

Economic Architecture Podcast

Episode 28 Transcript:

The following transcript has been edited for clarity:

Nick Mitchell-Bennett: For us, the mortgage is not about the paper. We say it's about the people. So a lot of folks aren't ready to buy a house or don't wanna buy a house, but they still need a safe, sanitary, and affordable place to live. So, being able to develop rental properties and own rental properties that are safe, sanitary, and affordable to them is one of our goals.

Stuart Yasgur: I'm Stuart Yasgur, and this is Economic Architecture, the podcast.

Stuart Yasgur: I think one of the things that's really important to know about Nick is where Nick is. Nick is working in a part of Texas that is right along the border, which includes places that are called the colonias. There are places where raw sewage runs down the gutters. Where there's been a massive underinvestment in infrastructure. People are living in unincorporated areas. Tension about the positive and negative of why they might live there. The question asked itself is part of the lack of investment or reflection of racial tensions and prejudices, and it's an incredibly difficult environment, but also the people are there striving to make better their economic situations often.

Nick Mitchell-Bennett: These are unincorporated areas outside the cities in the valley that historically have not had water, sewer, or electricity. Over the years, we've worked to improve these communities, and then tear down the old shacks or the old trailers that they're living in and building new houses.

Stuart Yasgur: Nick has homes that people are renting from him. Affordable homes often. Is helping people buy homes. As a result of that, Nick is at the interface where a lot of people need to address insurance and having a home.

Stuart Yasgur: So we focus on structural innovations. Sometimes we see a structural innovation. We say like, okay, how can we help this advance? Sometimes we see an opportunity for a structural innovation that does not yet exist.

Stuart Yasgur: When that happens, one of the things we do is also test structural innovations. And here you have somebody who's really discerning. He's gonna identify problems, innovations that can address them, and then act. He's a wonderful person to be a market test of whether or not a structural innovation potentially is helpful.

Nick Mitchell-Bennett: So, the work that cdcb, come dream. come build, does is, we were started 51 years ago, actually, by a man by the name of Father Armand Matthew. And our original goal we were part of the new culture of community development corporations that was starting back in the seventies. And our first mission was to replace the 1700-1800 outhouses that were in the city of Brownsville. We had a sewer system, but 1800 families were not connected to it in 1974.

Nick Mitchell-Bennett: And so our goal was to go find them and hook 'em up. Father Matthew always said that when he first got here, and he was going through the area and talking to folks about whatever priests and pastors talk to people about when they knock on their door, he quickly realized that people were more in need of a safe, sanitary place to live than they were his mass schedule.

Nick Mitchell-Bennett: And that's a direct quote from him. And from that, we were born. And so, from that, we've been primarily using the development in construction of affordable housing to meet a plethora of

goals, which is really in the end is to build wealth in a community that has historically been underserved and in great need of that.

Nick Mitchell-Bennett: We're a persistent poverty location, so the U.S.-Mexico border, almost a hundred percent of the counties along the U.S.-Mexico border are considered persistent poverty communities. So that means that over 20% of the population has lived below the federal poverty line for at least 30 years.

Nick Mitchell-Bennett: So we are in deep South Texas. So down on the U.S.-Mexico border. We're actually headquartered in the city of Brownsville, Texas, which sits right on the U.S.-Mexico border, and we're about 20 miles or so from the Gulf of Mexico. And in what is referred to as the Rio Grande Valley. If you're watching the news at night and they're doing the weather, we're the part at the bottom that's cut off. We typically don't see us down there in that part. So we're one third of the country of Mexico is north of us. We're way down south.

Nick Mitchell-Bennett: And here it's been that way forever. And we've got our work cut out for us. We typically like to say we use the house to build wealth. We do that through design and development and construction, as well as what we refer to as moral and just lending products, and then education. And though we use those three kind of pillars for us to do what we do to build wealth for families.

Stuart Yasgur: So what does that look like for an individual family who's working with your kind of...

Nick Mitchell-Bennett: Yeah, so it depends on what they're here for. So typically, folks come in our front door, of which we have, I don't know, 800-900 folks a year, walk through the front door, and they want primarily wanna buy a house.

Nick Mitchell-Bennett: We are a 93-95% Latino community. Home ownership is extremely important to our population and to the folks we serve. Owning a piece of, a piece of dirt. The American dream is alive and well in this community. And so, we work with families to get them home-buyer ready.

Nick Mitchell-Bennett: That typically takes somewhere between six to 12 months to get them ready to buy a house. Understanding the rights and responsibilities of owning a home, the financial contributions they have to make, the sacrifices they might have to make to get to that point.

Nick Mitchell-Bennett: So, we have housing counselors and coaches that work with folks to get to that point, and then we can offer them, if they choose to stay with us, a mortgage loan.

