The Politics of Immigrant Economic Incorporation: Lessons from Haitian *Essos*

Alethia Jones
Fellow
Miller Center of Public Affairs
University of Virginia
2201 Old Ivy Road
Charlottesville, VA 22903

Office: 434-924-8988
Email: alethia.jones@aya.yale.edu

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I. INTRODUCTION

Immigrants desire homeownership at rates three times above the norm in the US. The majority of new immigrants hail from Asia, Latin America, and the Caribbean, but their desires can be stymied by the racial gap. Only 40 to 45% of African Americans and Hispanics own their homes, while 72% of whites do (Fannie Mae Foundation 1998). The white homeownership market is almost saturated, however, and immigrants account for almost all the population growth in the big states making them financially important to the future of the housing industry (Camarota 2001; Fannie Mae Foundation and ISIM 1998). This case study reports on an effort to bridge the gap between immigrant aspirations for homeownership and their ability to meet the necessary criteria. It analyzes a set of local negotiations to accommodate nontraditional savings systems used by first-time homebuyers who are Haitian immigrants in Miami.

The informal savings system at issue is referred to as ***essos*** or ***sole*** (pronounced …). It is a form of 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] In general, 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. The system works as it did 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.

Immigrant communities possess important reservoirs of civic capacity and political action, of which RoSCAs are but one example. Alumnae and hometown associations, churches and sports clubs are some of the venues where social networks can be cultivated and parlayed into civic activity.[2]

RoSCAs differ from membership organizations that furnish a specific service, such as burial societies, fraternal organizations and social clubs because they rely purely on social relationships and lack a corporate form that links them to the state. They function independent of any form of state regulation. This form of social capital banking, where access to financial resources are mediated through social relationships, relies on "trust, norms and networks" to diminish the risk of default when making loans (Putnam 1993: 167). For political scientist Robert Putnam, the successful operation of RoSCAs indicates that group members can employ trust relationships to facilitate cooperation, solve collective action problems and make civic engagement more effective (Putnam 1993a: 167-168).

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[1] It is 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] Insert cites on transnational politics. Candidates running for public office in the Dominican Republic travel to New York to seek votes and campaign contributions.

On an occasion where RoSCAs are themselves the object of public action, are the civic resources within the network re-deployed to the public sphere to influence the outcome? To explore this possibility, this case study examines whether Fannie Mae's[3] decision to create ***sole/esso accounts*** for Miami's Haitian community is the result of effective civic action by RoSCA participants. Fannie Mae, the mortgage industry giant that earned $6.4 billion in 2003, agreed to purchase mortgages originating from low-income Haitians who had raised the downpayment or closing costs through their participation in essos. The creation of the sole/esso accounts addressed a paradox: esso participation, for all its virtues, is not a recognized social and economic asset in the formal economy. As a result, good credit risks were being overlooked by the mortgage system because some bankers would not extend loans to borrowers who raised the downpayment using essos. The account proved that funds raised through *essos* did not come from drug money or other illicit activity, as many bankers assumed. Investigating how the account came into existence revealed that organizational change played a more direct role than the civic capacities inherent in RoSCAs.

Although voter mobilization and civic participation are important political activities, neither explains the role of politics in creating the sole/esso accounts. Though esso*s* are rich in social capital, esso members did not participate in negotiating the account. The presence of dense and reliable social networks does not always parlay into political action. Instead the creation of the sole/esso account emerges as an example of political change *without* political mobilization. The politics of economic incorporation encountered here is one where negotiation between organizations is more likely than grassroots mobilization. Access to economic opportunity is crafted *for* immigrants in the absence of the grassroots participation *of* immigrants. To be sure, immigrants are present in the lobbying that occurs but their leverage comes from their position as professionals in a pre-existing nonprofit system.

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. Studies of public policies that affect immigrants tend to analyze refugee and citizenship laws as well as immigration policies (i.e. the terms of entry and exit into the US). There is less attention to what Fix and Zimmerman have termed "immigrant policies" understood as "those policies designed to promote the social and economic integration of newcomers" (1994: 251). Such policies, they conclude, are "skeletal and largely inchoate" because immigration for family reunification and work reasons makes immigrants and their sponsors responsible for their own well-being, not the state. One consequence of this division is that

[3] Originally, the Federal National Mortgage Association which was created as part of the New Deal in 1938. Fannie Mae is now its official name. The Board of Directors authorized the use of *Fannie Mae* instead of the abbreviation FNMA and that is its NYSE listing.

fairly little is known about the structure and nature of the financial services regime in immigrant communities, even though access to credit plays an important role in homeownership, education, and small business ownership (Oliver and Shapiro 1995, Conley 1999).

