Commercial strip in Meridian, MS

Good deal for a small town

By Courtney Dufries

It's not easy to put together an effective business loan program, but community leaders in Meridian, Mississippi, were not deterred. Recognizing the need for small-dollar business loans with an above-average credit risk, community leaders announced the formation of a multi-bank community development corporation in

See MERIDIAN, page 4

Directors' responsibilities under CRA

By Kelly Walsh

Imagine this scenario: You are on the board of directors of the local bank. At a board meeting, you learn that your bank has recently received a "Needs to Improve" on a CRA compliance examination. This rating is below "Outstanding" and "Satisfactory" but above "Substantial Noncompliance." What should you do?

Well, you could fire the compliance officer. You could call your regulator and complain about the rating even if you do not have legitimate questions or concerns. You could ignore the examination results or decide that the situation is hopeless. You could make charitable contributions. Or you could react by throwing money at the problem. Like making loans to the first ten people from neighborhood X who come into the bank, all because

rating simply by increasing charitable contributions.

Kelly Walsh is the Community Affairs Officer at the Federal Reserve Bank of San Francisco.

See DIRECTORS, page 3

INSIDE THIS ISSUE

- Albany, Georgia forms a public/private partnership to address affordable housing and neighborhood revitalization
- Two $1 million CDCs are formed by two large financial institutions
- Solutions to typical barriers to community development lending
- Florida bank commits $2 billion to community development lending
Georgia on my mind

Revitalizing distressed neighborhoods and developing a sense of community are quite formidable challenges. The City of Albany, Georgia, and Security Bank and Trust Company of Albany have accepted the challenge and formed a $2 million public/private partnership to provide housing opportunities for first-time, low-to moderate-income buyers.

The project, announced in 1989 and called Hampton South, consists of 38 new townhouses and 4 new single-family detached homes on 7.4 acres in south central Albany. These units range in size from 950 to 1,550 square feet and are priced from $33,000 to $51,000. Two of the floorplans are designed to be accessible to handicapped persons. All major appliances, wall-to-wall carpeting, and central heat and air conditioning are included in the purchase price.

The program is administered by the Albany Local Development Corporation and the Community Development Division of the City of Albany (CDD). Funding is provided by the Security Bank and Trust Company of Albany and a community development block grant from the Department of Housing and Urban Development. Security Bank and Trust provides permanent financing as well as $1 million of the $1.8 million needed for construction of the project.

Recognizing the importance of community development lending, Mitch Everett, assistant vice president of Security Bank and Trust, commented that the bank was "... trying to go beyond business as usual and make an obvious difference in the community."

Construction was completed 18 months ago, but sales are slow with 18 units sold so far. The CDD attributes this slow sale to the general economic climate, the poor credit of the applicants (out of 150 applications taken on opening day, only 3 qualified), and the location of the property. Also, many potential buyers are not accustomed to the townhouse style of homes.

Security Bank and Trust provides the first mortgage for up to 50 percent of the purchase price. The interest rate is fixed at 1 percent below current market rate, for a 15-year term. City officials prefer the 15-year term because it allows homebuyers an opportunity to build equity quickly through principal reductions. A second mortgage is provided by the CDD with a fixed interest rate of 3 percent for 30 years.

To qualify for the program, prospective applicants must be first-time homebuyers who have lived in Albany for at least two years. The purchaser must have a full-time job or have been self-employed with a steady employment record for the past two years. The applicants must earn between 50 and 80 percent of the median gross family income for Dougherty County. (The median income for the area is $32,000 a year.) A down payment of 3 percent is also required.

In an effort to cut costs, the CDD prequalifies the applicants, and the bank has lowered its origination fee to 3/4 of 1 percent. All other loan documentation and loan closing costs have been reduced to $150.

The underwriting criteria limit total monthly housing expenses to 38 percent of gross monthly income and total monthly debt payments to 58 percent of gross month.

See ALBANY, page 3
New subdivision spurred pride and additional development.

