters and now constituted unfair competition with banks because of their tax protected status. They succeeded in winning the revocation of the non-profit status of S&Ls but, despite repeated attempts, have failed to do so in the case of credit unions. Mutual savings banks, long frustrated that they could not grow beyond the east coast, voluntarily chose to change their charters so they could escape the constraints of their non-profit designation that restricted how they could invest their funds. See Klebaner 1990.

[4] Postal savings banks are the only exception to this pattern.

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sense of social mission that marked these quixotic visions. If an effective private sector fails to materialize, government did its part in permitting some action to be taken.

The state approves policies that promote the public interest, but the creation of these policies is neither immediate nor automatic. Though economic textbooks give the impression that government automatically intervenes in failed markets, perceiving a market as failed often depends on vigorous debate. Consensus is rare and those who benefit from the status quo can launch opposition to change. A combination of determination and luck inevitably creates policy windows for meaningful changes in the banking landscape. The presumption of liberal market framework naturalizes these inherently political processes and the choices that directly affect whether and how individual efforts will find reasonable financial rewards.

Policy Design & Immigrant Incorporation

At the heart of the state sanctioned banking framework are financial institutions that explicitly re-design the social relations associated with financial transactions. This framework affects who is empowered to make legitimate lending decisions and the knowledge and networks that enter the lending decision as a result. Focusing on policy tools that re-organize and legitimate new private actors more readily places formal organizations and informal social practices in one system, and making their interaction more visible because both systems utilize social ties to deliver financial services. The creation of formal organizations that re-organize social ties in banking as a means to broaden access to services benefits immigrants who utilize practices unfamiliar to banking's mainstream.

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State action can encourage the growth of financial organizations that are more liberal than banks that, in turn, gives immigrants choices and options beyond what their personal resources alone would provide. Instead of rigidly fitting pre-existing industry conventions, members of the immigrant generation can locate bankers that do not regard them simply as high-risk, low-profit customers as traditional banks do or as high profit, low service customers as fringe bankers do.

Government policy makes a difference for immigrant social capital by shaping the degree to which it is likely to be converted to currency accepted by the mainstream. The design of the policy permits organizations to see, respond, accommodate, and employ forms of trust relationships in the delivery of services. Not all organizations do this of course, but the state can play a role in prodding organizations in this direction.

The question of "Which ethnic groups receive services?" is more fruitfully approached if we ask "What types of approaches to service receive legitimacy?" Decisions about which type of individual is worthy of credit occurs *at* the level of institutions because institutions decide to whom to grant loans. The state can, and sometimes has, stimulated the banking industry to serve non-mainstream clients and link them to mainstream financial services, thus expanding the opportunity structure for immigrants. The types of institutions selected matter (Douglas 1986).

Policy Tools & Design

The evolution of the financial services industry is a process that receives regular infusions of state intervention. Through policy tools, the state constructs a *framework for action* where its decisions influences actions that occur within a community because it designates a class of institutions through which individuals may act to realize a goal.

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Policy design refers not to the what or why of policy, but the *how*. It emphasizes the structure of the delivery system used to meet public goals. Salamon and Lund distinguish between direct and indirect policy designs. With direct designs, government uses public employees and tax revenue to provide goods and services like building roads, conducting economic and scientific research, and disbursing welfare benefits like social security and unemployment insurance (Salamon and Lund 1989). In the field of consumer financial services, government rarely provides direct service or use transfer payments. Instead public goals are pursued via indirect designs that rely on policy tools like project grants, loan guarantees, social regulation, government corporations, and entry restrictions.[5]

Charters, licenses and other entry restrictions establish new types of organizations like credit unions. The tradition of creating alternative financial institutions continues today in the recently developed designation for Community Development Financial Institutions available through the Department of Treasury.[6] The Chicago case study ties the emergence of state-chartered immigrant-owned, neighborhood banks to the social welfare advocacy at the turn of the twentieth century. Regulations seek to steer existing financial institutions in new directions. The nineteen seventies brought a wave of new regulations in the community and consumer protection vein such as the Equal Credit Opportunity Act of 1974 (and amendments) which outlawed discrimination based on sex, marital status, race, color, religion, and national origin and the Community Reinvestment

[5] Additional tools include formula grants, direct loans, interest subsidies, contracting out, tax expenditures, vouchers, franchises, price supports, insurance, vouchers, subsidies, prizes, loans with forgiveness, procurement contracts, subsidies, tax incentives, and franchises. The list is from Salamon and Lund 1989.