The paper begins with a description of the Little Haiti neighborhood and the work of its community development corporation, the Little Haiti Housing Association (LHHA) as a precursor to understanding why the gap between the two lending systems appeared and its consequences for the homeownership desires of some immigrants. I then describe the local and national influences on the construction of Fannie Mae's sole/esso accounts. The next section furnishes details on the process of determining how the accounts would function. Though the specifics of the account was less than what some in Miami desired, I argue in the final section that the entire incident sheds light on the nuts and bolts of an immigrant incorporation process where different conceptions of what is creditworthy enter a direct dialogue. Examining the details of how sole/esso accounts came into existence highlights an institutional dimension to immigrant incorporation, especially the role of organizations in negotiating the details of immigrant inclusion. But these changes can be disconnected from immigrant political behavior naturalization, voter registration and party identification.

Scope & Method

My discussion of essos does not apply to all Haitian immigrants. Esso use predominates among working class Haitians, with the middle-class only reluctantly admitting to its use. This practice comes into public view because some esso users sought mortgage services that target first-time homebuyers of low- and moderate-incomes who qualify for publicly subsidized mortgage programs.

Case studies are a notoriously difficult basis from which to make generalizations. The details of the Little Haiti case are no exception. Yet there is a larger story to tell based on the particularities of the case—one that illuminates a process that is fairly widespread. It is one where different actors negotiate the institutional details of immigrant incorporation. This account emphasizes the local opportunity structure and places national developments in the background. The data for this paper comes from a series of interviews with local Miami bankers, staff at Fannie Mae offices in Miami, Atlanta and Washington, DC, and with the staff of the Little Haiti Housing Association. Where possible, interviews are supplemented with supporting documents and a variety of industry and government studies conducted by academics hired to evaluate trends in the housing industry.

II. HOMEOWNERSHIP AND LITTLE HAITI HOUSING ASSOCIATION

Most studies of RoSCAs focus on how they function as a part of the informal cash economy that operates in the immigrant private sphere.[4] To employ that interpretation, essos would appear as a

[4] Among economic sociologists RoSCAs are a culturally-based mechanism that

cultural resource that allows Haitian immigrants to keep themselves financially afloat, despite being marginalized by race, language, and income. In this instance, an organization wishes to have essos serve as a springboard to homeownership and upward mobility. Essos, then, can bridge the divide between the formal and informal economies.

That organization, the Little Haiti Housing Association, is a non-profit housing and community development outfit dedicated to the improvement of the Little Haiti neighborhood and its residents. Its mission is to make "…housing affordable for the families that have no other choices" i.e., those who cannot afford to move to another neighborhood (Listokin and Wyly 2000). It provides an array of services, most of which are centered on housing.

The Little Haiti neighborhood is the first area of settlement for many Haitians who arrive in Florida. 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 a housing crisis. Many of the homes in this single-family district are subdivided and overcrowded. LHHA alleviates this situation through the renovation and sale of homes. Its efforts make homeownership available to Little Haiti residents who earn as little as $12,500 in annual income. Its efforts are an attempt to alter the neighborhoods fortunes. Little Haiti is a poor, segregated community with a reputation for crime, violence and drugs which reflects the marginalization borne of immigrant status, race, language and class that low-income Haitians face. The official poverty rate is 45%, unemployment is measured at 48% and the median income is $14,000 (Listokin and Wyly 2000).

LHHA plays a distinct role in the homeownership process. 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. It serves as an intermediary between Haitian immigrants and the complex homeownership industry. Most of its staff is bilingual, Haitian college graduates and it includes two reverends of local Haitian churches. LHHA works to bridge the gap between the conventional credit assessment tools of the lending industry and their clients by making Haitian applicants "mortgage-worthy." To orient potential homeowners to homeownership in the US, LHHA provides counseling and support at all phases of the homebuying process (see box below). The foundation of its efforts lay in its well-regarded seven-week homeownership class, which is offered in Creole. As needed, it reviews credit reports and assists in cleaning up or explaining blemishes on a client's credit record.

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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 help 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). More recent studies have focused on the transnational dimension of RoSCA use (**see…**.)

It advises families to pay by check instead of cash as part of establishing a credit history and a relationship with a bank.

The organization’s community contacts, 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. Consequently, banks rely on LHHA to learn what is occurring with borrowers. A community study of the neighborhood 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 and Wyly 2000: 341). It achieved this reputation through an intensely personal work style. Its staff works with the Haitian families it serves as a peer, partner, advocate, friend, protector, and promoter. Their deep involvement in the lives of families helps everyone to successfully negotiate the complex world of homeownership.

LHHA’s Continuum of Homeownership and Other Services.