ALBANY: A community partnership

Continued from page 2

ly income. Although many loan underwriters believe that debt ratios this high may lead to an above average level of past due loans and an increased risk of loan losses, the loans in this portfolio are not seasoned enough to accurately measure their performance. In fact, the increased risk of loan losses is limited for the bank because of the maximum loan to value ratio of 50 percent. However, the borrowers' increased risks of slow payments or defaults on these loans or other debts remain.

The CDD also has the right of first refusal on the properties if they are sold. If a unit is sold or if ownership is transferred within ten years of the original closing, the owner is required to repay part of the equity build-up to the city. The owner's percentage of the equity increases 10 percent each year through the tenth year. The home can be sold only to someone who meets the income limitations for the development during this ten-year period.

Currently, there are no credit counseling or

Your bank was criticized for not marketing effectively in neighborhood X. You could forget that special loan programs must make sense for your institution and be carefully planned and thought through. So what if making loans arbitrarily in neighborhood X could do more harm than good. Big deal if neighborhood X residents need special credit counseling or a description of the bank's loan products in Spanish or Korean.

You could choose any of these options, but would they be wise or worthy? Not necessarily. There are many other constructive options available to you.

First, read the examination report thoroughly; then agree as a board to develop an overall, comprehensive CRA program for the bank that fits the overall strategy of the institution. Delegate the responsibility for this CRA program to an officer. That officer needs to have authority, time, and resources; the officer should report to the president. Then you and board members should agree that all weaknesses noted in the report will be addressed by the CRA officer, with board support.

Characteristics of a poor CRA record

What kind of weaknesses might you see in an examination report with a "Needs to
January 1992 to serve this vital market.

Over the years, several innovative technical assistance and educational programs have been provided for economically disadvantaged entrepreneurs through the Meridian Community College Business Development Center.

To complement these programs and provide for small-dollar loans (less than $5000), a local bank and a state senator donated $22,000 to establish a Revolving Loan Fund administered through the Business Development Center.

However, it soon became apparent that business loans between $5,000 and $25,000 were required for many small businesses, but low profits and high credit risks precluded conventional bank financing. Rising to the challenge, four local banks, a public utility, the community college, and the state of Mississippi pooled resources to establish the East Mississippi Development Corporation (EMDC).

EMDC was initially capitalized at $147,000 with bank contributions and a grant from the Tennessee Valley Authority. Community Development Block Grant funds allocated by the state will be used to provide a dollar-for-dollar match, thus doubling the fund. And the state’s minority revolving loan fund will be used to leverage EMDC funds, thus providing almost $400,000 in total loan capital.

The Bank of Meridian, Citizens National Bank, Trustmark National Bank, and Deposit Guaranty National Bank invested $25,000 each in EMDC.

Gerald Mills, director of the regional office of the Mississippi Department of Economic Development, helped negotiate the details of the program as a model to use around the state.

Mr. Mills believes the CDC will "have a positive impact on the community, and allow bankers to think in unconventional terms while taking a controlled risk." Just as important, "the CDC provides a vehicle for banks to refer denied loans."

In fact, potential borrowers must have two denial letters from conventional lenders to apply for a loan from EMDC. This requirement insures that the CDC remains focused on its targeted market; the entrepreneurs who are not currently bankable.

EMDC will accept loan applications from businesses operating in an eight-county region in east central Mississippi.

For more information on this program, contact the Meridian Community College Business Development Center at (601) 483-8241.

The Bank of Meridian, Citizens National Bank, Trustmark National Bank, and Deposit Guaranty National Bank invested $25,000 each in EMDC.

Gerald Mills, director of the regional office of the Mississippi Department of Economic Development, helped negotiate the details of the program as a model to use around the state.

Mr. Mills believes the CDC will "have a positive impact on the community, and allow bankers to think in unconventional terms while taking a controlled risk." Just as important, "the CDC provides a vehicle for banks to refer denied loans."

In fact, potential borrowers must have two denial letters from conventional lenders to apply for a loan from EMDC. This requirement insures that the CDC remains focused on its targeted market; the entrepreneurs who are not currently bankable.

EMDC will accept loan applications from businesses operating in an eight-county region in east central Mississippi.