Nick Mitchell-Bennett: We're a Texas-licensed mortgage company. We actually have more lending products than most mortgage companies in the state of Texas. And so we have a whole thing that they can choose from. And then if they want to buy a house that's on the market, or if they wanna build a house, we have contractors that work with us. We also own and operate our own volumetric modular housing factory, where they can buy a volumetric modular house through our dream build product. And then we also develop raw land for subdivisions.

Nick Mitchell-Bennett: Plus, we also do scattered site; we'll tear down old houses. A lot of what we work out is in the rural colonia areas. So, these are unincorporated areas outside the cities in the valley that historically have not had water or sewer, or electricity. Over the years, we've worked to improve these communities and then tear down the old shacks or the old trailers that they're living in and building new houses.

Nick Mitchell-Bennett: So, we try to be all things to all people when it comes to home ownership. But really, that whole continuum of walking through the door, and then we service their mortgage on the back end so

that we stay with 'em. For us, the mortgage is not about the paper. We say it's about the people.

Nick Mitchell-Bennett: And so being able to be with them through the entire life of that. We also do rental housing development. So, a lot of folks aren't ready to buy a house or don't wanna buy a house, and they still need a safe, sanitary, and affordable place to live. So, being able to develop rental properties and own rental properties that are safe, sanitary, and affordable to them is also one of our goals.

Stuart Yasgur: The scope of what you do is just enormous. It's across the board, and it gives you the opportunity to stay with people through so many different parts of their journey. Right?

Nick Mitchell-Bennett: Yeah. After the financial crisis in 2008 and 2009, we weren't doing rental housing at that point. And so, we started really digging deep into people's individual balance sheets through our counseling program. And we realized that a hundred percent of the clients that walked in our front door to buy a house had a payday loan or a high-cost personal loan on their credit report.

Nick Mitchell-Bennett: We joined a coalition of folks who were trying to literally kinda legislate these things out about a business in Texas, and that wasn't gonna work for multiple political reasons. And then coalitions that were together trying to do municipal regulations that would outlaw them in individual cities. And that didn't work either.

Nick Mitchell-Bennett: So, in true cdc fashion, I was like, screw it, we're gonna, let's create our own product. We started the community loan center in 2011, which is an online small-dollar loan alternative to payday lending. Today, we've franchised that product across the country into 19 different markets currently.

Nick Mitchell-Bennett: We've done over 160 thousand loans, equaling about \$158 million at \$900 a pop, which has actually saved individuals about \$160 million in fees and interest as compared to a payday loan in Texas.

Stuart Yasgur: That's incredible. First of all, that a hundred percent of the people who were walking in the door had one of these, and for people who are familiar with payday loans, they are such a bad deal for people to take them out. It can create that kind of cycle of, it just keeps people indebted. And your product differs because it's low fee? Low interest?

Nick Mitchell-Bennett: Yeah. So, the average interest that the interest rate or it's, so we don't have an interest rate in the state of Texas on these loans. It's a fee. The average is \$24 per hundred dollars that you borrow. So, when you calculate that into an interest rate, it is about 625%. And so, ours is like credit, like the credit card in your wallet, probably about, it's about 18% with a \$20 fee. And right there, we're 600 points better than what they're getting on the street. Within three blocks of my office here, there are 22 high-cost personal loan companies operating.

Stuart Yasgur: That is amazing. How's the uptake been? We kinda worked with an innovator actually based in London, who helped try to do this in London and found that some of the payday lenders...

Nick Mitchell-Bennett: I've met that guy.

Stuart Yasgur: Really?

Nick Mitchell-Bennett: He came to one of my talks on this. Yes.

Stuart Yasgur: Oh, it's Faisal Rahman who created a finance...

Nick Mitchell-Bennett: Yeah, I think so. I think I met him.

Stuart Yasgur: He's fantastic. One of the things when they were starting is they found that some of the payday lenders had real customer loyalty. So even though the economics were much better from going from a place that was ethically centered, it took them a while to understand how to design a product that really served those clients. Are you experiencing something similar?

Nick Mitchell-Bennett: Yes. We took that into consideration when we designed it up front. It was folks, if we can't, a lot of these groups, I took this to the Forge Foundation, and they said, you'll never, it'll never work. You can't do it because of X, Y, and Z.

Nick Mitchell-Bennett: And that's the last thing you wanna say to me, 'cause we're gonna make it work. And one of those things was is, most groups that do this, like us, they become very paternalistic, I like to say. And they're gonna make this borrower do some sort of counseling program, and some sort of budgeting program.

Nick Mitchell-Bennett: And I'm like, no, no, no. I just need bad money off the street and good money on the street. We've made it very simple to where we realized our clients are poor, but they're not stupid. And if you put this in front of them and say, that's this and this is this, and ours is payroll deducted if chosen by the client.

Nick Mitchell-Bennett: And so, we've made it extremely easy. We don't, I don't care what you're using the money for. I really don't. It's not up to me how you're using this thousand dollars that you're borrowing from. And we only have a 3% default rate. Whereas, because people are very loyal. They're like, I don't wanna lose, I don't, I need this.