[6] Less well-known banking organizations, such as postal savings banks, Morris Plan banks and remedial loan associations, also began in order to close gaps in service. Over time, financial institutions that originated with a social rights ethos can migrate and enter the pantheon of mainstream institutions, sometimes losing their nonprofit status (as savings and loan associations did in the 1950s) or changing to a commercial bank charter (as mutual savings banks and Morris Plan banks did in the 1950s).

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Act of 1977 which prodded commercial banks to serve their immediate communities. My Miami case picks up on the regulatory approach that targeted government corporations in the mortgage finance industry.

Box 6.1 Social Rights Banking Initiatives

Patrician Era1830-1880

- Mutual savings banks
- Charter for the Provident Society for Welfare (1817, MA)
- Building and loan associations (1837, PA)

Progressive Era1880 to 1920s

- Remedial loan associations (1887, NY)
- Credit unions (1910, MA)
- Uniform Small Loan law -- Interest rate law targeting finance companies
- Morris Plan Banks (1915, VA)
- Postal savings banks (1910, Federal)
- Free loan societies
- Labor banks

New Deal, Stabilization and Professionalization 1930s to 1950s

- Deposit Insurance (benefits small banks)
- FHA mortgages (extends length of long term loan from 5-10 to 20-25 years
- Federal charters for savings and loan associations and credit unions established

Consumer Rights Era 1960s to 1970s

- Truth in Lending Act
- Equal Credit Opportunity Act

Racial Justice Era 1970s to 1980s

- Home Mortgage Disclosure Act
- Community Reinvestment Act

Community Development Era 1980s to 1990s

- Community Development Credit Unions
- Community Development Financial Institutions
- Microlending

Liberalized Underwriting Era1990s to present

- Government Sponsored Enterprises re-authorization

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Indirect tools rely on the interests, resources and actions of non-state actors. In *Policy Designs for Democracy* (1997), Anne Schneider and Helen Ingram identify four core features of what they term "privatized designs." A privatized design has implications for immigrants and our notions of self-help because of its reliance on others but it also creates the opportunity to forge unique ties to social capital within informal banking. I explore these implications in the subsequent section. The first feature of privatized designs is that they function as an inducement tool where institutions rely on an actor's free will and self-interest for activation. Second, the costs of learning and capacity building shifts away from the state and onto the organization itself, and the industry of which it is a part. With learning occurring in private structures, private actors can change strategies and products without much public comment. This shields judgments and misjudgments from public scrutiny and debate. These designs rely on the local context. These organizations exist in particular locations and serve particular communities which allow "a sense of place and the relevance of different cultures, histories, and experiences" when serving customers. Finally, the design also allocates a sizeable degree of discretion to private actors in pursuing their goals. Discretion matters because the milieu within which the policy will unfold cannot be comprehended at the level of detail that will account for all contingencies. Freedom of action is the privilege of legitimate institutions that can engage in a range of actions (illegal on the negative side and innovative on the positive side) to fulfill their purposes.[7]

[7] Discretion allows organizations to depart from the law. For example, commercial banks are supposed to grant short-term loans (60-90 days) to businesses but the Panic of 1837 revealed deviations from this convention. Short-term credit existed in *principle*, but long-term credit was the *practice*. These loans were routinely renewed for years at a time. But regulation followed the principle. Public banks (state-level central banks) served the credit needs of agrarian and frontier residents because commercial banks were restricted from furnishing such long-term loans (see Klebaner 1990).