For more information on this program, contact the Meridian Community College Business Development Center at (601) 483-8241.
Southern banks form million dollar CDCs

NationsBank

NationsBank/Tennessee, a commercial bank headquartered in Nashville, Tennessee, and formerly called Sovran Bank/Tennessee, has established NationsBank/Tennessee Community Development Corporation, a for-profit CDC that will provide specialized financing for both housing and small/minority business projects.

The CDC will be capitalized initially at $1 million and will be staffed by two full-time officers. Projects will be identified by both community groups and bank officials at NationsBank branches and referred to the CDC for action.

A board consisting of 10 bank officers and four community representatives will establish policies and approve large investments, while an Investment and Loan committee will approve smaller requests. The bank or bank holding company will loan money to the CDC for specific investments.

The CDC intends to serve as an investor in a majority of its housing projects and may choose to be the developer in other projects. Direct equity or subordinated debt financing may be available for small business ventures.

"The current demands," according to Senior Vice President James Lawson, "are for housing loans. We know it's a high priority in the community, and given our experience, it would not be difficult to serve this market."

By processing these loans through the CDC, "We can exercise more flexibility in our underwriting and provide the financing vehicle needed to enhance affordable housing."

For more information on Nationsbank/Tennessee CDC, contact James Dennis Rash, president of NationsBank Community Development Corporation, Charlotte, North Carolina (704) 386-8054.

SouthTrust Corporation

SouthTrust Corporation, a multi-bank holding company headquartered in Birmingham, Alabama, has established a for-profit subsidiary community development corporation (CDC) that will build, acquire, renovate, and own low-to moderate-income, multi-family rental housing properties in the local communities of its affiliate banks.

Currently, affiliate banks are located in Alabama, Florida, Georgia, North Carolina, South Carolina, and Tennessee. Specific projects will be identified by affiliated bank presidents and presented to the CDC for consideration.

The CDC, with initial capitalization of $1 million, expects to invest in approximately four projects a year, with investments ranging from $250 thousand to $1 million each. The CDC will be named SouthTrust Community Reinvestment Corporation.

According to Michael E. Milner, vice president of community reinvestment at the holding company, "There are tremendous opportunities out there, but," he added, "we'll start at a slow pace initially to help the greatest needs first and to get some experience behind us."

Besides the initial capitalization, the CDC will have a $5 million line of credit from the holding company to fund specific projects.

"There is so much business, we need to sort through opportunities that already exist," said Mr. Milner. "We intend to leverage our money with as many partners as possible, including nonprofit organizations, government partners, and other financial institutions. We'll also look to the Federal Home Loan Bank's Affordable Housing Program as a source of funds."

For further information on this initiative, contact Michael E. Milner, vice president, at (205) 254-4351.
Overcoming barriers to successful community reinvestment

By John Weiler

More and more bankers are recognizing that community development lending can be a safe and profitable line of business for their institution, as well as strengthening CRA compliance. One key to making community development lending (CD lending) work for your bank is anticipating barriers and planning ways to overcome them.

DTI has trained lenders in one-day orientations to CD lending and we always ask what obstacles they see to expanding their bank's CD loan portfolio. Across the country, their responses are remarkably consistent. The good news is that banks like yours have found ways to overcome these barriers.

The following are six commonly cited barriers to CD lending and methods to overcome each.

"These loans are too risky; my bank has only limited capital."

This is the most common mis-perception surrounding CD lending. Banks all across the nation have found CD loans can have lower default rates than conventional portfolios. A few examples:

**Home ownership:** Boatmen's Bank (St. Louis) has originated over $100 million in purchase/rehab financing in poor neighborhoods since 1988; they have experienced no defaults.

**Rental housing:** SAMCO, a consortium of California financial institutions, has lent over $300 million since 1969 for single and multi-family projects; they have had minimal defaults and delinquencies and have never had a 60-day delinquency in the multi-family portfolio.

**Small business:** Integra Bank (Pittsburgh) has made $98 million in loans to small, minority, and women-owned businesses since 1988; their delinquency rate is reported to be lower than their overall portfolio.

