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Diversity in the 1%: Does It Make a Difference?

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Last month Wells Fargo, the nation's largest home mortgage lender and fourth largest bank, agreed to pay at least $175 million to redress blatant discrimination against African American and Hispanic borrowers. The irony is that this settlement -- the second largest in the Justice Department's history -- is with a bank that for decades has made significant strides in recruiting more minorities and women to its corporate board. This raises the obvious question of whether greater diversity within the upper ranks of corporate America can, on its own, change the way these businesses do business.

For many years, advocates, academic experts, and even many business leaders argued that attracting more women and minorities into the higher echelons of major corporations would not only improve the lives of these individuals but also make business more responsive to consumers and communities. Studies show that among college graduates, women and racial minorities are more likely than white men to engage in civic and community affairs. The advocates of diversity predicted that once they reached the inner circles of the corporate elite, they would also shake things up in terms of linking corporate profits and social responsibility.

Although corporate America is still dominated by white men, the upper ranks of major corporations have become increasingly diverse. White women now constitute 12.7% of the board members of Fortune 500 corporations, while minority men hold 9.9%, and minority women 3%, of the board seats, according to the Alliance for Board Diversity. There are also many more women and minorities in the upper management ranks of major corporations, including the corner office. According to sociologists G. William Domhoff and Richard Zweigenhaft, coauthors of Diversity in the Power Elite, and The New CEOs, 25 years ago there were only two women, one Latino male, one Asian male, and no African Americans, among the CEOs at Fortune 500 corporations. Today, there are 44 women and minorities in these top jobs.

Many women and minorities have broken the glass ceiling. In many companies, they are no longer tokens, but a critical mass. These top corporate decision-makers comprise the economic stratosphere -- just a portion of the richest-one-hundredth of 1 percent.

This trend represents an important, if long-awaited, impact of the civil rights and women's movements. These high-powered executives provide role models for young women and young people of color, so they can aspire to fulfill their potential in whatever careers they wish to pursue.

Consider the nation's financial industry. The nation's 10 largest bank holding companies -- JPMorgan, Bank of America, Citigroup, Wells Fargo, Goldman Sachs, Metlife, Morgan Stanley, US Bancorp, HSBC North America, and Bank of New York Mellon -- account for 77% of all bank assets. In recent decades, all of them have brought more women and minorities into their upper ranks, as executives and board members. But that didn't stop them from engaging in many risky and often illegal practices that led to the Wall Street meltdown, the ongoing epidemic of foreclosures, the disastrous decline of housing prices and family wealth, and the disastrous economic crisis that began in 2008 and persists today.

Among the largest banks, Wells Fargo has had the most impressive track record of recruiting women and minorities to its corporate board. Only 25 years ago, its 18-member board was comprised of 15 white men (83%), two white women, and one black man. Today, a meeting of its board of directors looks like a diversity dream team. The 15-member board includes five women and five people of color (1 black man, 2 Latino men, and 2 Asian Americans, including one woman). White men now constitute only 40% (6 out of 15) of the board members.

Although Wells Fargo's board still doesn't reflect the nation's demographic diversity, this is nevertheless a dramatic change. But when it comes to dealing with consumers, Wells Fargo is no better, and in some cases significantly worse, than its counterparts.

Last month's settlement with the Justice Department confirmed what community advocates have known about Wells Fargo for years. In cities across the country, brokers working with Wells Fargo steered minority borrowers into costlier subprime mortgages with higher fees when white borrowers with similar credit risk profiles received regular loans. Furthermore, while its mortgage lending to white borrowers increased, it dropped dramatically for African-American and Hispanic borrowers.

Wells Fargo's lending practices in Memphis, Tennessee and surrounding Shelby County exemplify this corporate bigotry. Between 2004 and 2008, 51 percent of loans to African Americans were subprime compared to 17 percent to white households. Subsequently, the foreclosure rate in African American neighborhoods was eight times higher than in white communities. The city and county sued the bank and in May, Wells Fargo settled the complaint, promising to provide $432.5 million in new loans and other financial assistance, with $125 million earmarked for low- and moderate-income borrowers.

Racial discrimination isn't Wells Fargo's only problem. In the past five years, Wells Fargo has been sued another 55 times for charging abusive mortgage default fees, submitting false and misleading court documents, processing unlawful foreclosures, mortgage appraisal and origination fraud, charging military veterans with hidden and illegal fees, robo-signing of mortgage documents, and other illegal acts.

In 2006, before the subprime bubble started to burst, Wells originated or co-issued $74.2 billion worth of subprime loans, making it one of the top subprime lenders in the country. The Federal Reserve Board levied an $85 million civil fine on Wells Fargo for steering borrowers inappropriately into subprime loans and falsifying income information on loan applications. This is the largest civil consumer enforcement fine ever imposed by the Fed.

As of June 2010, Wells Fargo had $17.5 billion worth of foreclosed homes on its books, making it one of the nation's three top banks in foreclosure activity. Despite getting a $37 billion taxpayer bail-out, Wells Fargo went kicking and screaming before it reluctantly participated in the federal government's Home Affordable Modification Program. Even so, it has provided help to few of its borrowers who are eligible for loan modifications that will keep families in their homes.

Wells Fargo is also deeply involved in the payday lending business that preys on cash- strapped families by providing short term loans with exorbitant fees and annual interest rates (typically around 400%) that trap people in a cycle of debt, particularly borrowers in poor and minority neighborhoods. Wells Fargo provides financing for nine payday companies that operate one third (32%) of the entire industry, whose stores are concentrated in African American and Latino neighborhoods.

Like every other major bank, Wells Fargo has also used its political influence to get federal bail-out funds, thwart regulations to set limits on executive pay and bonuses, limit taxes on corporations and the wealthy, and oppose pro-consumer initiatives like the creation of Consumer Financial Protection Agency that Congress enacted in 2010 after lender lobbyists weakened many of its provisions. Between 2008 and 2010 Wells Fargo spent $1.3 million in federal campaign contributions and $11 million in lobbying. Last year Wells Fargo outspent all its bank rivals in lobbying expenses, investing $7.8 million for Capital Hill influence-peddling.

It turns out that the gender and racial make-up of a bank's board of directors has little influence on whether it acts responsibly toward consumers (including women and minorities) and traditionally underserved communities. The major banks' risky behavior that led to the Wall Street meltdown was driven by greed and profit maximization, values that know no gender or racial boundaries, especially when the government cops on the beat often looked the other way.

We welcome the diversity initiatives of Wells Fargo and other banks. But just changing the demographics of the players does not necessarily change how the game is played.

If we are serious about ending the abuses that led to the predatory lending and foreclosure scandals, and the economic crises that followed, the rules must change and the referees -- in this case the banking regulators -- must be held accountable, along with the bankers. The only counterweight to unfettered corporate irresponsibility is strong government regulation, bolstered by consumer and citizen advocacy. Aggressive enforcement of Dodd Frank, and particularly an active Consumer Financial Protection Bureau, would be a start.

Occupy Wall Street had it correct when it stated "that no true democracy is attainable when the process is determined by economic power." We must change the rules of the game, not just the gender and racial traits of the top players.

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