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I sought to identify how the state is relevant to some aspects of immigrant economic self-help. However, fairly little is known about how public policy affects the shape, form and function of social capital (Woolcock and Narayan 2000). Do some institutional structures work better with the social milieu of a group than others? Is there a match (or mismatch) between an institution's design and the social capital resources within a community? Did the efforts to organize an institution in the community build social capital in the process or diminish it? In short, does policy enhance or diminish social capital? Although investigating these micro-level questions would further illuminate the role of the state and self-help, doing so is beyond the scope of this dissertation. I have, however, addressed some logically prior issues that centers on the nature of the state's presence. Policy designs deliberately combine public power and the private sector in order to deliver services. Through various policy tools, the state has stimulated the banking industry to serve non-mainstream clients and link them to mainstream financial services. Instead of treating institutions as examples of self-help, they are also state endorsed vehicles that permit an intermixing of public and private resources.

Conversion

I argue that immigrant incorporation into the financial architecture of the banking systems occurs in a context of public interest advocacy to extend financial services to neglected markets, which includes immigrant markets. A primary tool for achieving this outcome is the creation unconventional financial institutions that sit on the margins of the banking industry but possess the legal status that immigrant practices do not. These

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institutions, in turn, willingly work with immigrant customers and actively bridge the gap between formal and informal spheres when needed.

In this study, the state's principal role is as a shaper of the institutional world. Acknowledging the state's authorization of institutions as a political act re-casts self-help to reveal a larger context tied to *how* a social goal is pursued. The democratization of credit and banking originated from a primarily political process, not a strictly "market" one. Perhaps market forces alone could have yielded the same result, but it more often produces pawnshops, check cashers and other high-interest fringe bankers.[8]

The state is removed from the details of making decisions about individual cases but gives those who wish to do this kind of work an institutional vehicle to pursue their goals. This leaves it up to spirited individuals who choose to take on the challenge of creating and managing these institutions in a difficult market to follow through. Individual actors play a decisive role. They, and not the state, shoulder the burden of service delivery. For those who wish to provide services to a population regarded as difficult and unprofitable, there are the legal means to do so. These bankers must meet the state's criteria and make banking institutions work in specific locales and contexts. Instead of seeing such efforts simply as self-help, we can also see how it reflects the design of the policy tool selected to pursue a social welfare goal.

[8] To be sure there are powerful market innovations like installment payments for automobiles and store credit at department stores inaugurated in the 1920s. Small financial organizations that loaned to the working classes mushroomed into the industrial banking industry. But in both instances, advocacy mattered. Progressives helped to alter the social meaning of debt thus removing the stigma it once had and the obligation to pay for big-ticket items in cash at the time of purchase. The state didn't drive the process but it is not by any means irrelevant. Perhaps the market would have arrived on this outcome on its own, but the persistent presence of political activism on this question makes it difficult to pinpoint a counterfactual (Calder 1999).

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Whether through organizations, regulations or both, state prodding can lead to an outcome that results in the simultaneous presence of *financial expertise* and *community knowledge* within a financial institution that has *public legitimacy*, that also has the ability to *affect decisionmaking* about individual customers. The presence of this end-result makes it highly likely that immigrant social capital will be considered in the lending decision.

Immigrant informal financial practices and social rights banking overlap in one crucial area—trust—and attention to the relationships that embody, preserve, enhance and extend it. Consequently, the difference between informal and formal banking systems lies in the *methods* used to determine who is a good credit risk. Where today's regulated commercial banks rely on large databases, econometric models, a web of rules and financial information to create a profile of good loan applicants, social capital-based systems rely on networks of social ties, trust relationships, and community reputation. Social rights banks occupy the middle range in how they gather and deploy information in the financial process.