Nick Mitchell-Bennett: Until we get a minimum wage in this country, that's livable people are gonna need it. And so being able to offer it has worked out well. We're growing every single year. We grow from anywhere from 15% to 25%, depending on how many franchises we had during the year.

Nick Mitchell-Bennett: So the uptake has been phenomenal, and people are loyal to us at this point. But they know they need it. And if it's not there, then they're gonna go back to their old person. So, let's keep this going.

Stuart Yasgur: That's remarkable. I wanna bring us back to housing for a second. All across the country, people are experiencing real problems with housing. Being able to purchase a house, being able to afford a house. Once you stay in it, you're doing this in one of the, arguably, one of the toughest places to do it. Many of the places lack of infrastructure, there's all kinds political things happening in the background.

Stuart Yasgur:.. The issue of working in a geography where there's persistent poverty. How have you been successful where so many other places are wrestling with these issues?

Nick Mitchell-Bennett: I think our success is one, I've got a hundred people that work here that are phenomenal, so I just wanna put that out there. These people wake up every day with one mission in mind, and it's get a house on the ground for somebody who needs it. We've been very serious, especially in the last 15 years, about asking people what they want. And people wanna own a house. So that's a given. I wanna buy a house. I want a safe place to rent.

Nick Mitchell-Bennett: You know, when it rains here. It's awful. It floods. We're in a river delta, despite being called the Rio Grande Valley, there's no mountains around here. So, learning to build houses higher up, better insulated, better whatever, that's just normal for us.

Nick Mitchell-Bennett: It's not a political issue to us; it's reality. And so all of these groups, including ourselves, what the political conversation is sometimes doesn't even matter to us. It's just like we just need to house people and house them in better places. And whether I save the universe or save the world with better, greener products, I do know that with a better air conditioning unit, with a better insulation, with solar power, that I just

saved the Remidis family a hundred dollars a month. And when you're only making \$25,000 a year, that hundred dollars a month is huge.

Stuart Yasgur: Enormous.

Nick Mitchell-Bennett: So, the house that you live in should bring you ease and comfort and not be difficult for you. One of the things that we do is we have most of our clients design the house that they want.

Nick Mitchell-Bennett: One of our taglines is Choice and Powers. So, giving people the opportunity to design their own home. Now this is a thousand square feet, right, 950 square feet, 1400 square feet. This is not the Taj Mahal, right? We're not talking about gold toilets and crazy stuff, right?

Nick Mitchell-Bennett: But it, it's as simple as I want the kitchen here because we eat outside, right? 'Cause we're in the south, right? We eat outside a lot of times during the year. Or I want all my bedrooms on this side because. If the sun comes up and I work at night and I want to be able to sleep, and those small little things, once you start with that, you're actually giving them that.

Nick Mitchell-Bennett: Most of the population we're talking about aren't given choices in their lives. You and I, the power that you and I have, or we perceive that we have, came because we were given choices as young people and young adults. And then as older adults, the more and more choices you're given. The more power you have over your own life to control it.

Nick Mitchell-Bennett: Most of our clients have not been given that. You're gonna make this, you're gonna work here, you're gonna, you are gonna do this. And it has nothing to do with whether you want it or not. In the affordable housing world, it's been the same way. This is what you got, this is what you can afford, and I'm only gonna build this.

Nick Mitchell-Bennett: And we figured out a way to actually. We can do that, we can do, we can rapid intake and rapid approval and rapid building process, but we don't believe that limited choice really drives cost. And we've just thought a little bit more about how to do that. So that has made us extremely popular with folks, that they can actually come to us.

Nick Mitchell-Bennett: Even in our modular housing company, we have an online program called Dream Build.org. And you get on there, and you've got 29 different choices to make. That go into your house, and it doesn't matter what they're building in the factory. To them, they're making Fords; to the client, they've just designed their Ferrari. When you give that level of choice to people, they really appreciate that. And that goes all the way down to just like their housing counseling process. They're meeting with counseling, and they may have 15 things. They need to work on the whole list. And our counselors do not give them all 15.

Nick Mitchell-Bennett: They say, pick three of these, we're gonna work on this month. And if they get to pick them, and then they get to do them, right? We recognize that choice is important, and we're gonna get through all 15. But as you give folks the choice to do that, they become empowered to do that.

Nick Mitchell-Bennett: They're loan products; we've got probably 12 different loan products. We've got all the Freddy, all the Fanny, we've got FHA loan, we've got our own portfolio loan. We've got other things that we do, like credit union, all that stuff. And we say, here it is, here's the cost.

Nick Mitchell-Bennett: And then they're like I don't have any money down. Oh, then this is the one that you need to do. Or I've got this much to put down. Oh, then this one will probably be good for you. Right now, the FHA loan is the cheapest loan, but we get some clients who are like, I only have \$2,000 to put down. The Inspire 100, that's a hundred percent LTV, so go there.

