FEDERAL RESERVE BANK
of MINNEAPOLIS

# Community Affairs Officer's note - Issue 1, 2003

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## Credit access in the Hmong community

This edition of *Community Dividend*touches on a broad spectrum of topics. The issues and ideas here are diverse, but they are all variations on a theme of promoting fair and impartial access to credit for all, which is the core of our mission in Community Affairs.

Our cover story summarizes the findings of a recent Federal Reserve study that examined credit access in the Twin Cities Hmong community. As authors David Fettig and Arthur J. Rolnick explain, the findings reveal that, overall, Hmong-owned small businesses in the Twin Cities obtained credit from conventional sources to about the same extent as Caucasian-owned businesses in the same neighborhoods. By looking at credit markets from the business borrowers' perspective, the study provides a useful supplement to bank lending data reported under the Community Reinvestment Act. A related feature recaps a Community Affairs event on April 9 that focused on the study findings. And in "A Conversation With . . .," business leader Kou Vang shares his perspective on the Hmong community's economic evolution in the Twin Cities.

A special feature discusses small-scale farming, which is practiced by growing numbers of new immigrants. The article outlines some of the barriers that can prevent new immigrants from obtaining the land and credit they need to start a farm. It profiles three programs that are designed to help farmers overcome those barriers.

Lastly, two additional features focus on consumer protection and education, respectively. The first describes upcoming changes to Regulation C, which implements the Home Mortgage Disclosure Act. The changes, effective in 2004, are designed primarily to assist regulators in the enforcement of fair lending laws and enable greater understanding of the subprime mortgage market. The second announces a new Federal Reserve System initiative to promote financial education. In the Fed's view, informed consumers who can save, invest and manage credit wisely are a key component of a healthy economy.

# Credit availability: A snapshot of the Hmong business community in Minneapolis and St. Paul

A Federal Reserve study examines credit markets from the borrowers' perspective

August 1, 2003

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*This article is a condensed version of an essay that appears in the* [*Federal Reserve Bank of Minneapolis 2002 Annual Report*]. It is based on a paper titled "Credit Availability in the Minneapolis-St. Paul Hmong Community," by Maude Toussaint-Comeau and Robin Newberger of the Federal Reserve Bank of Chicago and Arthur J. Rolnick, Jason Schmidt and Ron Feldman of the Federal Reserve Bank of Minneapolis.

Wing Young Huie

When Congress passed the Community Reinvestment Act (CRA) in 1977, it had a specific outcome in mind: to encourage depository institutions to help meet the credit needs of the local communities in which they operate, including low- and moderate-income neighborhoods. As one of the federal regulators authorized to implement the law, the Federal Reserve has a supervisory process in place to measure whether banks are meeting such credit needs. However, there is a broader goal implicit in the CRA, and that is to broaden our understanding of how credit markets operate. Why? Because the well-being of communities can suffer when households and firms cannot effectively access funding; when credit markets do not work well, standards of living can fall.

The issues surrounding credit markets are many, and they include questions about credit availability within certain subsets of a city or a neighborhood. For example, have lending groups formed within certain low- and moderate-income communities, or within certain minority groups? Are there gaps—real or perceived—between banks and those ethnic communities? These are important questions, and they are difficult to answer in broad terms. Reviewing results from CRA exams offers some insights, but such data are naturally limited. These issues are best examined at a micro level, through a research program designed to ascertain how households and firms fund themselves.

Wing Young Huie

One such research program began in the mid-1990s when the Federal Reserve Bank of Chicago and the University of Chicago joined together to survey the credit markets of two Chicago neighborhoods, one black and the other Hispanic. These surveys revealed the importance of informal credit for businesses (for example, from family members, suppliers and so on), and showed that the degree and type of informal lending varied between the two neighborhoods. To advance this research, the Federal Reserve Bank of Minneapolis joined with the Chicago Fed to survey the credit experience of a growing minority group in Minneapolis-St. Paul: the Hmong, who are refugees from Southeast Asia.

The survey of Minneapolis-St. Paul's Hmong business community addressed the question of how a refugee group with cultural and economic disadvantages would cope in a localized credit market. The Hmong arrived in the United States with little or no understanding of English, let alone of Western business and financial markets. How would they fare in a society—and more specifically, in an economy—that thrives on forms, business plans, acronyms, laws and regulations? Would Hmong entrepreneurs have access to credit from banks?

In the end, the answer is that the Hmong entrepreneurs have done surprisingly well, at least those who have opted to form businesses in Minneapolis-St. Paul. According to the survey, it appears that Hmong business owners use bank financing as much as their neighbors do at startup. Also, it appears that an engaged banking community is important to Hmong entrepreneurial success.

This article addresses four main questions related to the survey results:

- How available is startup financing for Hmong small businesses in Minneapolis-St. Paul?
- What sources of credit are actually used?
- Do Hmong entrepreneurs report substantial barriers in their attempts to obtain credit?
- Are there unique characteristics about the Hmong community or the local banking environment that have affected the access to credit of small business owners?

Wing Young Huie

Before addressing the above questions in greater detail, we will first provide a description of the Hmong in Minneapolis-St. Paul and of how the survey was conducted. At the conclusion of this article, we will consider avenues of further research and analysis.

## The Hmong experience

The Hmong are immigrants from Laos and other Southeast Asian countries who settled in the United States as political refugees after the Vietnam War (for more information on Hmong history, see the sidebar below). The 2000 census puts the total Hmong population in the United States at roughly 169,000. About one-fourth of that total, or 41,800 Hmong people, live in Minnesota. St. Paul, with a Hmong population of 24,389, is home to more than half of all Hmong in the state. Minneapolis has the next largest population, with 9,595 Hmong residents, followed by two northern suburbs of Minneapolis, Brooklyn Center with 1,346 and Brooklyn Park with 1,226. Indeed, the Minneapolis-St. Paul area boasts the largest Hmong community in the world outside Asia.

The Hmong have little tradition in formal business ownership. Their historical economic experience consists primarily of subsistence farming. Once in the United States, many of the Hmong began agriculture-based businesses to capitalize on these traditional skills. As they increasingly congregated in urban areas, they naturally have shifted their business focus.

Wing Young Huie

The largest concentrations of Hmong households and businesses are located in the Payne-Phalen and Thomas-Dale neighborhoods in St. Paul and along the Penn Avenue North corridor in Minneapolis. These neighborhoods are in the core cities and are characterized by well-established commercial strips composed of aging commercial, industrial and mixed-use buildings surrounded by older housing stock. The types of businesses located in these neighborhoods range from small service-oriented businesses, restaurants and retail establishments to large industrial and manufacturing operations.

From this description, at least some of the reasons why the Federal Reserve Bank of Minneapolis chose to study the Hmong may be apparent. Research suggests that immigrant groups, in general, lack capital and sufficient credit history to borrow from banks and financial institutions. 1/

Because the Hmong population's roots are in an underdeveloped area of Asia, they had limited experience with a well-developed capitalist system. This fact, coupled with their relatively recent migration to the United States as political refugees, suggests that the Hmong faced cultural and knowledge challenges in accessing credit from commercial banks and other formal financial institutions.

Second, despite the obstacles, the Hmong community located in Minneapolis-St. Paul has developed a distinct, recognized and viable small business sector. This raises the question of how those businesses were financed and makes it possible to study their access to and usage of formal credit.

Third, the presence of immigrant/refugee small business sectors is an integral and growing aspect of the vitality of urban neighborhoods throughout the United States. Diminished access to formal credit may impede economic activities in these neighborhoods, reduce the optimal size of immigrant-owned businesses and delay or deter entry into self-employment by immigrant entrepreneurs.

## Hmong history in brief

Although nearly all of the Hmong refugees in the U.S. came from Laos, their history can be traced to central China, where their ancestors farmed the plains along the Yellow River.