This shared area of concern allows unconventional approaches to financial services to bridge the divide between culturally-based practices and formal banking systems. A policy design that relies on private organizations to deliver banking services allows formal institutions to assist immigrants by helping to *convert* the social capital possessed by their immigrant customers to mainstream currency. Conversion links state authority, organizational autonomy and individual choice. The state itself does not engage in the conversion but a set of institutions that it deems legitimate and legal can engage in a set of actions that constitute conversion. It is not mandated, only likely given

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the nature of the institutions and the orientation of the people attracted to staff them. The design of a private organization serving a market encourages these instituions to incorporate immigrants. Those who are attracted to establish them in immigrant neighborhoods must work with the local community and have the organization fit the local context.

Conversion is most likely to occur within institutions that measure the financial worth of customers differently than traditional financial institutions. Social rights banks are most likely to have a give and take relationship with immigrant social capital (indicated by the bi-directional arrows in the diagram above). Traditional financial institutions may also take this stance, but this is the exception. The dashed arrows invoke the weaker relationship to local communities because they tend to prefer immigrants who fit pre-existing criteria instead of seeking ways to accommodate them. The state influences these organizations but doesn't directly command them (as suggested by the dashed, bi-directional arrows). Conversion is not the wholesale adoption of informal immigrant banking practices but actively engaging them.

Banker incentives to convert

The demands of institutional survival create incentives to develop financial products and services that will woo customers acclimated to other norms. New institutions interact with the preexisting informal arrangements of a community. In effect, they must engage with the practices, networks and habits to which customers are already familiar. The predisposition of the founders towards serving immigrant communities creates incentives to find ways to build bridges between designer and indigenous social capital systems. Non-traditional banking institutions are amenable to the ways in which

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trust and mutual aid in immigrant communities work. Ultimately, a combination of policies and institutions can permit relevant (even if nontraditional) information about an individual to enter the lending decision. This heightens the likelihood that nontraditional applicants who are good credit risks will be identified and receive loans.

To fulfill their social rights and to be profitable, community bankers must successfully make good loans. Consequently, they have a strong incentive to act as a bridge between informal habits and formal systems. As a result, immigrant communities may be served by organizations that are sympathetic to them, that will hire bilingual staff and make other adjustments to accommodate differences. This design creates an opportunity for local knowledge of immigrant practices and networks to guide decisionmaking. The autonomy and discretion granted to state authorized financial institutions. It creates a sphere where judgments can be made about potential borrowers. It is in this realm of judgment that convertibility occurs. Their design allows them to choose the extent to which they will accommodate immigrant practices and networks and permit immigrant practices and formal methods to interact in a context favorable to immigrants. In this way, social rights banks can use informal assets to create access to mortgages, personal and small business loans.

Immigrant incentives to convert

Just as institutions have incentives to work with immigrant communities, immigrants may be tempted to use formal organizations. A number of factors can pull or push immigrants towards conversion. Immigrants may be "pulled" to these organizations because they offer remittance services, lower prices, flexible lending terms, bilingual staff and other features that make formal organizations more accessible and less distant

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than larger banks and less expensive than fringe bankers. In addition, state endorsed institutions may offer assurance for the safety of one's funds in terms different, yet comparable to, informal ties. They do so first in the form of a license and second through deposit insurance. Changes within social ties, whether real or perceived changes may "push" immigrants to formal organizations. Members of an immigrant's cohort may move away or die thus decreasing the number of trustworthy co-participants knowledgeable in the overt and subtle norms that dictate the effective use of an informal practice. In addition, urbanization's freedom, mobility, and anonymity may weaken the bonds that once made social sanctions effective. The social closure, repeated interactions and sanctions within immigrant communities that are touted as checks on fraudulent behavior can be undermined.[9] As a result, co-ethnics may exploit trust relationships through embezzlement or price gouging. In addition, the use of indigenous social capital banking may decrease among the second and third generations.

The state's success should not be measured by whether it has eliminated the informal sphere. Rather, we should evaluate outcomes by the extent to which they influence the ability of immigrants to convert informal assets to formal ones, in essence, to convert social capital into currency the mainstream will recognize and accept. In addition to the self-help resources within a community, groups can be helped along by organizations in the formal system that assist them in meeting conventional standards. Such a structure expands the opportunity for groups to build on their assets and join the mainstream. Policy making can result in a set of linkage institutions where immigrant

[9] For a discussion of closed social networks as the key to enforceable trust, see Coleman 1988.