Nick Mitchell-Bennett: So just giving them the choices that it's not one size fits all. Or take it or leave it. We don't believe that. We don't say that. We don't. It is, it's not, we don't believe it is what it is. It ain't, because you can do this. And that has made us very successful. And people who feel like we're a partner in their wealth creation.

Nick Mitchell-Bennett: A hundred percent of our clients also may have a payday loan on their credit report, but a hundred percent of 'em also tell us, I'm doing this for my kids. They may not say the words to us, intergenerational transfer of wealth, which is the buzzword now for wealth creation in low-income communities.

Nick Mitchell-Bennett: But they understand it entirely. And being able to give them a product that they can be proud to either pass on to their kids or to have for their kids to sell later when they are passed, when they passed away is really, we try to build all of that into this, so that people understand and are excited about what they're doing.

Nick Mitchell-Bennett: Buying a house is the biggest thing you'll ever buy. Most people, even billionaires, it's the biggest thing you'll buy, and so being fully in control of that process is really relaxing and not... I bought my first house after I had built, or mortgage financed a thousand units. I actually went back and counted it, and my first house, and I was scared to death.

Nick Mitchell-Bennett: And I went through our home buyer education class, and I wrote the curriculum, and I still went through the class 'cause I was nervous, and so it's, you can imagine if you're making \$9.35 cents an hour, the nervousness that you have in doing this, that making people feel like they're part of a family and that they have choices and they have power, then that's really important.

Stuart Yasgur: Yeah. And a transformatively different experience for them.

Nick Mitchell-Bennett: I hope so.

Stuart Yasgur: Let's talk a little bit about your modular house program. And so not everybody's familiar with what modular homes are. What does this mean? How does this work? Why would we do these things? Help us wrap our head around a little bit.

Nick Mitchell-Bennett: Yeah, we've been building housing in this country the same way for 500 years. For as long as people lived in this country, we've been building housing the same way. And for a while, it worked, and it was fine. But we're getting to a point where materials, labor, financing, everything is getting so expensive that we've had to find a way to really figure out how do we wring out some of those excess costs that are in there?

Nick Mitchell-Bennett: And as a nonprofit and trying to build stuff and mortgage finance things for low-income people, where every penny really counts. And the fact that we were really being controlled by the finance companies and the material suppliers and the contractors and the subcontractors and the insurance companies, and everybody else had a hand in the pie, and the homeowner didn't, and we were losing control.

Nick Mitchell-Bennett: Because I'm a control freak, I decided that let's... I've been reading about modular housing, and there's something there. And we had built a, designed a disaster recovery model house called the Rapido. And Rapido had gotten some traction at the Cooper Hewitt Smithsonian, under their Design by the People Show, we did a talk at that UN Habitat III and Quito, Ecuador on it.

Nick Mitchell-Bennett: It was a pretty big deal. We were excited about it, but we all started thinking, boy, why are we waiting for a hurricane before we do this? We already got a demand made disaster housing here. Why don't we, why don't we try to implement it, as an off the shelf product, which is a big thing to ask, but we did it.

Nick Mitchell-Bennett: And so, we created, at the time we called it Mi Casita, and I'll tell you how that name changed, but it is now referred to and the company's called Dream Build. It's based on a five-box model. So, this house can actually grow over time. You can buy a one-bedroom, one-bath. So, it was really created to meet people where they are.

Nick Mitchell-Bennett: And then you can add boxes or units to this, modules to the box, the original box that you bought. Or you can do it all at once, doesn't really matter. We don't care as long as you can afford it. And it's got a wet box and the dry box, and those go together as the O Core or the L core, and that's 576 square feet.

Nick Mitchell-Bennett: Then you can buy the bedroom suite, which is a bed, a big bedroom, a bathroom, and a walk-in closet. Then you can buy the kid box, two small bedrooms, or the flex box, which is a wide open, 288 square feet. It's all based on a 12-by-24 module. And then those can go together. Right now, we can put 'em together in 36 different fashions.

Nick Mitchell-Bennett: Actually, there's only about 10 that are really popular, and four of those are really popular. And then with that we've built, we have this modular housing. But at a modular housing, if it's manufactured, meaning that you can build a modular house under a roof, and if you're just building a house under the roof, it's not gonna be cheaper than if you're building it site-built state.

Nick Mitchell-Bennett: And most modular people who build, they'll tell you that. So we had to create a manufacturing process to build the module house.

Stuart Yasgur: So, I think this is fascinating, but let me just take it to, maybe just lower it for folks who may be less familiar, is so like stick-built, this is where they send wood... so you have a piece of property, they send the supplies to the property, we hire people on site.

Stuart Yasgur: They assembled this. This is a traditional way of doing it. And, I like, often, as an example, I say this is not how we build cars, right? It's not like you send me an alternator and spark plug, and I'm gonna hire the local mechanic to assemble my car for me.