Around 2700 B.C., local authorities tried to make the Hmong accept Chinese rule. Instead of submitting, they resisted. The Chinese responded with greater pressure and the Hmong resisted more staunchly, beginning a cycle that was repeated for thousands of years. The Hmong were gradually pushed out of their homeland and into mountainous areas of southern and western China. Pressure from Chinese rulers intensified a few centuries ago, and in the early 1800s, half a million Hmong fled south and east into what is now Laos, Thailand and Vietnam.

The Hmong settled in the region's highest elevations, where they lived in relative peace for more than a century. They practiced slash-and-burn, or "swidden," agriculture, periodically relocating their villages as they cleared new patches of forest to use as cropland. They maintained their culture and traditions, which were passed down orally from their ancestors through a rich store of history and legends. As it does to this day, their culture centered on the clan, or extended family group, as the most important unit in society and involved reverence for nature, ancestors and the elderly.

The peace ended in the late 1950s and early 1960s, when communist and noncommunist forces began struggling for control of the region. In Laos, the Pathet Lao movement, backed by Ho Chi Minh's communist Vietminh forces of North Vietnam, attempted to overthrow the Royal Lao government. Fearing that the country would fall to the communists, the U.S. sent CIA agents to Laos, where they recruited and trained an army of Hmong soldiers to fight a secret war against the Pathet Lao. The Hmong, who feared that a communist victory would bring an end to their way of life, fought bravely in support of the U.S. cause throughout the 1960s and early 1970s. Tens of thousands of Hmong soldiers and civilians were killed during the struggle.

In the spring of 1975, not long after Vietnam and Cambodia fell to the communists, Pathet Lao forces entered Hmong-held territory in Laos. Facing brutal reprisals, 150,000 Hmong people—about half the total Hmong population in Laos—fled to Thailand. For many, the journey was horrific; thousands died along the way. Some were shot by pursuing Pathet Lao troops, and others collapsed from exhaustion in the forest or drowned while attempting to cross the Mekong River to safety.

The survivors gathered in huge refugee camps in northern Thailand. Small groups began emigrating from Thailand to other countries soon after their arrival in the camps. The flow of Hmong refugees into the U.S. began with a few families in 1975 and swelled to thousands of individuals by 1980.

The U.S. Immigration and Naturalization Service split the refugees into small groups, regardless of their clan membership, and dispersed them to dozens of cities throughout the country. After their initial settlement in the U.S., many Hmong people relocated to join clan members in other states, congregating in large numbers in California, Minnesota and Wisconsin.

Today, there are approximately 12 million Hmong people in the world, according to the Hmong Cultural Center in St. Paul. Most, about 8 million, live in the mountainous provinces of southern China. Significant but smaller Hmong populations remain in the highlands of Vietnam, Laos and Thailand. In addition to the Hmong community in the U.S., Hmong refugees from Southeast Asia can be found in France, Canada, Australia and several other countries.

*Sources: The Hmong Cultural Center and* The Spirit Catches You and You Fall Down *by Anne Fadiman.*

## Creating a survey and getting a sample

As noted earlier, the survey for this project was based on a questionnaire developed by the University of Chicago and the Federal Reserve Bank of Chicago. This original survey was edited to focus on questions pertaining to small business development and to account for Hmong cultural differences. The Wilder Research Center in St. Paul, a division of the Amherst H. Wilder Foundation, was retained to manage the implementation of the survey, including translation, sample selection and survey interviews. During the translation process, language barriers proved challenging; for example, there are no Hmong words for "access" and "credit," which form the very basis of the survey. For these words and many others, a large number of Hmong words were needed to describe an English term. (For more information on language and cultural differences related to the survey, see the sidebar below). Even in its abbreviated form, the survey took from three to four hours to complete, compared to about two hours for the original Chicago survey.

An extensive effort was undertaken to compile a listing of all known Hmong businesses in the greater Minneapolis-St. Paul area, most of which were located along two primary commercial strips in St. Paul. This process identified 170 Hmong businesses. Of these, 121 (71 percent) completed surveys, 36 refused, and 13 could not complete the survey within the study period (owners were surveyed from November 2000 through April 2001).

Next, we identified a control, or comparison, group of non-Hmong business owners by obtaining a list of businesses whose ZIP codes matched those in the Hmong sample. Of the 220 existing, for-profit enterprises from this list, 131 completed the survey (60 percent), 41 refused and 48 could not complete it within the study period.

Wing Young Huie

Given our interest in studying the relative ability of Hmong small business owners to access credit from formal financial institutions, we further limited the comparison group to 93 owners who identified themselves as "white" or "Caucasian," in the belief that this group would have a highly developed level of access to credit that would serve as a useful benchmark.

## Minding the language and culture gaps

A good translation rarely corresponds word-for-word with the original. However, a fundamental rule of survey research is to make sure that all participants answer identical questions, even when a survey is conducted in more than one language. In designing the Hmong version of the Federal Reserve survey, the Wilder Research Center (Wilder) encountered special challenges that arose from the nature of the Hmong language and the financial topics covered in the survey. The research team took great pains to minimize the inevitable translation and culture gaps.

*Language differences*

First, an introduction to the Hmong language. Hmong is closely related to a number of other Asian languages, sharing characteristics with Lao, Thai and Chinese. Most Hmong words have one syllable, made up of an initial consonant followed by a vowel sound. The vowel sound is voiced in one of eight tones, ranging from "high" to "low falling." In Hmong, a word's tone, placement and context determine its meaning.

There was no widely accepted written form of Hmong until the 1950s, when two missionary linguists in Laos developed the Romanized Practical Alphabet, or RPA. In the RPA, most Hmong words have three components: a consonant or consonant cluster, representing the initial sound of the word; a vowel or vowel cluster, representing a single vowel sound and a final, unvoiced consonant representing the vowel's tone. For example, the words *paj*(flower) and *pam*(blanket) share the initial consonant "p" and the vowel "a" (pronounced "ah"), but the "j" in *paj* indicates a high falling tone for the "ah" sound, while the "m" in *pam*indicates a low falling tone.

Hmong has two mutually intelligible dialects—White and Green—that are analogous to the American and British forms of English. The writing system is based on White Hmong pronunciations, making White Hmong the preferred dialect for written communications—including the Hmong version of the survey instrument used in the Federal Reserve study.

For an initial translation of the Fed survey, Wilder contracted with the University of Minnesota Translation Laboratory. Once the initial translation was completed, Lue Thao, a Wilder survey project coordinator and native Hmong speaker, reviewed and fine-tuned the questions. He conducted read-throughs and mock interviews with the Hmong interviewers who later conducted the survey. An advisory group of Hmong business and community leaders then reviewed the draft for cultural appropriateness.

As our cover story indicates, translating the survey instrument was a challenge. Hmong is the expression of an ancient culture with close ties to nature; it has no words for many of the credit- and business-related English words in the survey. Long strings of Hmong words were required to convey certain concepts. "Bank" became *txais hauv chaw cia nyiaj*, or "house that keeps money," and "mortgage" became *txais cov niaj yuav tsev,*or "to borrow or lend money to buy a house." The Hmong equivalent of "employee benefits" required nine words that translate roughly as "paying for the expense of an employee who gets sick." The survey's key word—"credit"—was translated into a phrase meaning "something you have to pay back."

The survey was conducted by telephone or in person, with interviewers reading the survey instrument aloud and writing down the responses. Hmong respondents had the option of being interviewed in Hmong or English, depending on their comfort level with each language. The interview was then conducted entirely in the chosen language to maintain consistency.

In the Hmong version, some English words appeared in parentheses near their Hmong translations. If the respondent found the Hmong equivalent of an English term confusing, interviewers could explain the term, in Hmong, using the meaning of the original English word as a guide. However, the interviewers were trained to stick closely to the script and avoid excessive explanation in order to keep the interviews consistent.