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practices come in contact with formally sanctioned processes and a process of mutual translation can occur.

But conversion blends the best and worst of the state/self-help nexus. As much as discretion can bring services to some social groups, it is a means to exclude others. New groups who are included can, in turn, exclude. The clubbiness of credit unions, savings and loan associations and neighborhood banks did just that. Though technically open to anyone, these organizations could function as closed societies. As New Deal banking reforms stabilized the banking industry and encouraged suburban homeownership, it also endorsed the racial exclusions embedded in the mortgage industry. The combination of public power, organizational autonomy and social ties meant informal networks within organizations made it difficult for outsider groups with few resources to enter the industry or stimulate changes in their practices. African Americans have borne the brunt of exclusionary practices and the latest wave of minority immigrants also face some of these burdens. One response was the Community Reinvestment Act of 1977 crafted to encourage banks to find good loans in minority neighborhoods as banks remained after the descendants of immigrants, their original customers, suburbanized.

The legitimacy of financial institutions is not to be taken for granted. Formal organizations fare better in the legal system than informal ones. Social rights banks are firmly rooted in the US legal and regulatory structure yet can engage in relations that tie them to immigrant communities. When they stumble into the public eye, immigrant informal practices are vulnerable to negative sanctions because they lack legal standing. For example, in 1993 the Los Angeles Superior Court ruled that *kyes*, a Korean rotating

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credit association, were illegal lotteries whose operations should cease.[10] To be sure, kyes continued to function impervious to an obscure court ruling that has no enforcement mechanism. But symbolically kyes were invalidated and if defaults or fraud occurred, kye members could not turn to the courts to seek restitution.

This study makes clear that validation of a group's practices is more likely to occur through legitimated structures than legal recognition. A legally authorized organization may engage in unorthodox practices without much public comment. Unrelated to the court case, some commercial banks had accommodated *kyes* by creating special accounts for them. Choices made within institutions are a more viable route to finding acceptance for informal practices than persuasion in a public debate. Legality gives organizations and their affiliates standing in debates and decreases the scrutiny on their subsequent actions. Individual banking decisions benefit from the relative quiescence that is the privilege of legitimacy.

So far I have argued that the public purposes of the state, pursued via private financial institutions, creates new opportunities to give socially marginal groups access to mainstream banking services. The state legitimates new organizational forms that accommodate immigrant-lending practices and networks, expanding access to mainstream financial resources. Ultimately, the combination of policies and institutions can permit relevant (even if nontraditional) information about an individual to enter the lending decision, instead of stereotypes of the group. This heightens the likelihood that nontraditional applicants who are good credit risks will be identified and receive loans.

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[10] Park v. Song, No. BC044756, California Superior Court 1993, minutes of final status conference (on file with author).

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Conclusion

The focus on formal organizations does not stem from a normative argument about their organizational superiority relative to informal practices. Instead it accounts for the more favorable treatment that organizations receive in a liberal market society where immigrants encounter prejudice. Gaining the state's imprimatur placed formal organizations above the array of unregulated, socially-embedded practices. The introduction of a new financial service does not entail an abandonment of relationships but a re-configuration of them. Institutions facilitate the conversion of unregulated social capital to regulated forms. The study of the politics of immigrant banking is fundamentally the story of the construction and re-formulation of formal systems of measuring worth.

Many immigrants access loans through friends, family, churches, fraternal societies, lodges, employers and other non-state means. Innovative organizations, however, expand the range of choices, especially for low and moderate-income immigrants. Based on their knowledge of and comfort with the options available, individual immigrants may choose to keep their informal financial practices, abandon them, or participate in both the formal and informal systems.