Stuart Yasgur: And all the benefits of doing the assembly in a factory could be there for homes as well.

Nick Mitchell-Bennett: Yes.

Stuart Yasgur: And this is the point you're just getting to. So they could be more economical, we could do them more volume, we could do them with a higher quality. And it enables us to, in fact, maintain the degree of flexibility if we do this, in this kind of use, this kind of factory model.

Nick Mitchell-Bennett: That's correct. That's exactly right. When we, to test my idea, I put a stopwatch on the house, and it only turned on when somebody walked into the house when they were building it. A site. A site-built, stick-built house, and again, 1400, 1200 square feet. And it took about 160 days for that house to get done. But there were people in it working only 45 days.

Nick Mitchell-Bennett: But 'cause we had to wait for this guy to show up, and wait for that woman to show up, and wait for this to show up, and then we had to, then we didn't have the wrong materials. Then you had to go back to the material. Or you got the contractor who literally goes out there and climbs up his ladder, and it's oh, I forgot my tools.

Nick Mitchell-Bennett: Then he climbs down the ladder and has to walk out to his truck to get us to... All this is a waste of time, and it's all money. And so, if you can take that process and put it into a factory, what we refer to as the farm, because it's where we grow homes. At the farm, you've got 10 guys working on a house all day long, eight hours a day.

Nick Mitchell-Bennett: They're not moving. They have their job, they do their job, and we can actually finish four boxes. Last month, we finished two houses, two full houses at the farm in 25 days.

Stuart Yasgur: Wow. Wow.

Nick Mitchell-Bennett: Then we put it on the back of a truck, take it out. It takes another 15 days to finish it all out.

Nick Mitchell-Bennett: And then there you have, you have a house. And it's better, and it's very well built. It's built to IRC, which is International Residential Building Code. It's not a manufactured home, although it is manufactured, so big m, small m, and we've figured out how to wring out some costs, and as we get better and better at this, more and more costs are wringing out, and we're able to pass that savings onto the home buyer.

Stuart Yasgur: Yeah, and then as you're describing it, homeowners are also going through a journey, right? Like you, you might start with your starter home. A couple might buy a home before they have kids. They may need a relatively small footprint. Family grows, they have the ability, like these kinds of, do you call 'em cubes? Boxes?

Nick Mitchell-Bennett: Our marketing and communication team tells me I'm supposed to refer to them as modules. But internally we refer to 'em as boxes.

Stuart Yasgur: But the boxes could go together.

Nick Mitchell-Bennett: Yeah.

Stuart Yasgur: Yeah. And you think almost like Lego blocks that they can come together in a way, and you can design.

Stuart Yasgur: Okay. I want a one-bedroom home, a three-bedroom home, whatever the case might be.

Nick Mitchell-Bennett: Yeah, and we've been told by my communications teams, I'm not supposed to refer to 'em as Legos because people don't wanna live in a Lego house. So, Nick, stop referring to them as Legos. But yes, you were correct. It's just like Legos, it sounds like, Lincoln Logs, it's exactly that.

Stuart Yasgur: Send them my apology. Okay. But it does. I think it helps people picture just how you can start to put these things together, and the benefits of having the modular, you can design with these modules, you can design a range of different things that you can measure range,

Nick Mitchell-Bennett Right? We leave it up to the family to put them together the way they want, put 'em together, right? As well as what type of front door do you want? There's the six-panel, there's the flat, there's the one with the window in it. You're choosing that window, you're choosing the floor that's going down, and we have six choices of the floor, not just the color of paint, but do you want brass, or do you want nickel, or do you want matte black?

Nick Mitchell-Bennett: 'Cause do you want windows that are aluminum color or do you want 'em matte black, or do you want 'em white? A window's a window, it's the same window, right? And they weigh the same, everything. So, our guys, it's cost me the same; you just decide how much you wanna spend on windows.

Stuart Yasgur: Right?

Nick Mitchell-Bennett: And so, it is that level of choice that they have, they just went through this whole process, and that then gets sent to the farm. That's their order. And it's their house.

Stuart Yasgur: And so how long have you been doing this, and how many have you done so far?

Nick Mitchell-Bennett: So, we won the Affordable Housing Breakthrough Challenge with Wells Fargo back in December of 2020.

Nick Mitchell-Bennett: So, 2021 was when we started the research and development piece of this. We're now at 30 units since then. Doubling the number every year. So, we did one prototype, year one, and that's the aspirin that cost 500 million dollars, and then we did five, and then we did 14, and then we did, this last year we did 20, and right now we're well onto our way in this year to hitting the number of 36.

Nick Mitchell-Bennett: And each year, units are getting less expensive, and we're getting better at what we're doing. And not only that, we now have a manufacturing site in a place that didn't have jobs. And like really good jobs like these, they start out with good wages, and they have health insurance, and they have a bonus, schedule, and they can come to work five days a week, and a lot of the guys that we're bringing in to work for us, they've been chasing contracts their whole life.