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[5]

OTHER HOUSING SERVICES: Rehabilitate homes for rental and sale, Construct new housing for sale

COMMUNITY DEVELOPMENT: Reclamation community garden, Youth art and cultural studies program, Community organizing project, Block association, Computer classes, After-school program

(Source: LHHA flyers and brochures on file with author)

Because it participates in both the immigrant and housing worlds, LHHA plainly saw the problem *essos* presented and asked local bankers and Fannie Mae to address it. Most of this account focuses on LHHA’s actions and Fannie Mae’s response, but I do not wish to imply that their actions displaced that of neighborhood residents. LHHA actively cultivates civic participation amongst its constituency. It encourages homeowning families, and others that it serves, to join homeowners and block associations and to actively participate in the public life of their neighborhood. Though participation in, and the administration of, RoSCAs utilizes skills relevant to political action, on the question of bank recognition of esso*s*, local Haitians did not mobilize. With clients who are only learning the mortgage system and who have family and work obligations, it is perhaps unrealistic to expect

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

that they would also serve as advocates for structural change in the financial system.

Essos in the Mortgage Process

A fuller description of the nature of the social ties within essos would be useful as the very reliability of these relationships was the focus of extended lobbying. For Haitian working class immigrants, 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 bonds where friends and strangers are temporarily bound together for this activity, but disperse upon its completion.[6]

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 fully trust the reliability and organizational skills of the inviter. 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 fully persuaded of, usually family members, friends, church or work colleagues. The treasurer schedules when each person will be paid and 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. With their reputation on the line, as well as their ability to participate in future essos, core group members and their invitees have an incentive to ensure that each person keeps their agreement. 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. 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 2000: 341).

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? Once told of essos, bankers remained incredulous. They wondered if a viable trust-based savings system could actually exist in modern society. One banker recalls the typical response of her colleagues, "Why would you want to go ahead and take your money and put it into a pool and have somebody else look after it?" She notes that to bankers, "…that just didn't make sense to us" (Bernstein interview, 2000). Concerned with the laundering of drug money, Miami bankers asked

[6] Descriptions of essos is based on site visits that occurred in August 1998, October and November 2000 that included interviews and informal conversations with the staff members. See interview list.

questions about the origins of these large cash deposits and required that the funds be deposited in the bank for three months prior to use. But this nullified the very features that made essos an efficient way for the poor to save cash.

Essos possess two features that are important to families who wish to use it for downpayment and closing costs. Most obviously, it is a savings system where one obtains all of one's money before one has made all the payments. A less obvious, but equally important feature, is the payment schedule. Because the payment schedule is created at the beginning, members time their receipt of funds to coincide with a major expenditure. Ordinarily, esso payments are used to purchase major consumer items like furniture, appliances and cars as well as plane tickets and remittance payments. LHHA families, presented with the new opportunity of homeownership, wished to apply their tried and true savings system to the downpayment and closing costs they now faced.

Banks rejected essos, administering a serious blow to those with a limited income and with limited familiarity with the US banking system. Approximately one-third of LHHA families would like to use essos as a way to raise the funds for downpayment or closing. Although government subsidies put the cost of homeownership within reach of some working-class Haitians, the $1,000 to $3,000 needed for the down payment and closing costs remains a major expense for some Little Haiti families.

The problem essos present is rooted in LHHA's awareness of the impact of poverty on the economic chances of immigrants. They observed that low-income families had other pressing financial needs that made holding onto a sizeable sum for three months difficult. Unlike bank savings that can be withdrawn at any time, esso payments are paid and used right away which makes them a superior savings mechanism (Francois interview 2000). From LHHA's vantage point, the waiting period effectively meant that a family might lose their chance of owning a home. In light of the financial challenges of many of its clients, LHHA sought to change underwriting standards in order to have local banks re-consider who and what they regard as creditworthy.[7]

III. THE PATH TO SOLE/ESSO ACCOUNTS

This section describes attempts to persuade banks to accommodate essos prior to Fannie Mae creating its sole/esso account. LHHA pursued two different strategies locally, both of which were informed by its awareness of the ways that race and immigrant status narrowed the opportunities available to low-income immigrants. Where family, friends and LHHA may know that a borrower will reliably repay a loan, a bank's loan officer may overlook a potential Haitian homeowner because they do not conform to the profile of a traditional borrower. Could market institutions perceive the good borrowers that community members saw? Before LHHA presented essos to Fannie Mae, it leveraged its relationship with local bankers to address the gap between

[7] Esso users of higher incomes would be able to keep these funds on deposit without undue hardship.

banking rules and immigrant practices. Despite its effectiveness in this area, their lobbying is not responsible for Fannie Mae's intervention.