These experiences are repeated by well-managed banks across the country. Of course, any loan that is poorly underwritten can fail—whether the borrower is a low-income single parent or a high-income commercial developer.

All banks, especially smaller banks, face very real capital limitations. If your bank is small, you may choose to participate in the CD loans originated by another bank. This should earn you "CRA credit" to the extent that the loan meets a credit need in your community; the same rule applies to participation in a lending consortium. Alternatively, you may participate your loans to other banks; this allows you to maintain your borrower relationship while earning fees. Finally, your bank may be able to sell its loans on the secondary market to "recycle" CD capital while earning servicing fees. Loans guaranteed by the SBA are particularly liquid. FNMA also purchases affordable home mortgages through its programs.

"My top management isn't committed to reinvestment."

In training hundreds of bank directors, DTI has found that most are solidly committed to strong CRA performance once they understand the implications of insufficient reinvestment. CRA affects mergers and expansions, which affect future profitability. CRA also affects the image of the bank in the marketplace and therefore market share. Examiners look closely for evidence of leadership and review by bank directors when evaluating CRA compliance. These are all reasons why directors should care about CRA.

To improve board involvement, organize them—recommend the formation of a CRA subcommittee and brief them regularly on your performance against reinvestment goals they have adopted. Reward them—in-vite them to ground breakings and award dinners and recognize their leadership. Inform them—about your bank's progress and "horror stories"
DIRECTORS: Setting the tone and the policy

Continued from page 3

Improve Rating?" First, there might be technical weaknesses. Does the bank have a CRA statement? (This document lists what types of credit the bank offers and what area it serves, and it must be made available to the public upon request). Is everything in that statement true and accurate? Does it list the bank’s products and services? Has the board reviewed the statement this year? Does the statement fit with the strategy of the bank? Is the public notice where it should be? Is the CRA comment file accessible? Have public comments been adequately addressed? Is the delineation of the bank’s community reasonable?

Other types of weaknesses may be noted in the examination report. For example, you might find criticisms in the following areas:

ASCERTAINING CREDIT NEEDS: The CRA officer must ensure that the bank has a system for determining credit needs in the community. As a director and community leader, you can provide useful information. You may even have inside knowledge about the community’s credit needs. Communicate this information to the CRA officer so that (s)he can incorporate it into the bank’s program.

OFFERING CREDIT AND MAKING LOANS: The bank might have been criticized for noncompliance with the factors under "types of credit offered and extended." The "offered" part means that product development should fit with what is learned by determining the credit needs of the community. For example, if your bank determines that credit product X is needed and the marketing people are working on Product Y, you have a problem.

The bank should also have a marketing plan. This plan can be anything from direct "cold" calls to paid advertisements. The bank does not necessarily need a big budget, but it needs a plan. The CRA officer must ensure that the bank’s products and services are offered to all areas of the community, not just to affluent neighborhoods and high net worth persons. The entire community should be aware of the bank’s products and services.

WHERE THE LOANS ARE: The bank might have been criticized for the geographic distribution of its loans. Regulators expect banks to have a method for determining where applications are coming from, where credit is extended, and where loans are denied. At the present, the Federal Reserve System does not require that this process be a formal one, but knowing from what neighborhoods applications come will help the bank with its marketing strategy. Once the bank knows where applications originate, it knows where folks are who are not applying for credit; this information represents an opportunity for your bank.

OTHER LAWS AND STATUTES: The bank may have been criticized in the examination report for failing to comply with anti-discrimination laws or other consumer regulations such as the Equal Credit Opportunity Act, which often overlaps with CRA. Are there any unusual lending patterns in the bank’s community? The CRA officer must ensure that the bank is not doing anything that discourages people from applying for credit. And if the board of directors intends for the bank to make loans to all qualified applicants, this intention must be made clear to your employees by incorporating it into the loan policy.