Nick Mitchell-Bennett: And now they're like, oh, I get to come here to work every day, and I get the weekends off, and there's a Christmas holiday, and I'm not having to work just to pay my rent for my family.

Nick Mitchell-Bennett: Because they're working hard when they're with us and it's building a... we've got 40, 40 technicians as we refer to them, working at the farm, including five administrative people who are doing buying and materials and scheduling and work in the MRP ERP system and, doing quality control and so it's... and we're hiring another 20 right now, so we're always bringing people on.

Nick Mitchell-Bennett: We looked at this as not just about the house, right? It's about good jobs. It's like changing the culture of what it means to be a house builder. And so, it's a big part of a big... We hope that it's more of an impact than just putting a better unit on the ground, but also an economic impact to the community that is very stable, and always there.

Stuart Yasgur: And I think taking you from kinda one of the places where you made real progress in terms of how do we build houses, how do we buy them? First, getting homeowners ready to buy them and then change, and then creating financial products to enable them to manage their finances and being in a position to buy them, changing the home.

Stuart Yasgur: One of the other massive pain points we hear is home insurance.

Nick Mitchell-Bennett: Oh God. Yeah.

Stuart Yasgur: And I know you wrestle with this both on the homeowner side and also on the kind of providing affordable housing to folks.

Nick Mitchell-Bennett: Yeah. Yeah. Insurance is, I hate to scare the world, but I think that there is a catastrophic event on our future when it comes to insurance of residential housing units, whether it be for homeowners or rental. The market is, if you look, we all look back in 2008 and '09, and we can all look at what happened with mortgage-backed securities and mortgages and the way that worked. And they found one issue, one issue, and then that issue caused a catastrophic mess in the whole mortgage market arena, and then the housing just across the board, not just affordable housing for low-income people, but for everybody.

Nick Mitchell-Bennett: And I'm afraid to think that we've actually found that here with insurance, just in our market alone, one third or more of our clients had to change insurance carriers.

Nick Mitchell-Bennett: Over the last three years, which I don't know, Stuart, if you've changed your insurance on your house, and whether you would be doing that. That's not something I think about doing. But they've changed insurance carriers for two reasons. One, that the cost has gotten so high they can't afford it.

Nick Mitchell-Bennett: And number two, because the insurance provider has left the market. And so, when these insurance providers leave the market, or they price themselves out of the market, then it pushes home buyers, as well as owners of rental units into kind of the... I almost want to call it the payday lending market of insurance providers.

Nick Mitchell-Bennett: Most states have an admitted carrier, one who's following all that's in Texas, that is approved by the Texas Department of Insurance, and then they have these unadmitted carriers, and they don't have as much regulation as the admitted carriers do. Right now, our home buyers that in our portfolio of servicing units that we service, 20% of them, and it's climbing every month, are using an unadmitted carrier.

Nick Mitchell-Bennett: Now, I'll get to why that's not good. And then on the rental side, it's even a bigger problem. I'm not gonna say a hundred percent, but I'm gonna say very close to it. I would say most rental housing units in this country are probably being insured by an unadmitted carrier in their state. And we're trying right now to collect as much data as we can on that.

Nick Mitchell-Bennett: I would encourage you to ask the questions. Like, what can people do? I think that those who are studying this can figure this out. And so that I'm, if it's 60%, it's still a big problem. If it's 50%, it's still a massive problem. But I'm, everybody I've talked to, and I work in this industry, that's where they're at now.

Nick Mitchell-Bennett: An unadmitted carrier, for example, in the state of Texas, don't have to meet capitalization requirements. And so that's a problem. And then even if they did meet the... even if they were checked by TDI in Texas, and I'm only talking from Texas point of view, but let's check the rest of the other 49 states.

Nick Mitchell-Bennett: In Texas, they're not checking unadmitted carriers' capitalization stance, and where they are, even if they did those rules under

the capitalization, rules of insurance companies in Texas have not been updated for 25 years. So, if I'm having a fire in one of my apartment buildings, I'm not too worried. I'm sure this company has the capital to pay me out.

Nick Mitchell-Bennett: If I'm hit by a class five hurricane, and every unit that I have gets demolished, I can guarantee you this insurance company's not gonna have the capital to pay me out. And investors in affordable housing, so those buying tax credits and those lending money, we're giving them a piece of paper that says, we're insured.

Nick Mitchell-Bennett: Here you go. And they're like, okay, check. Good. I think it's as good as the paper it's written on.

Stuart Yasgur: That's fascinating. That's fascinating.

Nick Mitchell-Bennett: Scares me to death.

Stuart Yasgur: That is really interesting because unadmitted carriers, carriers that are not admitted. One, it's their cap levels, but it's also, they don't have access to state guarantees.