LHHA first sought to persuade individual loan officers of the value of essos to potential mortgagees. LHHA realized that despite its efforts, lenders, families and its staff felt frustrated. The lenders remained inflexible. The families did not understand the reasons for the delays (after all, they had come up with the money) and LHHA invested significant amounts of staff time advising families to hold onto the fund and spend the funds elsewhere. This process proved difficult, time-consuming and inefficient. LHHA hoped that lenders would change their ***underwriting*** rules and create ***portfolio*** loans that addressed essos. Underwriting refers to the criteria a borrower must meet in order to receive a loan. It assesses the likelihood of repayment of a mortgage based on the borrower's characteristics and the design of the loan product. Banks, at their discretion, can create portfolio loans which are special loan products designed to meet local needs. Portfolio loans create a standardized approach to an exceptional, yet recurring, circumstance, thus allowing banks to serve a niche. Creating such a loan product should eliminate the need to persuade individual loan officers about essos' availability.

In the past, lenders had developed flexible tools that responded to the mortgage needs of low-income Haitian immigrants.[8] LHHA hoped that Miami banks would create a product for esso*s*. Two banks did so.[9] Citibank would accept esso-based mortgages if the borrower provided two letters—one from the borrower attesting to esso membership as the funding source and a second from the esso's treasurer that listed all the participants and the date the mortgage applicant was schedule to receive payment. It waived the three-month wait for the borrower but arranged to sell the loans to Fannie Mae on the condition that if the borrower defaulted, Citibank would re-purchase these loans (Fernandez interview, November 2000). SunTrust requested a letter from the esso's treasurer as proof of a borrower's participation. But the company wished to sell the loan to Fannie Mae who agreed to purchase it *only* if the esso funds were on deposit in a bank account for three months (Bernstein interview, November 2000).

The creation of the portfolio loans demonstrated that underwriting could lead to the inclusion of essos, but some of these accommodations were suboptimal. SunTrust's waiting period did not address the core concern of the waiting period and Citibank would probably prefer to sell its mortgages to Fannie Mae without stipulations. In both cases, it was important to the lenders that their mortgage product could be sold to Fannie Mae. SunTrust's Anita Bernstein explained because "…if Fannie Mae has a program, everyone else falls in line with that program. …Fannie

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[8] **Add** detail here of other accommodations.

[9] 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.

Mae’s guidelines are our guidelines” (Bernstein interview, November 2000).[10]

The experience with portfolio loans demonstrates the influence of Fannie Mae on local lenders and the desirability of its involvement. Portfolio loans are developed outside standard guidelines and may not qualify for sale to Fannie Mae, but clearly such a sale is preferred and affected the design of the banks’ esso programs. Because of the standardization power of its underwriting, Fannie Mae’s involvement could alter how *all* Miami banks treated essos. This outcome had several implications it would make it possible for LHHA to serve more families by speeding up the loan process. The depth of relationships that LHHA forges with each family to ensure the successful completion of the homeownership process means that it can only assist around forty families a year.[11] But underwriting essos also held implications for Haitians beyond the Little Haiti neighborhood. If any bank could accept this, then moderate-income Haitians throughout Miami would benefit.

Though lenders had a direct line of communication to Fannie Mae, LHHA did not and it was unlikely to either get an audience or be favorably heard. Fannie Mae, like its sister organization Freddie Mac, is a mortgage industry giant that purchases mortgages from its customers – the commercial banks, savings institutions and mortgage companies from whom most homeowners receive their loans. When lenders sell their mortgages to Fannie Mae, they receive an infusion of cash that they use to make more loans, which increases the number of mortgages that can be completed. Fannie Mae is the largest investor in home mortgages, having financed 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. Although Fannie Mae is a private company traded on Wall Street, technically it is a Government Sponsored Enterprise (GSE) with a mandate to strengthen homeownership. It operates pursuant to a federal charter, is regulated by Department of Housing and Urban Development, and is overseen by Congress. Its buying criteria standardizes these loans which attracts investors to a market they would otherwise ignore. Its underwriting guidelines ensures that the mortgages it purchases are safe, desirable, “investment quality” loans suitable for sale via the New York, Chicago and Pacific stock exchanges. This power shapes the mortgage industry’s view of what is “bankable.”

How does a small community institution persuade an industry behemoth to pay attention to an immigrant informal savings system? It doesn’t. Given Fannie Mae’s size ($887 billion in assets) and institutional clients (lenders), it was unlikely that LHHA could persuade it to pay attention to its highly specific

[10] See transcript for full quote and that lenders reference these guidelines even for portfolio loans. (p8: lines 357-365; p9: lines 388).