*Cultural differences*

Wherever possible, translators and reviewers carefully modified the survey to eliminate questions or phrases that might be offensive in traditional Hmong culture. But due to the nature of the study, some questions about business income and financing had to be asked. According to Thao, such questions can make Hmong individuals uncomfortable due to a fear of appearing boastful if the income is large or unsuccessful if the income is small.

"I have a feeling that for some of the dollar amounts, we may not have the exact answers from many of the Hmong respondents," says Thao. But he emphasizes that any discrepancies in these dollar figures would have little effect on the study's main findings, which focus more on credit access and sources than on income figures.

*Information on the Hmong language is from* **Handbook for Teaching Hmong-Speaking Students**, *published by the Southeast Asia Community Resource Center and California's Folsom Cordova Unified School District.*

## Characteristics and caveats

A brief comparison of business and owner characteristics suggests two main findings. First, although the control group was selected solely on the basis of co-location with Hmong businesses, this group appears quite similar to the Hmong owners in several other ways; for example, both groups are in the same types of business (mostly retail and personal services), both depend on neighborhood income for profitability and both groups are comparably educated.

Second, most of the noticeable differences between the Hmong and control group owners would appear to disfavor access to credit for the Hmong. For example, the Hmong business owners were roughly 10 years younger than their control counterparts. To the extent that age is a proxy for credit history and creditworthiness, the substantially younger ages of the Hmong owners could be an indicator of greater potential risk to lenders, resulting in diminished access to credit.

Before we proceed to a review of the survey results, it is important to recognize the limitations of this survey. First, the survey was originally designed to capture the use of informal lending sources and, likewise, may not provide a thorough examination about access to all credit. Following that, it is difficult to get accurate readings on whether credit applicants were discouraged from applying for loans, and discouragement is an important consideration when making assessments about credit access. Also, small sample sizes mean that results can be affected by changes in the way answers are recorded. And finally, the information below that was gleaned from focus groups—which included a relatively small number of participants—is, of course, more qualitative than quantitative.

## Questions and answers: An overview of the survey results

Once again, our primary interest in this research project was to determine whether Hmong small business owners had access to credit that was comparable to that of white business owners. Specifically, were Hmong business owners able to utilize credit from formal financial institutions at the same level as their white counterparts?

We found that the Hmong owners utilized formal bank financing to the same extent as the control group when the business was started, but at slightly lower rates thereafter. With respect to credit access as a self-identified problem, we did not find substantial differences between the Hmong and white owners.

For a closer look at the results, let us now address the four questions introduced at the beginning of this article.

*How available is startup financing for Hmong small businesses in Minneapolis-St. Paul?*

Overall, the Hmong businesses appeared quite similar to the control group in terms of total startup funds, the sources of startup financing and the relative shares provided by each source. One difference between the two groups involved the use of informal funding sources. While both the white and Hmong owners made extensive use of such funds, Hmong owners utilized personal savings at higher rates and levels than their white counterparts.

Hmong owners who acquired preexisting businesses reported marginally lower startup capital amounts than the white owners ($111,618 as opposed to $134,172), but the survey responses indicated virtually no differences in the amount of funds used for initial startups, with both groups using roughly $22,000 for such businesses.

*What sources of credit are actually used?*

Of course, the fact that the Hmong owners used roughly the same amount of funds as white owners to start their businesses does not necessarily imply that the Hmong had the same access to credit from formal financial institutions. To more fully address the question of access to credit, we next explored the various sources of startup capital that were employed, based on the following three broad categories: internal sources, or any funds provided by the owner, including the use of personal credit cards and home equity loans; formal external sources, or loans from formal lenders and government programs; and informal external sources, or loans, gifts and investments from relatives and other personal contacts.

Wing Young Huie

A key finding is the sizable number of owners who were able to obtain external funding from a formal source. Over 30 percent of both groups made use of such financing, with small business loans from banks accounting for most of the responses in each group. One quarter of the Hmong owners reported that they received a loan from a bank (or other formal lender), compared to 30 percent of the control.

Hmong owners differed from the control group with respect to their utilization of personal savings. While the vast majority in each group relied on internal sources to finance their establishments, white owners were not as likely to directly invest their savings into the business. Nearly 90 percent of the Hmong owners reported using personal savings during the period of business formation, compared to less than 70 percent of the control group. The average share of total startup financing provided by internal sources also differed slightly between the two groups, accounting for nearly 60 percent of the typical Hmong owner's startup funds vs. roughly 50 percent for the average white owner.

*Do Hmong entrepreneurs report substantial barriers in their attempts to obtain credit?*

We searched for evidence of unequal access in a series of questions that were designed to allow owners to directly identify credit access as a problem or barrier. If the Hmong owners were systematically receiving less access to credit than their white counterparts, their responses would, most likely, indicate that problem.

However, we found that where a problem was identified, it was not unique to Hmong businesses. In cases when a loan was not sought, both groups reported similar reasons for not seeking it. For example, a loan may have been unnecessary, the owner may have preferred not to use credit or there was a lack of knowledge about the credit process. While both groups reported little existence of bank-related financial barriers at startup, credit access appears to be an obstacle to the subsequent growth of small businesses in general. This was particularly true for the Hmong businesses. However, this reflects the fact that their businesses had fewer years in operation.

In summary, the Hmong business owners were no more likely to report discrimination in the credit market than were their white counterparts.

Lastly, we searched for signs that owners were operating under financial constraints. Business owners were asked how they would utilize a $20,000 windfall. Nearly 75 percent of the Hmong owners stated that they would invest the funds in a new or existing business, compared to only 20 percent of the white control. This is consistent with the relative newness of the Hmong businesses; the white owners, with longer-established businesses, would experience fewer financing constraints.

Financial constraints can also be indicated by the response of owners to bad times. Hmong- and white-owned businesses that were in existence for at least three years and experienced a period of near failure were questioned about the strategies they used to survive the downturn in business. While both groups of owners were most likely to increase their own work hours or reduce input expenses in reaction to bad times, strategies involving credit use differed markedly. Roughly 40 percent to 50 percent of the white owners reported using a credit-related response—either borrowing more, obtaining suppliers' credit, increasing credit card balances or failing to pay debts—while only 6 percent to 11 percent of the Hmong owners cited such strategies.

*Are there unique characteristics about the Hmong community or the local banking environment that have affected the access to credit of small business owners?*

The Hmong entrepreneurs have high educational attainment, show a willingness to invest large sums of money in their businesses and are open to leveraging their personal savings. These traits provide positive signals about the viability of Hmong businesses, which may partially explain the Hmong success in accessing credit. But it is difficult to draw definitive conclusions from these results.

To augment the data collected from the survey and to further explore this question, we conducted interviews with two focus groups, one consisting of representatives of several banks in the area of St. Paul that was surveyed and a second consisting of Hmong community leaders. Focus group participants were also asked to respond to a summary of our preliminary analyses, as a check on the accuracy of the survey and the conclusions we drew from it.

The Hmong focus group generally agreed with the survey's findings that qualified Hmong business owners were likely to have adequate access to bank financing. In response to our question about the local financial environment, both focus groups described similar themes that were necessary to ensure proper access to credit: cultural understanding, willingness to educate and flexibility in lending programs.

Wing Young Huie

**Cultural understanding.** On the first point, the Hmong focus group said that the banking sector needed to be sufficiently knowledgeable about Hmong culture and its emphasis on relationships. For example, a Hmong grocery store owner who happened to be located on a block with similar businesses might appear to be a high-risk borrower, given the level of competition the store faced. Such a concern, however, might be mitigated by the knowledge that each store primarily served a specific subset of the Hmong community's clan structure, thus assuring profitability.

The bankers sounded a similar note: Establishing a personal relationship between the bank and the community was seen as paramount, the bankers maintained, given the high priority that is placed on relationships within Hmong culture. Examples included conducting outreach programs, participating in community organizations and sponsoring neighborhood events and festivals.