Nick Mitchell-Bennett: And if there are any. So that's, that's our thing is we believe the government needs to step in here 'cause we've done it for farmers. Even the reinsurance system for farmers is packed by the federal government. We did it for terrorism insurance. Federal government actually backs terror, is like, every year I get this form that says, does cdcb want to buy terrorism insurance?

Nick Mitchell-Bennett: And I know that's backed by the government, but affordable housing, the number of people living in affordable housing, just affordable housing rental units in this country is massive, in some way, shape, or form, or subsidized by the federal government, and they're not properly insured.

Nick Mitchell-Bennett: The government needs to step in and create some sort of, some sort of backdrop on this. And, or backstop, on this, because I don't... we're gathering as much information as we can get, a lot of people are like, Nick, you're, crying wolf, and all this kind of stuff.

Nick Mitchell-Bennett: And I'm like, every time I... my policy director, Dr. Daniel Elkin, did a thing with the Urban Institute a while back, and had this conversation, and somebody from the insurance industry found him afterwards and said, just wanna let you know, you're probably right. And that was like, oh gosh, we're just not....

Nick Mitchell-Bennett: Okay, we're not making this up. Like it's a, it's something out there. And so, I would love to say to you, Stuart, I've got this great plan to fix this. I know this is about like, how do we do, how do we design a new economy? This, I'm like, this is a problem, and I'm not sure how to do it.

Nick Mitchell-Bennett: Because it could be bad, especially in this time of climate change, and we're having these things happen, and a fire isn't destroying just one building. It's destroying complete towns. In California. And in Hawaii, like, completely. So, it's not just a hurricane in Florida, or Texas, or Louisiana.

Nick Mitchell-Bennett: It's massive. And I'm not sure we're, I'm thinking we're putting our head in the sand and saying if we don't look at it, it ain't there.

Stuart Yasgur: Part of creating what's new is that we need to be clear-sighted about what the problems are that we have. And by the way, if you wake up tomorrow and you have the come dream. come build version of how we solve insurance, please, we'll be right there.

Nick Mitchell-Bennett: I'll call you soon. Right there on my call list.

Stuart Yasgur: Fantastic. But those are sobering thoughts. When we recognize, just how much we need affordable housing, we need people to invest in affordable housing. We need those homes to be covered by insurance. If that insurance is really being provided primarily by non-admitted Insurers, then that does create a real limit to the amount of capital that's protecting those investments.

Nick Mitchell-Bennett: And it's not just low-income people anymore, right?

Nick Mitchell-Bennett: Yeah. It's you and me. 'Cause there's a point, there's a point where you and I can't afford it either. And it's you're like this guy's cheaper. And it's but what do we know about this guy? But yeah. The other thing that we're working on, just on a bigger, on a happier note, I can tell is, one of the things that we're struggling with in the housing industry nationwide are members of the trades and those who, the average age of a plumber in the Rio Grande Valley is 56 years of age.

Nick Mitchell-Bennett: And the average age of an electrician is 55. These are licensed individuals that we're required to have to build houses, and there's no way for us to build the number of units that we need in this country to bring the cost of housing down without folks who wanna be plumbers and want to be electricians.

Nick Mitchell-Bennett: I think this is a manmade problem. I think that our overzealousness to send every single young person to college to make them study STEM is, not that I have a daughter who's pre-med, right? I'm happy with that, and I want young people to do what they want to do.

Nick Mitchell-Bennett: I really believe that, and that's one of the choices they get to make. And I believe in choice. But they're not really informed about some of the other choices. And we've been running a YouthBuild program here in Brownsville for 30 years now. And that's where we take high school dropouts between the ages of 16 and 24.

Nick Mitchell-Bennett: And we help them get their GED and then also train them to be with an NCCR certificate, which is the entry-level construction skills testing and welding. We have an entry-level welding program, and then we also have an entry-level program CNC machine. We're actually moving that program of 30 years into actually being a diploma high school, like a certified, accredited high school.

Nick Mitchell-Bennett: So that we can give other folks, maybe they didn't drop out, but they would like to do that. Today's graduation. Every year we have a graduation for students. We're graduating 35 students this year. It's tonight, my suit's back here in my office, and I'm really looking forward to it.

Nick Mitchell-Bennett: But it's a great thing to take these kids who, some of them been touched by the justice system. A lot of 'em are homeless, and they're couch surfing. But on top of just that impact to those young people making, I feel like we need to have shop class again in high school. We need to have home ec class in high school. These things are really important because it's affecting, you can still do math, you can still do science, but you're actually able to put that to work as a plumber or electrician or air conditioning and cooling and heat pumps and all this stuff that, you know, things are getting better, they're getting more sophisticated. We need smart young people learning how to do this and really be committed to it.

Nick Mitchell-Bennett: On our website. You can go info@cdc.org. And on our website, you can also click on us there, and we'd love to talk to folks about it and how to get involved. We're part of a bigger kind of national thing called the Partners for Rural Transformation, 'cause we're working in small metro and rural areas.