[11] 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.

local problem. Further, Fannie Mae was structured to serve lenders through its DC headquarters and six regional offices. Any efforts by LHHA would probably have fallen on deaf ears, especially considering that two major lenders made only modest headway. Any efforts by LHHA would probably have fallen on deaf ears. Fortunately, LHHA received an invitation.

The opportunity to create the sole/esso account does not reflect the political coming of age of Miami's Haitian immigrants nor more strenuous lobbying by LHHA. The relevant change occurred in Washington, DC. National policy developments set Fannie Mae on a path that would lead it to elicit LHHA's ideas. It is this re-orientation of the organization that I argue makes sole/esso accounts possible. In this respect, national developments affect the local opportunity structure by altering the audience for LHHA's arguments.

Congress strengthened federal oversight of Government Sponsored Enterprises (GSEs) in 1992 which set the GSEs on a path to address the obstacles to homeownership faced by low- and moderate-income buyers.[12] To fulfill these goals, GSEs needed to transform renters into owners. 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 new strategy was ***Partnership Offices*** (POs) that were designed to discover markets in previously ignored areas. Their role is to assist Fannie Mae in learning how to transform the way the industry does business by virtue of their knowledge of local needs. They were "…designed to create long-term partnerships with lenders, local governments, public officials, housing organizations, community non-profits…."[13] Through them Fannie Mae would become more innovative, flexible, accommodating and design new tools that address community. This shift in the orientation and organization of Fannie Mae was crucial to the creation of this unique account. Since 1994 Fannie Mae has opened POs in over fifty-four locations, many in immigrant receiving locales.[14]

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. Lenders have noticed a genuine shift in Fannie Mae's role. "The Fannie Mae of ten years ago to the Fannie Mae of today—it's two different companies!" Citibank's Emilio Fernandez noted (Fernandez interview, November 2000).

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[12] Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (PL 102-550, October 28, 1992). The goals require the GSEs to facilitate the financing of affordable housing for low- and moderate-income families and underserved neighborhoods, specifically mortgages financing low- and moderate-income housing, special affordable housing, and housing in central cities, rural areas, and other underserved areas.

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

[14] These include traditional immigrant entrepots of New York, Los Angeles, Chicago and Boston as well as newer centers of Houston, **list other** new immigrant receiving cities.

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" (Department of Housing and Urban Development 2001). One outcome of these changes is that 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).

IV. THE SOLE/ESSO ACCOUNT: NEGOTIATING INCORPORATION

The relationship that the South Florida Partnership Office (SFPO) forged with the Little Haiti Housing Association (LHHA) is a fairly good example of the task of POs to create such ties in their respective localities. Sole/esso accounts are one example of an experimental orientation that has devised programs and products that affect immigrants and minorities. 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 responsible for lobbying for the esso variance within Fannie Mae, explained how the PO works.

> …[W]e always tell…lenders, everybody, 'If there is anything we're not addressing, please let us know.' So we're not trying to be out there promoting it [the esso variance or any specific program], 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." (Villa-Travieso interview, October 2000).

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, if appropriate. LHHA received this message very clearly.

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 [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. (Harder and Saint Louis joint interview, August 1998.)

Essos were one such problem. After nine months and conversations between staff of three Fannie Mae offices (Miami, Atlanta, DC), Fannie Mae introduced a standard for handling essos in Miami.

The creation of sole/esso accounts furnishes an example of a negotiation process where the institutional details of immigrant incorporation are worked through. The outcome of this negotiation is very specific to essos, but the process itself is not. It fulfilled on the mission of the POs that "…were particularly successful in providing local partners with financing tools that effectively reach families and individuals who have been the most difficult to reach in the past. … To reach their target populations – minority families, low-income households, underserved populations, and first-time home buyers – they must be innovative."[15]

The different values of the formal and informal savings and credit systems enter a direct dialogue. In this venue, the value of the social capital inherent in RoSCAs is questioned and assessed on terms different from those its participants employ. The resulting variance from standard underwriting (the sole/esso account) is by no means an unmitigated success; the financial gains were quite meager. But POs across the nation are engaged in variations of this process that brings community-based concerns into underwriting practices. The variance is evidence of a meaningful re-orientation of a financial behemoth that is learning to work with and learn from local partners.

The Approval Process

The staff of the SFPO, many of whom were formerly bank employees, were unfamiliar with trust-based savings and lending systems. Cecilia la Villa-Travieso, like her local banking colleagues before here, first learned of the existence of essos from LHHA and was skeptical. She wondered if individuals could maintain financial obligations through verbal promises without binding, written, legal documents or institutional enforcement. She researched the system by interviewing LHHA staff, local lenders and esso participants and concluded that essos were indeed authentic, viable savings tools, analogous to savings clubs and bank savings accounts.