**Education.** Secondly, a willingness to educate Hmong borrowers and potential borrowers was viewed as very important by the Hmong focus group. Rather than simply denying requests from potential borrowers because they lacked technical documents (business plans, cash-flow analyses, etc.), loan officers needed to explain what documentation was required and assist the business owners in producing it, or redirect them to an organization that could perform these tasks.


Wing Young Huie

On this point, the bankers spoke with a clear view: An effective way to educate the Hmong about the financial process was to hire Hmong employees. Hiring Hmong personnel was viewed as a critical component of a successful Hmong lending program, both in terms of being able to relate to applicants and helping to educate them on issues such as saving, applying for a loan and documenting business performance.

**Flexibility.** Several Hmong participants also stressed the importance of flexibility and the willingness of banks to deviate from traditional loan analysis procedures where appropriate, such as using alternative sources to vouch for the creditworthiness of a potential borrower. Here again, a crucial factor under such arrangements was the employment of Hmong loan officers and/or loan analysts, since these individuals could advocate for a loan on the basis of the borrower's character.

Flexibility was also a major theme of the banking focus group. For example, the bank might consider measuring the income of the business owner's entire family, as opposed to only using the direct earnings of the owner, for calculating loan-to-income ratios. Lending to Hmong-owned businesses was viewed quite favorably by all of the banking focus group participants. Specific mention was made of the entrepreneurial disposition of the Hmong, their ability to leverage resources from multiple sources and their willingness to repay loans.

Finally, although Hmong representatives felt that banks were successful in meeting the community's credit needs, they indicated that more could be done to improve overall access to credit. While few participants believed that Hmong individuals were subject to systematic discrimination from the banking sector, the general consensus was that many business owners felt that bank loan requests would be rejected because of limited credit histories and the inability to produce required documentation—factors that could be mitigated by more education.

## The need for more research

When exploring issues related to credit markets, some researchers focus on the bank as the unit of analysis; that is, they review bank lending data and draw inferences about whether local communities were adequately served by analyzing such data. With the work in Chicago and, especially, with this latest study in Minneapolis-St. Paul that includes a comparison group, we can begin to view these credit markets from the "inside out" and gain deeper insight into how they operate.

However, any survey is a snapshot of a particular community at a particular time; as such, it cannot provide a clear picture from every possible angle. Our survey of Hmong business owners answers some important questions, but it raises other issues. For example, how do other ethnic groups manage in Minneapolis-St. Paul? How do credit markets operate in other cities? Have the Hmong had a similar experience in other areas where they have settled? Can we transfer successful business practices—from both the lending side and the consumer side—from one city or neighborhood to the next?

Wing Young Huie

Questions persist, but this is only the beginning of our research efforts in this area. In the coming years, the Minneapolis Fed, in partnership with other Federal Reserve banks, plans to extend this research to communities in cities throughout the country and to revisit neighborhoods that have been previously surveyed. Taken together with the earlier work in Chicago, and with the addition of more research in the future, this snapshot will expand into a more complete picture of how credit markets work.

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*For the complete research paper on the Hmong small business survey, including data, visit minneapolisfed.org/research/studies/hmong. From there you may link to other research on this subject, including the previous work by the Federal Reserve Bank of Chicago on Hispanic and black neighborhoods in Chicago.*

*Wing Young Huie is an award-winning photographer who has exhibited locally and nationally. In 2000, the Minneapolis* StarTribune *named him Artist of the Year. His photographs are in the permanent collections of the Walker Art Center, the Minneapolis Institute of Arts, the Minnesota Historical Society and the Museum of Fine Arts, Houston.*

*The images accompanying this article are from a collection of photographs that were taken for the Federal Reserve Bank of Minneapolis 2002 Annual Report. To view a selection of the images that appear in the report, visit the report site and click on "Photo essay."*

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FEDERAL RESERVE BANK OF MINNEAPOLIS

# Fed luncheon focuses on credit access in the Twin Cities Hmong community

Lenders, community development professionals and small business owners gathered in St. Paul to discuss lessons learned from the Federal Reserve's study of credit access in the Twin Cities Hmong community.

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On April 9, more than 60 lenders, community development professionals and small business owners gathered in St. Paul to discuss lessons learned from the Federal Reserve's recent study of credit access in the Twin Cities Hmong community.

The occasion was the first Twin Cities Community/Lender Luncheon of 2003, sponsored by the Federal Reserve Bank of Minneapolis. The quarterly luncheon series was created in 1999 to foster debate about community development issues. Past luncheon topics include affordable housing, demographic changes, commercial corridor revitalization and workforce development.

## Creating a bridge

The theme on April 9 was "Successful Strategies for Reaching Urban Markets: Lessons Learned from the Hmong Business Community," and the program featured a panel of community bankers and Hmong small business owners who shared their perspectives on credit access in urban minority and immigrant communities.

Following opening remarks from Minneapolis Fed Community Affairs Manager Jacqueline Nicholas, Community Affairs Officer Dick Todd provided an overview of "Credit Availability in the Minneapolis-St. Paul Hmong Community," a recent study commissioned by the Federal Reserve Banks of Chicago and Minneapolis. (For more information on the study, see our cover story.) Todd summarized the study's history, methodology and major findings. In conclusion, he commented that the study depicts the Hmong community's overall experience with credit as a success story, but some challenges and unanswered questions remain.

Moderator Rick Bonlender, a Wells Fargo business banking officer, introduced the panelists, who spoke in turn about their impressions of the Fed study and their experiences with credit access in the Hmong small business community.

Heuky Chu-Yang-Hue, assistant vice president of Liberty State Bank in St. Paul, commented that although the study found few major differences between the Hmong business owners and members of the white control group, a number of barriers still prevent Hmong individuals from accessing small business credit. They include language differences, a lack of formal credit histories on the part of potential borrowers and a cultural aversion to debt. According to Chu-Yang-Hue, the best way for banks to overcome these barriers and reach a minority group is to hire a lender from that group.

Xiong Thao, owner of 7th and Hope Laundromat in St. Paul, pointed out the Catch-22 of small business lending: risk-taking is necessary to build business experience and credit histories, but lenders are reluctant to lend to business owners who take risks. Thao commented that risk-taking is the only way to create jobs and opportunities within a community, adding, "You have to do something different from what you did in the past in order to create a new frontier."

Western Bank President Steve Erdall described the strategies his bank has used to attract and retain Hmong customers. Two of Western Bank's six offices are located in St. Paul neighborhoods with large Hmong populations, and several years ago the bank's market share of Hmong customers declined. "We needed to do more," recalled Erdall.

The bank hired more Hmong employees, including a commercial banker, and offered printed materials and ATM screens in English and Hmong. It also modified its consumer-loan policies, allowing many more consumers—inside and outside the Hmong community—to obtain credit. Hmong customers returned to Western Bank, and the local Hmong Chamber of Commerce recently recognized the institution for creating a bridge between the Hmong and white communities.

## Lessons learned

Dan Vang, operations supervisor for Asia Supermarket in Brooklyn Center, Minnesota, echoed Chu-Yang-Hue's concerns about the barriers that Hmong entrepreneurs face. He also noted that Hmong business owners who wish to expand their retail establishments or create manufacturing companies are hampered by a relative lack of experience. "A more experienced businessperson can get a $200,000 line of credit, no problem. For the Hmong community, $20,000 is a challenge," Vang commented. He expressed the belief that many Hmong entrepreneurs are on the verge of tremendous business growth, but need financing and support to make it happen. Lenders can do more to attract Hmong customers, according to Vang, but Hmong people can do their part, too, by establishing relationships with bank managers.