How do immigrants obtain access to formal financial institutions, despite the presence of social hostility and prejudice? A focus on the ethnic group or one community would miss the role of these larger institutional developments and how they affect the opportunity structures in immigrant communities. Instead of focusing on the presence or absence of an interest group, I argue that immigrants access to a range of policies is important, not their creation of these policies. The specific banking issues facing

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immigrants intersect with other policy dynamics like efforts to democratize credit, create affordable housing, and professionalize banking. We cannot explain the emergence of charters in terms of the lobbying of one specific immigrant group. Bank charters and policies are universally available i.e. they are not tailored for specific racial, ethnic or national origin category. Anyone can "choose" to obtain a charter. Of course, it is not "universal" because groups with financial resources and the human capital to own and manage financial organizations will do better than those without.

One reason why the language of self-help persists is that advocates themselves employ it. They stress the benefits to individuals on whose behalf policy is enacted. Also notions of deservedness render state assistance legitimate and therefore invisible and even irrelevant. The argument shifts from state absence to just rewards for playing the political or economic game well. Deservedness admits the state's presence but places it in the background, subordinate to the individual effort that truly matters. All in all, it is not the presence of inequality that matters but whether that inequality is just and if it truly reflects the actual worth of persons.

The public purposes of the state pursued via private financial institutions creates new opportunities to give socially marginal groups, including immigrants, access to mainstream banking services. Naturally, immigrant incorporation and upward mobility are not accomplished by financial institutions alone. A robust economy helps and inclusion in active job markets also matters. Financial institutions cannot thrive serving non-workers. In addition, geographical density, financial resources and management skills must exist for immigrants to create and manage these organizations. By

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encouraging the development of institutions with nontraditional designs, however, politics affects the economic mobility of immigrants and other outsider social groups.

The policy challenge is to broaden access without institutionalizing new prejudices. Policies often accomplish the former but not the latter. Regulations may seek to compel financial actors to change their practices. But organizations are not extensions of the state that strictly do its bidding. Though regulations may play less of a role in altering racially exclusionary behavior than hoped, both organizations and regulations can bring services to neglected markets. The lesson of the social rights banking tradition is the persistent creation of new approaches to address exclusions.

The presence of formal organizations does not necessarily entail immigrants abandoning social ties, instead these organizations are an occasion to re-configure old ties or re-value existing practices. As a result, state efforts at regulation can produce results that on the whole expand the range of credit and financial opportunities available. To the extent that we think that access to mainstream financial institutions produces a net good for immigrants and for the economy, then this is an optimistic story, but one that entailed political struggle. Immigrant inclusion is not the inevitable result of the market. Organizations that expand the access and opportunities for immigrants are the result of political debate and make the politics of institutional creation a site of immigrant incorporation into U.S. society. Immigrant financial institutions are often regarded as examples of self-help but they are a site to observe the state role in institutional development. Immigrant banking occurs within efforts to cultivate markets that others abandon.

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Choosing between self-help and the state, bootstraps and beltways, is tantamount to asking which side of a coin gives it its value—heads or tails? The focus on *which* is more important obscures *how* each is relevant. Just because social capital matters, does not mean that the state does not. Neighborhood banks, credit unions, mutual savings banks, when portrayed as examples of immigrant self-help are incompletely understood as such. State and national policy changes created the means to enlarge the opportunities available to low, moderate and middle-income workers, including immigrants. A focus on the institutional dimension of social capital and the politics of constructing new institutions can account for self-help *and* the state, opportunity *and* discrimination, in other words, bootstraps *and* beltways.

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East Garfield Park Community Collection
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Harvard University
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Swedish American Museum Center

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Immigrants' Protective League, Supplement II

Serials

CBFJ	*The Chicago Banker: A Financial Journal*
CBW	*The Chicago Banker: A Weekly Paper Devoted to the Banking and Financial Interests of the Middle West*
CDT	*The Chicago Daily Tribune*
CFLPS	*Chicago Foreign Language Press Survey*, Chicago Historical Society
HHB	*Hull House Bulletin*, University of Illinois at Chicago
HHY	*Hull House Yearbook*, University of Illinois at Chicago
NYT	*The New York Times*

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