The sole/esso account was created as one portion of Miami's *New Neighbors Experiment*, a flagship pilot program developed to serve Miami. As an experimental program it included ***"groundbreaking variances"*** that departed from industry practices. Variances of this type required approval from the DC office. The decision on esso recognition would lie with those who would employ the data analysis and the final decision on granting a variance would rely on the expertise in risk management staff in the Atlanta and DC offices. As a result, Villa-Travaieso's research was only the beginning. The SFPO relied on LHHA to educate it and the Atlanta and DC offices. Verbal and written descriptions of esso were repeatedly furnished to Fannie Mae.

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

They were submitted to Cecilia who passed them on to the DC office and they would return them with questions.[16]

LHHA deployed its skills to keep the idea of esso recognition alive and viable through this long consulting process. Analysts, distant from the local milieu, retained their disbelief about the viability of essos. Harder and Saint Louis were well aware of there reservations. They recounted that the main office did not understand how anyone off the street could be trusted to make their payment.[17]

How strong is the tie to the group? In the absence of a bank charter, regulations, and contracts, what compels club members to keep their agreements with each other? 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. "…[O]ne 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."

SFPO's written description of essos expressly addressed these worries. It flatly stated that the proper analogy for sole/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 analysts disagreed. As Buecheley went on to explain, "…*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"((PB 10/25/00, author's emphasis). Consequently, the staff decided to treat essos as loans, not savings, because of the presence of commingled funds.[18]

The sole/esso account reflected this interpretation. Under Special Feature Code 294, Fannie Mae would purchase mortgages originated under this Experiment. It allowed esso*s* as "Borrower's Source of Funds" which acknowledged the existence of lump-sums that were neither mattress nor drug money. This addressed the most crucial aspect of a bank's concern. The variance acknowledged the existence of *essos* as a distinct system and did not require any changes in how *essos* operated. However, the variance does <u>not</u> reflect how Haitians utilize this practice.

Fannie Mae would purchase esso-based mortgages if they met five conditions.[19] To verify that a borrower was genuinely a member of an esso, the variance required the esso's treasurer to furnish a list of all esso participants that specified the amount

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[16] FN--(Harder and Saint Louis 08/04/1998 interview notes)

[17] (Harder and Saint Louis 08/04/1998 interview notes).

[18] Technically, essos are *both* savings and credit mechanisms depending on when 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 often regard as a savings mechanism.

[19] TEXT OF VARIANCE HERE.

each person will pay into the system each week and the date when each member would receive their lump-sum payment.[20] 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 a third requirement treated the remaining payments into the esso as debt payments.[21]

Consequently, 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. Alternatively, 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 lack a bank account or traditional credit history, which targets those most disconnected from the financial system.

V. THE SOLE/ESSO ACCOUNT: RATIONALES AND LESSONS

Unlike the pre-Partnership Office era, LHHA now had a direct line of communication with Fannie Mae. It now had standing. But even as it extended its credibility to an unfamiliar lending system, Fannie Mae imposed a series of requirements to mitigate the risks it perceived. The Credit Policy committee held to a strict interpretation of the nature of the savings, one that extracted the individual borrower's funds from the community pool.

<u>A Clash of Interpretations</u>

The variance emerged as a narrowly tailored instrument because it was shaped by a concern that weighed safety against innovation. Fernandez explains that in the banking field, "…credit policy parameters count more [for loan approvals]" than knowing the community, even if the community practices in question are widespread and they work. The negotiation process revealed different conceptions of who is more trustworthy: the individual or the group. Fannie Mae held strongly to the time-tested belief that one simply cannot borrow money for a down payment. The industry has found that people feel a greater sense of obligation to re-pay a debt when they use their own funds instead of funds borrowed from others. Buecheley explained that "…historically, the more money the borrower has of their own funds invested in a property, the more secure the loan is and the more the borrower is going to say…we're really going to make a greater sacrifice to hold onto it." In considering *essos*, Fannie

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[20] (FN HOW CITIBANK IS DIFFERENT).

[21] The treasurer's list 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.