The final panelist, David Reiling, described his experience as president of University Bank in St. Paul. When Reiling and his father purchased the bank in 1995, it was a small, troubled institution serving an economically depressed area. Today, the bank is thriving, much of the area is bustling, and Reiling credits the Hmong community for the growth and revitalization. Some 40 percent of the bank's customers and 30 percent of its employees are Hmong. According to Reiling, University Bank has learned important lessons from its experience with the Hmong community: emphasize respect for individuals, offer flexible products and recognize that, for some borrowers, *access*to credit—not the *price*of credit—is the central issue.

## Taking the chance

In a question-and-answer session that followed the panelists' remarks, a luncheon participant asked about the use of credit scoring in relation to immigrant or minority customers. In response, several of the panelists stressed the importance of flexibility in dealing with customers who have unconventional credit histories. The lenders on the panel indicated that they do not rely solely on credit scores during the loan-approval process, and sometimes use alternative credit histories such as utility-payment records to evaluate potential borrowers.

At the close of the event, panelist Vang commented that the Twin Cities Hmong community has prospered in the last decade, and most likely will prosper even more in the next. According to Vang, the challenge for lenders and the Hmong community is to "take the chance"—to take the necessary risks that can raise the community to the next level of economic success.

*Twin Cities Community/Lender Luncheons are held quarterly in the Minneapolis-St. Paul area. For more information, visit our events calendar at minneapolisfed.org/community/events.*

FEDERAL RESERVE BANK of MINNEAPOLIS

# Linking immigrants to farming opportunities

For immigrants in the Twin Cities area, farming is a source of income, opportunity, and independence.

August 1, 2003


## AUTHOR

Devon Idstrom

Community Affairs Senior Project Manager


The number of farmers' markets nationwide has grown dramatically in the last decade, fueled in part by growing demand for fresh produce. According to the 2002 National Farmers Market Directory, the number of markets increased 79 percent from the 1994 total, to 3,100. 1/

New Immigrant Farm Program (NIFP) participants tend a plot of land at the University of Minnesota Outreach, Research and Education (UMORE) Park in Rosemount, Minn. Nearly all of their produce will be sold at area farmers' markets.

In the Twin Cities, much of the produce sold at these markets is grown by new immigrants who tend plots of land near urban centers. For these immigrants, farming is a source of income, opportunity and independence. However, a number of barriers can prevent new immigrants from accessing land and credit for farming operations. This article outlines some of the benefits and challenges related to farming opportunities for new immigrants. It also examines three programs serving new immigrant farmers in and around the Twin Cities that help these agricultural entrepreneurs obtain the financing and knowledge they need to run a successful farm.

NIFP coordinator Vang Yang, a University of Minnesota Extension community program specialist, gathers fresh produce from the fields.

## Money and more

For many new immigrants who settle in urban areas, community gardens provide their first agricultural opportunity in the U.S. According to Corrie Zoll, program director of GreenSpace Partners, a community gardening program administered through the Green Institute in Minneapolis, there are approximately 100 community gardens in Minneapolis alone. These spaces allow new immigrants to produce culturally specific foods and adjust their growing methods to the soil and climate conditions in the Midwest.

Growers who make the transition from community gardens to small-scale farms can earn significant income from even a small plot of land. Vang Yang, community program specialist with University of Minnesota Extension's New Immigrant Farm Program (NIFP), estimates that vegetable growers can earn approximately $4,500 a year per acre, depending on factors such as weather and soil quality.

The benefits of farming go beyond money, according to Nigatu Tadesse, a former extension educator and assistant professor who coordinated the NIFP. "For new immigrants, farming is engraved in their culture," he says, "and sometimes it is therapeutic." As Tadesse explains, farming is a way of life for many families, a link to culturally important foods that are not available in mainstream grocery stores. Growing one's own food provides the opportunity to be one's own boss, become an entrepreneur and gain greater independence.

## Barriers to farming

Small-scale farming yields important benefits, but it can be a difficult goal for new immigrants to achieve. The most fundamental element of farming—land—is not easy to acquire. Renting land is an option; however, most immigrants prefer ownership, because land for rent is often difficult to find and renters have limited control over land use. Land ownership is particularly important for farmers who wish to grow organic produce, because the certification process for organic foods requires documentation of any chemicals applied to the land during the previous few years. Purchasing and financing land is a major challenge for new immigrant farmers, because locating affordable land for sale can prove daunting. Many farmers' markets, such as St. Paul's, require that all produce be grown near the central cities, but in the Twin Cities area, land near the central cities is becoming increasingly scarce and commands a premium price.

Even if an affordable plot of land is found, new immigrants may be unfamiliar with the real estate buying process or unaware of the preparation, documentation and business planning that must be performed prior to approaching a lender. Many new immigrants have weak credit histories or no credit histories at all, due to limited exposure to the U.S. credit market. Language barriers can inhibit real estate and financing transactions, and insufficient down-payment ability is another issue.

Lenders may also lack sufficient information on new immigrants' farming businesses, which can weaken applicants' chances of obtaining financing. A lack of familiarity with the products grown by immigrant farmers means lenders must spend additional time researching crop types, probable yields and overall market potential.

New immigrant farmers who succeed in purchasing land can face additional challenges such as a lack of experience with new agricultural techniques. For those who successfully grow crops, finding high-volume sales opportunities can be a challenge. Many of the immigrants who sell at large farmers' markets in the Twin Cities have had their stalls for 10 years or more, limiting the number of open slots for new immigrants.

## Programs provide support

Some organizations are recognizing the barriers listed above and offering programs to meet the unique needs of new immigrant farmers. The three programs described below have been effective in providing financing and other support for new immigrant farmers in the Twin Cities area. The first has existed for some time, and the remaining two were created recently.

Sugar snap peas, one of dozens of crops grown at UMORE Park.

#### Farm Service Agency

Charged with providing credit to new farmers and ranchers, the United States Department of Agriculture (USDA) Farm Service Agency (FSA) has been active in Minnesota's new immigrant farmer arena for the past few years. The two loan products available from the FSA include guarantees and direct loans. Guarantees have a combined operating and real estate lending limit of $762,000. Direct loans have a $200,000 limit. They can be used to purchase or improve real estate or to cover operating expenses such as crop inputs; operating debt and purchases of equipment, livestock and farm vehicles.

The FSA works in partnership with conventional lenders, as it is willing to provide guarantees on loans they issue or take a second lien position to a financial institution on real estate loans exceeding $200,000. Because the FSA obtains funding directly from the U.S. Treasury, it is able to offer a rate on its loan products that is slightly below prime. The agency is able to loan up to 100 percent of the securities' market value.

In addition to vegetables and herbs, NIFP participants grow a variety of brilliantly colored flowers.

In 2000, FSA Farm Loan Manager Gregg Bongard successfully issued the first FSA loan to Hmong borrowers. 2/ The loan enabled Der Thao and Nikk Cha to purchase 65 acres in Minnesota's Dakota County, where they grow flowers and Asian vegetables for sale at the St. Paul Farmers Market. In addition to the initial real estate loan, they received subsequent FSA financing for greenhouses, a shed, a well and site improvements. The greenhouses are extremely important, as they lengthen the growing season, opening additional opportunities beyond seasonal farmers' markets.

To expand credit opportunities to other Hmong farmers, Bongard has worked with a number of lenders to increase their knowledge of the types of produce that Hmong farmers typically grow. In one case, Bongard worked closely with a bank to help a borrower obtain a bridge loan that was needed prior to the expiration of a purchase contract. It was the first bridge loan approved for a Hmong farmer in the state of Minnesota. Bongard will soon close direct real estate loans with two other Hmong applicants.

### University of Minnesota Extension

Two programs from University of Minnesota Extension (Extension) provide knowledge and intensive technical support to help ensure that new immigrants have access to sustainable small-scale farming opportunities. The programs also help growers connect with farmers' markets throughout the Twin Cities area, acting as intermediaries between growers and market administrators.