Nick Mitchell-Bennett: Money is very much like water. Water flows to the place of less resistance. Money is the same way. And putting money into rural persistent poverty locations is very difficult. The partners for rural transformation operating in the Delta, Appalachia, farm worker

communities, and Native American reservations in the rural south, we're out there doing that.

Nick Mitchell-Bennett: The last study we looked at, philanthropy is at about \$950 per head in New York City. But philanthropy on Indian reservations is about two bucks. In the Rio Grande Valley, it's about \$21, \$25. In the Mississippi Delta, it's about 30 or less.

Nick Mitchell-Bennett: You can look at prt.org, and if that's a region that you're interested in, one of those that I named off, those organizations are doing phenomenal work. We're one of six groups that started it to highlight, this works. That's happening in places that most people don't think about. We're not New York, we're not San Francisco, do you want to invest in lives and change lives in places like this? And we're all working around the sustainable concepts, even though those are words we're not supposed to be talking about these days.

Nick Mitchell-Bennett: It's built into our system.

Stuart Yasgur: All this work that you're talking about, it takes capital to make this work possible. And when there are organizations that are well run that are thoughtful and intentional about how they're doing it, it can be an incredibly efficient and effective place to deploy capital into, to have a real impact on people's lives.

Stuart Yasgur: And, yeah. Creating more resilience is better for the people who are living in those homes. And the bills go down, and they're safer, and they have a home that's more secure.

Nick Mitchell-Bennett: Exactly.

Stuart Yasgur: Nick, thank you so much for taking the time to talk to us today. This has been incredible.

Nick Mitchell-Bennett: Stuart, thank you for the invitation. It's been fun. I enjoy watching your work, and the stuff that you put out is really good and informative for us. Most definitely. So, thank you

Stuart Yasgur: Nick is a remarkable innovator. He's a remarkable innovator because Nick spots problems, comes up with ideas that solve those problems, and acts on them to solve those problems quickly.

Stuart Yasgur: One of the things Nick did in this conversation, which was a surprise he focused on the problem that he thinks is underdiagnosed. And the problem is this: if you have a mortgage, you need to have homeowner's insurance. If you're providing affordable housing, you need to have insurance on the building. You can get insurance from a mainstream insurance provider.

Stuart Yasgur: Most of the insurance providers that people are aware of, Allstate, for example, right? If you get insurance from what is called an admitted carrier, there are a lot of regulations for those insurance companies that they have to meet. But one of the benefits is that consumers are more likely to wanna buy from them because even if that insurance company goes bankrupt, the claims are gonna be backed up by the state governments. And so, it's a little bit like having FDIC insurance on your bank account.

Stuart Yasgur: The rates for insurance are getting so high that fewer of the providers of affordable housing can afford to buy their insurance from admitted carriers. As a result of that, they're going to folks who are not admitted, what are surplus lines when they go to surplus lines. So, they're taking out insurance from the surplus line providers. Their costs are much lower, but also these companies are not nearly as well financed.

Stuart Yasgur: And so, as Nick points out, look, if there's a tree branch that falls and breaks a window and I need to make a \$10,000 claim, his insurance company's gonna be there. That's not gonna bankrupt them.

Stuart Yasgur: But if there's a storm and they lose most of the building and they lose the buildings in the rest of the neighborhood, he has zero confidence that the insurance companies will actually be able to pay that claim. Combine that with the fact that he thinks almost every provider of affordable housing is purchasing their insurance from surplus line providers.

Stuart Yasgur: He's pointing out that he thinks we have a massive liability that people are not recognizing, that if we get severe climate events, all of this infrastructure in our country has no insurance that's gonna back it up. And he thinks this is a calamitous risk that we're not appreciating as a society.

Stuart Yasgur: Like Nick is, he's with one organization, but his one organization is serially innovating all different aspects of this problem. At the center of their work, they focus on housing as an organizing principle. Get people into safe, affordable housing, ideally into home ownership that enables them to build wealth over time.

Stuart Yasgur: So I think one of the things that we see in Nick's work is that he gives the organization license to identify each barrier that the people he's working with face and then attack those barriers in ways that become enduring kind of innovations that goes from everything like the education pieces, creating financing vehicles, like how do we actually get you access to the money that you need to make this purchase?

Stuart Yasgur: Dramatic contrast between, for example, business entrepreneurs wisdom about how you're an innovator in business, where you're supposed to do a thing, you're supposed to do that thing really well. Get really good at your area, and what's not your area. Many social innovators do not work like that because they're working in environments in which there's a whole broad range of needs, and in order for them to succeed in solving the problems that they're trying to solve, they have got

to address this whole kind of pipeline of needs for the people that they're working with.

Stuart Yasgur: Innovative, entrepreneurial, really important, and noteworthy for us to look at.

Stuart Yasgur: I'm Stuart Yasgur, and this is Economic Architecture, the podcast.