Mae drew on its analysis of the loan performance of a community lending product they considered to be comparable: the ***Fannie 3/2***. That product allowed two percent of the five percent needed for one's down payment to be raised from a relative; federal, state or local government agency; a nonprofit organization; or employer. They found that these loans performed significantly worse than loans where the entire five percent came from the borrower's own funds. As a result, Fannie Mae's approval of sole/esso accounts was "based on the fact that the funds that they were getting back out of the sole/esso account were funds that they had to have contributed.[22]

But why invest time and analysis that yields such a narrow result? Fannie Mae pursued essos because of its dual mission in the public and private spheres. Villa-Travieso explains that although a "…program will not bring that much money to Fannie Mae, [the company will pursue it because] … it is addressing a big need – an issue, an obstacle – and we will vote in favor of developing that program" (CLV p12). Buecheley concurs,

> [Fannie Mae is] both very much profit oriented -- in terms of providing a profit for the shareholders, -- as well as being involved in maximizing housing opportunities, as our charter states 'for affordable housing', and we sometimes have to be balanced. … You look at something in the community, trying to approve some variances, but recognizing what this means financially for the corporation. Ultimately, we do some things [that get to] high risk. …So it's a balancing act."[23]

These restrictions reflect the risk ***perceived*** by Fannie Mae's staff, not the actual risk that rests within essos. No such risk had been evident. By working closely with each client, LHHA had created a sterling record of zero defaults on the loans secured by its families. Its exemplary work was acknowledged by the Fannie Mae Foundation when it received the distinguished Maxwell Award.[24] In addition, neither SunTrust nor Citibank had lost a loan that utilized esso funds. Despite this track record. The variance requirements further sought maximized the success of anyone who used the account by ensuring that only bankers with proven track records in community banking were involved. Only SunTrust and Citibank could participate in the sole/esso account which meant that mortgages originated with this underwriting criteria could now easily be sold to Fannie Mae.

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[22] PB 10/25/00 3: 108-121, circa 103.

[23] (PB 10/25/00 p15). RISK OF LOAN LOSS AND NO PROFIT.

[24] **FN DATE OF AWARD AND FM FNDN TIE TO FM AND NATURE OF MAXWELL AWARD. Also Harder is aware that essos are particular to the immigrant generation. He does not expect Haitian children, the second generation, to continue the practice. In this regard, formal recognition is a one generation phenomena that can be used to help parents gain a steady economic foothold.**

LHHA's Assessment of the Sole/Esso Account

The esso variance was virtually tailor-made to LHHA's clients, but only those who were the poorest and most disconnected from the formal financial system. It changed little about the homeownership process. 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.[25] Yet LHHA claimed a victory. Though the variance fell short of its aspiration to have essos recognized in all Miami banks, the creation of the sole/esso account validated a community-based system of lending. The initial concern was that this amount of cash from low-income borrowers came from the drug trade. The variance established the opposite and contributed to the image of Haitians as hardworking and able to save money; a useful asset when a negative social images have real consequences.[26] The legitimacy it furnished allowed them to point to it as proof that essos deserved broader inclusion.

This underwriting change does not affect the majority of esso use, nor was it designed to. The hope was to alter how *banks* dealt with essos. Fernandez sees an important benefit that remains despite the unattainment of that more far-reaching goal. The mere existence of the variance, he pointed out, conceded the view that one should see these communities as *emerging markets* where lenders assess neighborhoods not by their current income, which for Little Haiti is quite low, but for their future income – the trajectory of increasing mobility, stability and growth. Fernandez explains that variances are "... a very simple way of seeing something that would never work in the United States outside [of] the immigrant community that has worked for many years within that community and how they can achieve their savings in a very unusual way (EF 10/31/00 p5). Despite its stringent requirements, the variance symbolically demonstrates that "…different communities operate in different ways, and you have to adjust to how different communities do business…."(EF 10/31/00 p5). A reality Fannie was now willing to work with.

Relationships Forged

Ultimately the groundbreaking variances broke ground for Fannie Mae most of all. Buecheley notes lenders have to get comfortable with an unconventional system. The creation of the sole/esso account allowed the regional office to safely engage in a form lending that departed from conventional standards. It is an example of the fundamental task of mainstream organizations learning about and adjusting to nontraditional markets. Relationship building is at the center of that task. Negotiating the variance strengthened Fannie Mae's relationship with an important local partner; it built social capital. Even as the Risk Management Unit's analysis trumped local knowledge, the tie

[25] FN: 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 (JSL 8/18/00 interview notes). 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 (Harder & Saint Louis interview notes 08/04/1998).

[26] **(cite Ingram and Schneider)**.

to LHHA is valued, crucial and continually cultivated. In Buechely's view, "[T]he significance [of the esso variance] is not so much in dollars, but in does that have an impact in that community that might foster some other programs to also develop housing. Out of the initial program, they [LHHA] have come back more recently wanting to do a second one, not single-family detached housing, but on a town house development."[27] LHHA completed construction of a townhouse project and closed over forty mortgages.