**Farming Incubator Program.** For the past three years, Extension has administered the Farming Incubator Program (FIP), which combines classroom training with hands-on growing experience. Current program participants are immigrants, although Extension Community Program Specialist Yang indicated that the program might be open to nonimmigrants in the future. The primary objectives of the program are: to teach food production jointly with farm management and business planning, give new farmers an opportunity to refine growing techniques and enable new farmers to build equity so they can purchase land when they exit the program.

During the growing season, participants farm one- to three-acre plots. In the winter months, they pursue coursework on a range of topics, including production, processing, business management, record keeping, cash flow, marketing and food safety. Participants pay a minimal amount of tuition, to offset plowing and water costs incurred by the University of Minnesota, and can stay in the program for up to three years. In 2003, the FIP has 39 Hmong, East African and European participants who will farm a total of 100 acres at the University of Minnesota Outreach, Research and Education (U-MORE) Park in Rosemount, Minnesota.

An NIFP participant uses a small tilling machine to cultivate a crop row.

**New Immigrant Farm Program.** In 1998, Extension launched a program specifically tailored to meet the needs of immigrants who currently rent or lease land across the Twin Cities metro area. The New Immigrant Farm Program (NIFP) provides training and assistance to help these growers increase their productivity.

The program offers culturally appropriate materials in English, Hmong and Spanish on the following topics: integrated pest management, post-harvest handling, marketing and soil fertility management. NIFP workshops feature agricultural experts from the University of Minnesota faculty, USDA's Farm Service and Risk Management Agencies and the Minnesota Department of Agriculture. About 85 percent of the program's current participants are Hmong, and the remaining participants are from East Africa, Europe and Central America.

In addition to offering an educational component, the NIFP helps new immigrants navigate the real estate buying process and will act as an intermediary between land sellers and real estate agents and buyers.

Graduates of the NIFP have successfully gained membership in the St. Paul Farmers Market. The program also established a linkage with the Emergency Food Shelf Network, which will buy directly from growers at U-MORE Park and deliver the produce directly to low-income families. (For more information on the FIP or NIFP, call (651) 423-2413.)

## A developing market

New immigrant farmers will continue to face challenges. Barriers to land purchase, financing and marketing persist, and farmers who succeed in overcoming them must meet the additional challenge of opening new markets and increasing the scale of their operations and distribution.

Through financing offered by the FSA and assistance offered by innovative programs like the FIP and NIFP, more and more new immigrant farmers in the Twin Cities area are succeeding. As a result, lenders are becoming increasingly interested in this segment of the market. Some are beginning to develop networks and expertise in the new immigrant agricultural sector. With a growing immigrant population in the Twin Cities, the development of new programs to encourage and support immigrant farming, and increasing attention from lenders, it should be an interesting market to watch.

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1/ http://www.ams.usda.gov/farmersmarkets/facts.htm

2/ Schmitz, Rob. Funds to Immigrant Farmers are Cut. Minnesota Public Radio News. Online. August 14, 2002.

# HMDA changes are on the way; new rules take effect in 2004

2004 revisions to the Home Mortgage Disclosure Act will increase the amount and types of public information about residential real estate lending.

August 1, 2003

Significant changes to Regulation C, which implements the Home Mortgage Disclosure Act (HMDA), take effect in January 2004. These changes, designed primarily to enhance understanding of mortgage markets and assist in fair lending enforcement, will increase the amount and types of public information about residential real estate lending.

HMDA, enacted in 1975, requires certain depository institutions and certain nondepository institutions 1/ to report information annually about applications for and originations of home-purchase and home-improvement loans, including the refinancings of both types of loans. Most significantly, HMDA reporters must provide borrower information, such as income, gender, and race or national origin; and loan information, such as property location and loan amount.

HMDA serves several purposes. First, it provides the public with information on whether institutions are serving a community's housing credit needs. Second, it helps public officials target private investments to areas most in need. Third, it aids in the enforcement of antidiscrimination laws and helps identify discriminatory lending patterns.

## Criteria for coverage

Financial institutions meeting certain criteria are required to report HMDA data. The most significant criterion is that the institution must have a home or branch office in a metropolitan statistical area (MSA). 2/ As part of the changes taking effect in 2004, nondepository institutions will be subject to new requirements for determining if they are covered by HMDA.

Currently, such an institution must report HMDA data if it has an office in an MSA and its home-purchase loan originations equal or exceed 10 percent of its dollar volume of originated loans in the previous year. Under the 2004 changes, a mortgage-lending institution will now also be subject to HMDA data reporting if its originated home-purchase loans, including refinances, equaled at least $25 million in the preceding calendar year.

The Board of Governors of the Federal Reserve System (Board) implemented this change because some nondepository institutions, despite originating significant levels of mortgage loans, did not fall within the 10 percent HMDA coverage threshold. The Board believes that more complete mortgage-related information will be made available by adding the $25 million volume threshold.

## New data items

Starting in 2004, HMDA reporters will need to collect additional data items related to HMDA-reportable applications and loans. These additional items are:

*Annual percentage rate.* In one of the more significant changes to Regulation C, reporters will need to provide annual percentage rate, or APR, information on certain originated real estate loans. Regulation Z, which implements the Truth in Lending Act, requires lenders to provide an APR disclosure for consumer-purpose loans, including residential real estate loans. The APR describes the loan's cost as an annual rate.

Under the new rules, a lender will need to report the spread between a loan's APR and the yield on Treasury securities with a comparable maturity if this spread equals or exceeds 3 percentage points for first-lien loans or 5 percentage points for subordinate-lien loans. This reporting requirement applies to home-purchase, refinance, and dwelling-secured home-improvement loans subject to Regulation Z. Regulation C and its appendices provide detailed guidance on how a lender should determine and report this rate-spread information.

In making this change, the Board believed it was important to collect some type of loan-pricing-related information through HMDA. Such information will be valuable in evaluating fair lending concerns related to loan pricing. The information will also enable better analysis of mortgage markets—particularly the subprime mortgage market, in which loan pricing practices vary significantly.

*Lien status.* HMDA reporters will need to identify whether a loan is secured by a first or second lien or not secured by a lien. Given that loan rates often vary based on lien status, the reporting of that status should aid in the analysis of loans for which APR information is reported.

*HOEPA status.* The Home Ownership Equity Protection Act (HOEPA), adopted in 1994, covers certain high-cost mortgages whose APRs or total costs and fees exceed certain thresholds. HOEPA requires lenders to make disclosures that are designed to provide the borrower with complete information on the loan's costs and terms. HOEPA also prohibits lenders from applying certain terms to or engaging in certain practices related to these types of loans.

The new rules require HMDA reporters to indicate whether a loan is subject to HOEPA. This requirement will enhance regulators' understanding of the subprime mortgage market, given that many loans subject to HOEPA are considered subprime mortgages.

*Manufactured home status.* HMDA reporters will need to report whether an application or loan involves manufactured housing, as determined by a U.S. Department of Housing and Urban Development regulation that establishes construction and safety standards for manufactured homes.

The availability of manufactured housing information will improve the value of HMDA data, given that most institutions underwrite such loans differently from other types of housing loans. Loans for manufactured housing also tend to have higher denial rates, thus making the information valuable for evaluating an institution's fair lending performance.

*Preapproval request information.*In some real estate loan transactions, a lender may preapprove or commit to making a mortgage loan to a customer once the customer identifies an acceptable property. Under current HMDA rules, if a preapproval request results in an origination, the origination—not the preapproval—is reported under HMDA.

Under the new rules, lenders will need to report denied preapproval requests if the preapproval is reviewed under a program meeting certain criteria. Lenders will also need to identify whether a loan or application involved a preapproval request for a home-purchase loan. In order for a request to be considered a preapproval under HMDA, the lender must complete the following steps:

- conduct a comprehensive analysis of the applicant's creditworthiness;
- issue a written commitment for a home-purchase loan;
- make the commitment valid for a designated period of time; and
- agree to make a home-purchase loan under the commitment, up to a specified amount.

To be considered a preapproval, the written commitment may include limited conditions discussed in the regulation. The lender has the option of reporting preapproval requests that are approved but not accepted by the applicant.

The Board's changes to the reporting of preapproval requests stem from its belief that requests reviewed under a highly structured program—such as the one described above—would be considered applications under Regulation C and, thus, should be reported.

## Borrower information

Finally, the categories under which HMDA reporters collect information on borrowers will change in 2004. Currently, Regulation C requires that lenders collect and report information on an applicant's race or national origin. Such information aids regulators and others in helping to identify lending practices that might be discriminatory.

The changes taking effect in 2004 will add a new category for ethnicity; race will become a separate category. Designations for "Hispanic or Latino" and "Not Hispanic or Latino" will appear under the ethnicity category. The race category will contain five designations: American Indian or Alaska Native; Asian; Black or African American; Native Hawaiian or Other Pacific Islander; and White. "Other" will no longer be an option under the race category. The changes will make the collection of ethnicity and race information consistent with Office of Management and Budget guidelines titled "Standards for Maintaining, Collecting, and Presenting Federal Data on Race and Ethnicity."

*The two final rules that implement these amendments are posted on the Board's Web site at [www.federalreserve.gov/boarddocs/press/bcreg/2002/20020621/default.htm](www.federalreserve.gov/boarddocs/press/bcreg/2002/20020621/default.htm) and [www.federalreserve.gov/boarddocs/press/boardacts/2002/20020207/](www.federalreserve.gov/boarddocs/press/boardacts/2002/20020207/).*

## Two terms are redefined

The definitions of two important terms will change when the Regulation C amendments take effect in 2004.

*Refinancing*. Under Regulation C, refinancings of home-purchase and home-improvement loans must be reported. The regulation defines a refinancing as a loan that satisfies and replaces an existing obligation by the same borrower.

Currently, HMDA reporters may choose among four scenarios in determining which refinances to report. In order to make the data more consistent, the Board amended this definition. In 2004, a refinancing will be defined as a transaction in which a new obligation satisfies and replaces an existing obligation with the same borrower, where both the existing and the new loans are secured by a dwelling.

*Home-improvement loan*. Currently, a "home-improvement loan" under Regulation C is a loan that:

1. is for the purpose, in whole or in part, of repairing, rehabilitating, remodeling or improving a dwelling or the real property on which it is located; and
2. is classified by the financial institution as a home-improvement loan.

Under the new rules, the definition of home-improvement loan will differ depending on whether or not the loan is secured by a dwelling. For those loans not secured by a dwelling, the definition above will still apply. As such, the bank will be required to report only those nondwelling-secured home-improvement loans that it chooses to classify as home-improvement loans in its loan system or elsewhere.

For dwelling-secured home-improvement loans, the bank will need to report any such loans made for the purpose of repairing, rehabilitating, remodeling or improving a dwelling or the real property on which it is located. Regulation C will require the reporting of all such loans, even if the institution does not classify the loan as a home-improvement loan in its loan system or elsewhere. This change should help ensure more consistent reporting of home-improvement data and aid the evaluation of such information.

*Karin Modjeski Bearss is a senior examiner in the Consumer Affairs section of the Banking Supervision Department at the Federal Reserve Bank of Minneapolis.*

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1/ Depository institutions are banks, thrifts and credit unions.

2/ As of January 1, 2004, the term "metropolitan statistical area" will be replaced with"metropolitan area," which is currently used by the Office of Management and Budget.

FEDERAL RESERVE BANK of MINNEAPOLIS

# Fed launches national initiative to promote financial education

The Federal Reserve System has launched an initiative to promote financial education.

August 1, 2003

## AUTHOR

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Recognizing that "there's a Lot to Learn about Money," the Federal Reserve System has launched an initiative to promote financial education. The aim is to connect consumers with the knowledge and resources they need to make informed financial decisions.

Federal Reserve Governor Edward Gramlich announced the initiative during a press conference on May 19. In his remarks, Gov. Gramlich noted that changes in technology and credit availability have expanded the number of financial products and services available to consumers. "With such changes come new opportunities, but also risks, including the potential for fraud and abuse," said the governor. To make wise decisions, "everyone can, and should, become familiar with basic financial concepts and products."

According to Gov. Gramlich, educated consumers know how to save, use credit wisely and plan for financially secure retirements. "The benefits to consumers would be reason enough to encourage financial education," he said, "but the Federal Reserve has a broader interest. Educated consumers are one key to keeping our economy functioning well."

Gov. Gramlich added, "We believe that the widespread availability of high-quality curricula, programs and training opportunities for consumers of all ages and backgrounds makes this a particularly good time to promote financial education. Our hope is to encourage consumers to take advantage of the programs available in their communities, schools and on the Web."

The Fed is spreading the word in a number of ways. The most visible communication piece is a public service announcement starring Federal Reserve Chairman Alan Greenspan, which began airing on television and radio stations across the country on May 19. In the announcement, Chairman Greenspan stresses the importance of making informed financial decisions. He encourages consumers to call (800) 411-5435 or visit a Federal Reserve Web site at www.federalreserveeducation.org to learn more.

The Web site is a source of comprehensive information on banking, credit, mortgages and other aspects of personal finance. A companion brochure titled "There's a Lot to Learn About Money: You Can Take Charge of Your Financial Future" features tips on saving, budgeting and managing credit. The public service announcement, brochure, and portions of the Web site are available in Spanish. (For free copies of the brochure, call the number listed above.)

In addition, each Reserve Bank offers a list of organizations in its area that provide financial education and counseling. The Minneapolis Fed's list, at www.minneapolisfed.org/community/financial-learning-for-the-public/, includes resources for each of the six states in the Ninth District.

# Meeks appointed to Fed council

August 1, 2003

Elsie Meeks, executive director of First Nations Oweesta Corporation (FNOC), recently became one of ten new members of the Federal Reserve's Consumer Advisory Council (CAC). The CAC, which was established in 1976, meets three times a year to advise the Board of Governors of the Federal Reserve System (Board) on matters related to consumers, communities and the financial services industry. Members are appointed by the Board and serve staggered three-year terms.

FNOC, a subsidiary of First Nations Development Institute, provides technical assistance and training for the development and expansion of Native American community development financial institutions, or CDFIs. Prior to joining FNOC, Meeks served as executive director of The Lakota Fund, a CDFI located on the Pine Ridge Indian Reservation in South Dakota. She received the South Dakota Minority Small Business Advocate of the Year award in 1994, is the first Native American appointed to the U.S. Commission on Civil Rights and currently serves as a board member for National Community Capital Association.

Meeks joins Earl Jarolimek as one of two CAC members from the Ninth District. Jarolimek, who was appointed to the council in 2001, has served as vice president and corporate compliance officer for Community First Bankshares in Fargo, N.D., since 1989. He has been an active member of the American Bankers Association, serving in a number of leadership roles within the organization, and has provided remarks for the Board and the U.S. Department of Housing and Urban Development on the Truth in Lending Act and the Real Estate Settlement Procedures Act.

# A conversation with ... Kou Vang of JB Realty

*Community Dividend* speaks with Kou Vang, a Hmong business leader, about credit availability and the economic evolution of the Twin Cities Hmong community.