Buecheley notes that the regional office eventually became comfortable enough to create the sole/esso account of their trust in LHHA. He believes that the "comfort level with the group that's sponsoring the savings system" is an important part of that (PB 10/25/00 p10: 475). Confronted with a financial system that relied on the promises of individual's other than the borrower and lacked a formal organization to enforce agreements, Fannie Mae regarded LHHA as a de facto institutional backer of essos. Buechely points out that it is trust in the nonprofit that "…adds a lot in terms of the security of the loan" (PB p5: 219). They trust the sense of obligation for loan repayment that that the homeownership classes, the homebuyers club and other LHHA programs cultivated in potential mortgagee's (PB transcript 10/25/00 p5).

It is unlikely that individual esso members could have persuaded Fannie Mae to act, no matter how honed their civic skills. The lack of political action, however, is not the absence of civic skills. Rather, the organizational approach of the Partnership Offices privileges the participation of nonprofit service organizations. LHHA's status as a legitimate, credible and highly respected organization meant it played a critical role in doggedly articulating the need for an alternative approach. A grassroots mobilization of immigrant families was not the strategy used by LHHA or immigrants. Though immigrant social capital is important for essos to work effectively, ironically, it was LHHA's social capital that persuaded Fannie Mae.

National Changes

The development of the sole/esso account describes the local dimension of the process of assisting an organization to re-calibrate who and what is deemed creditworthy. In this process of assessing community practices, the industry's own norms and conventions come into view. The variance itself could be regarded as hollow symbolic politics. Though it acquiesces to a community request, the GSE won political points for doing something but it risked nothing by doing so. But this interpretation would overlook the significant shift in the industry.

The mortgage industry is changing such that things that once seemed important are becoming less so. The industry has to constantly re-evaluate who and what it considers important. Jim Park of Freddie Mac's Community Lending Division explains that technological advances in the industry have led to new ways of determining who and what is creditworthy. As a result, he finds

[27] (Buecheley 10/25/00 11: 513-517).

that “It’s less important to know the income, where that money comes from. Those things, based on our experience with the models that we’ve created, are not as predictive as what people traditionally might have thought.” Finding alternative measures and predictors of creditworthiness allows for greater flexibility on traditional measures. Fannie Mae’s CEO, Franklin Raines, observes that, “Data analysis told us that strong credit histories could compensate for modest means” (Fannie Mae, 2000).

One example of that change is Fannie Mae’s *Welcome Initiative*. Developed by the DC office, it is a national program to facilitate lending to immigrants by creating loan products that better match 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, will be sufficient to obtain a mortgage. The 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 willingness to learn how communities work and to adjust to them while adhering to standards of safety. As Freddie Mac’s Jim Park explained: “We [GSEs] are in the business of making sure that mortgage capital, mortgage credit is available wherever and whenever people need it, to as many people as we can get it to” (Park 9/06/00 p5). Creating new underwriting guidelines is central to that process.

VI. CONCLUSION

We could interpret the variance as local action resulting from immigrant civil society – i.e. Little Haiti Housing Association’s (LHHA) successful lobbying. It could also be seen as the market naturally responding to shifts in population growth. Fannie Mae’s vice president, Mercy Jimenez, declares that the phrase should be “‘*emerged markets*’” to recognize that African- Americans, Hispanics and Asians who will account for two-thirds of the 16 million new households forming in the decade ending 2013.[28] Both accounts overlook the relevance of national policymaking that results in local policymaking. LHHA chose to take advantage of a changed mortgage industry to create a unique way to extend homeownership to those often excluded from its benefits. It sought to use a community practice that was unfamiliar to outsiders to build a path to the American dream. Its success, though limited, indicates how state mandates and market innovations converged to create new opportunities for the newest Americans.

[28] Ms. Jimenez, oversees the creation and introduction of new products at Fannie Mae. The article reports her statements presented to the Mortgage Bankers Association's National Secondary Market Conference held in April. Sichelman, Lew. “'Emerging' Markets Are 'Already Here'.” *Origination News*, May, 2003, Vol. 12: 8 (p. 20). NEW YORK.

The case study invites us to re-consider how politics affects incorporation structures. Once immigrant social capital is the object of policymaking, rather than the force that drives policy, new questions emerge like how does politics influence major financial institutions to alter their view of new markets? This paper considered how a sector adjusted to the presence of immigrants. This study suggests that incorporation goes beyond the mere recognition of existing immigrant practices, to a re-consideration of who and what traditional organizations consider to be creditworthy.

If we are interested in understanding the contribution of the political sphere to immigrant incorporation, then a research strategy attuned only to documenting the perceptions and actions of immigrants as the hallmark of politics may miss the politics of institutional changes where major social and financial organizations adjust to new consumers. Politics is relevant here in the tie to mainstream organizations. Immigrants participate in and/or simply benefit larger political movements, such as the affordable housing industry and its advocacy structure. As a result, some of incorporation will occur by immigrants gaining benefits without political mobilization or much awareness of the systemic changes shaping the financial system.

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