August 1, 2003

*The Federal Reserve's recent study of credit access in the Minneapolis-St. Paul Hmong community yielded positive but limited findings. To learn more about the issues that the study explored,* Community Dividend *spoke with a Hmong business leader whose broad professional background encompasses accounting, lending, community development and entrepreneurship.*

*Kou Vang was born in Laos and arrived in the U.S. as a small boy, in 1976. His family first settled in the Chicago area and later moved to Appleton, Wisconsin. Vang earned a bachelor's degree in economics from the University of Wisconsin-Madison and worked as a comptroller for a small manufacturing firm before moving to the Twin Cities in 1993.*

*He has since worked in finance- and accounting-related positions at a variety of St. Paul-based organizations including Hmong American Partnership, a Hmong social service agency; and the Neighborhood Development Center, a community development corporation serving inner-city residents. For a time, he owned an import firm specializing in Asian foods. More recently, Vang spent four years as a commercial lender at Western Bank in St. Paul. He joined JB Realty as president in November 2002.*

**Community Dividend:** Your family arrived in the U.S. in the mid-1970s. How much business experience did most Hmong from Laos have at that time?

**Kou Vang:** We were in the early stages of learning how to retail back then. In any economic model, people first learn how to barter. From there they learn how to retail: to buy and sell goods and run small retail establishments. Then they learn how to wholesale and distribute, then how to manufacture things, and from there they learn how to tell other people how to manufacture things.

In the early and mid-1970s, there was still a barter system in place, but we were in the early stages of buying goods from Chinese, Laotian and Thai merchants in the big cities and selling them in Hmong villages. Coming to the U.S. pushed some of us to venture out and do other things, like insurance and real estate. But in the overall scheme of things, we're still at the retail stage.

**CD:** How did Hmong entrepreneurs establish themselves when they arrived in the U.S.? Was credit available?

**KV:** Credit wasn't available at the time, because credit access for the Hmong community has only really happened in the last five or six years. I'd venture to guess that the majority of the loans that Hmong business owners have are only in the third or fourth year of a five- or seven-year repayment term, because the credit openness is so recent.

So where did we get the money? Since we're clan-based, we were able to pool resources together. We'd buy a store and the whole clan would run it, or the whole Hmong community would run it. When there were common issues like that, we worked together.

**CD:** What barriers prevent Hmong people from approaching banks and accessing credit?

**KV:** It depends on which credit culture they're part of. There's the traditional Hmong credit culture, made up of people who came here from the old country, and then there's the new credit culture of Hmong people who grew up in the U.S.

Members of the new credit culture are accustomed to the American system, which is more open to filing for bankruptcy and walking away from debt. Most of the Hmong business owners who responded to your study are part of the new culture. They're pretty highly educated, they understand the models used in this country, and they know how to write a business plan.

In the old credit culture, when you borrow money, you have to pay it back completely. Timely payment is not highly valued, but complete payment is. Many members of the old culture have late payments on their credit reports, but they never walk away from their debt. The barrier for them is that they don't know how the game is played in this country, because they have their own model to abide by.

**CD:** Can lenders do anything to help eliminate that barrier?

**KV:** It all comes down to understanding different models. If a banker doesn't understand the entrepreneur's credit culture and the entrepreneur doesn't understand the conventional business model that the banker is using, then the banker won't even bring the loan request to the credit committee. I would bet that most of the time, we don't even get into the game, because the majority of loan requests are denied at the lenders' level.

Which brings up an important point: your study only examined existing businesses; it only dealt with people who have already gotten past the gatekeepers. I think it would be interesting to take it one step further and look at those who were stopped at the gate.

In commercial lending, we have to keep all of the files for the loans we deny. Let's take a sample of files from the people who got past the gatekeepers and compare it to a sample from the ones who didn't get through. Is there a 4-to-1 ratio of Hmong businesses to mainstream businesses among the denials? I think if we study the specifics of the denial rate, we might find a disparity.

**CD:** What can Hmong entrepreneurs do to help bridge the gap between credit cultures? Are there resources available to help them understand the lenders' model?

**KV:** There is some training and assistance available. The Neighborhood Development Center has had a Hmong class for the last eight years, and the Vang Pao Foundation and Wells Fargo recently put together a program with the University of St. Thomas.

The challenge in teaching these concepts in the Hmong community or other communities of color is to take a pretty complex model and break it down into a language that people can understand. Lenders talk about things like amortization and rates of return, but all the business owners know is that if they buy a cash register for $400, the money's gone. It doesn't really matter to them if we capitalized it or expensed it; it's gone.

**CD:** What factors have helped Hmong businesses in the Twin Cities obtain bank financing?

**KV:** For some reason, Minnesota has a lot of community banks. They don't have ivory-tower credit policies that everyone has to follow, so it's easier for their lenders to be flexible. Some of them decided to give Hmong people the benefit of the doubt, and it worked. And since it worked, a comfort level was established and lenders were willing to risk a little bit more. As a result, the credit market for Hmong people is better in the Twin Cities than it is anywhere else.

Getting credit for Hmong businesses in other parts of the country is difficult. Why is that? I don't know. I think we can do studies like this in other places and compare the results. What are we doing here that's working, what are we doing there that's not working? Those are some issues I think we have to look at.

**CD:** The Hmong business community in the Twin Cities has made impressive strides in a relatively short time. What challenges lie ahead, and how do you see Hmong businesses faring in the future?

**KV:** I think we'll have more and bigger types of businesses in the future, more distribution and production. Some of the Hmong retail businesses now, like grocery stores, rival mainstream stores in size. Most of the growers at the farmers' markets are Hmong, and I think they'll produce more in the future. We're at the retail stage now, just learning how to do business, but our economic evolution will continue.

# New Minnesota capital fund launched

August 1, 2003

A new economic development financing organization will supplement the financing resources available in rural Minnesota, according to its creators.

Nearly 60 cities, counties, utilities and regional nonprofits in the state have pooled community development financing resources to form the Minnesota Community Capital Fund (MCCF). Launched in February, the fund will provide loans of $50,000 to $2.5 million for business expansions and affordable housing developments in areas served by its member communities and organizations. The loans, which are available for almost any kind of business, are originated on behalf of the pool and sold to the secondary market. Applications are accepted on an ongoing basis, and the approval process takes two to four weeks.

The Northland Institute, a Minneapolis-based nonprofit organization, developed the fund as a means of supporting community and economic development projects in a climate of tight budgets and limited resources.

*For more information on the MCCF, visit www.mncommunitycapitalfund.org or call (952) 546-9049.*

# The Lakota Fund receives grant

August 1, 2003

The Lakota Fund (TLF), a community development financial institution serving small businesses on the Pine Ridge Indian Reservation in South Dakota, is one of nine organizations that will receive grants from the new Hewlett Packard Company (HP) Microenterprise Development Program.

The program, which was launched in late 2002, targets nonprofit microenterprise development organizations that serve diverse low-income communities. HP will award a total of $2.5 million to help recipients increase productivity, efficiency and effectiveness through the use of technology. Grant amounts will range from $150,000 to $300,000, pending individual needs assessments to be performed by HP.

According to TLF Executive Director Monica Drapeaux, the grant will cover hardware, software, servers, training and technical support and assistance for the Tribal Business Information Center, a computer lab at the fund's Kyle, S.D. headquarters that provides clients with PC and Internet access.

"Our current equipment is dinosaurish," comments Drapeaux. "We only have one computer in our center that actually works. Now, we'll be getting a whole IT department out of thin air. It'll enable us to better serve our clients, and we couldn't be more excited." Drapeaux hopes the grant will also cover Web site development. "We'd love to create at least a one-page site for each client," she says, "to help give every one of our businesses a presence on the Web."

As reported in the Association for Enterprise Opportunity's *AEO Exchange* newsletter, HP reviewed more than 500 applications before selecting nine recipients for their diverse sizes, client bases and geographic locations. In addition to TLF, recipients are: ACCION Texas, San Antonio; Community Business Partnership, Alexandria, Va.; Detroit Entrepreneurship Institute, Inc., Detroit; New York Association for New Americans, Inc., New York City; PACE Business Development Center, Los Angeles; Philadelphia Development Partnership, Philadelphia; Renaissance Entrepreneurship Center, San Francisco; and Women Entrepreneurs of Baltimore, Inc., Baltimore.