COMMUNITY DEVELOPMENT: Finally, the bank may have been criticized for not seeking out community development opportunities. The CRA officer should be aware of community development and redevelopment projects sponsored by local government or other entities; as a director, you may be the best source of information about
that. Examiners often find that bank directors have existing relationships with government officials, community leaders, and other bankers. So let the CRA officer know what you know, who you know, how often you meet with community leaders, and what you learn from them. There should be a way to convey what you know and how active you are in the community to the CRA officer; this information counts toward the bank's CRA program.

Self-Assessment: Other than compliance with specific parts of the CRA regulation, examiners may have found that the bank was not performing any type of a self-assessment of its CRA performance. A system should be in place to evaluate the bank's performance before the examiners get there. This system can range from a simple checklist to a review by the audit department. Examiners are often impressed by banks whose directors require periodic reporting of the bank's self-assessment to its senior management or board.

CRA policy should be treated just like any other policy. Once you decide how the bank is going to handle CRA compliance, write it down. Documentation is simply putting policies and procedures in writing and tracking the bank's progress (activities). Over the years, examiners have found a clear

**COLLEGE CORNER**

Clemson students redesign Atlanta corridor

Students are coming out of the classroom and going into communities to get experience in neighborhood revitalization. Most recently, land use design proposals from students of Clemson University's School of Architecture are likely to have an impact on development efforts in a downtown Atlanta neighborhood. The proposals were presented to city officials, neighborhood planners, residents, and developers at an open viewing held at Atlanta City Hall on February 10, 1992.

As part of the School's spring project, "Orientation in the City," students formulated a redevelopment plan for the Memorial Drive corridor of the Grant Park neighborhood in Southeast Atlanta. The plan proposes mixing the light industrial uses already in the corridor with retail, commercial, and housing development.

Architectural compatibility and serving the needs of the adjacent communities, mostly low- and moderate-income, were the two themes emphasized during meetings with planners and residents.

The partnership between the students and the neighborhood proved to be beneficial to both. It provided the students with an actual client-based experience and gave the neighborhood a set of detailed plans that it could not have afforded to produce otherwise.

Clemson's involvement came about at the request of Danita Brown, a part-time Clemson instructor, and an architect with Turner Associates in Atlanta.

"I thought this would be an excellent opportunity for our students to be involved in a real community project. It was also very helpful to the neighborhood," she said.

Ms. Brown added, "Being able to see the possibilities in plan and model form helps the community buy into the vision and serves as a

See DIRECTORS, page 9

See CLEMSON, page 9
correlation between the comprehensiveness of documentation and the strength of CRA performance.

**Do's and don'ts of documentation**

Among the things not to include in documentation for CRA is a list of memberships. Just mentioning that your loan officer is in the ABC Club is not enough unless there is a direct relationship with CRA. Is this person distributing loan applications at club meetings? Is (s)he talking about the bank’s programs? Does (s) he hand out business cards? Is (s)he completing a survey of the group’s perceived credit needs? These activities would be directly applicable to CRA. List them, and document them. If the person is just a member attending meetings, it’s not necessarily a CRA-related activity. The test is whether these affiliations relate to the extension of credit.

Documentation for CRA should not include a list of every business call made by every person in every branch. Examiners are not impressed by volume, but by quality; avoid "padding" your documentation with irrelevant information. Don’t make a list of investments not related to CRA or calls made to solicit deposits.

What should your documentation include?

Community contacts, yours and those of bank officers and employees: Names and dates and the reasons for and the results of community meetings. Any special program designed by the bank to meet credit needs of disadvantaged neighborhoods. All community development loans. The bank’s involvement in local community development or redevelopment projects. Other resources of the bank that have contributed to the bank’s CRA program—like time spent consulting with community organizations, the provision of meeting space, and any participation on local community boards or committees. This time spent can include involvement by the bank’s directors on local committees and other boards. There should be a mechanism for communicating your relevant activities to the CRA officer to be included in the bank’s record.

**Elements of the Ideal CRA program**

Bank supervisors find that the best programs exist in banks that have a CRA committee that reports regularly to the board of directors and receives feedback. Having a separate committee will save the board time and provide a concentrated effort toward CRA compliance. The committee should be responsible for determining what is included in the bank’s CRA program and what is not included.

These CRA committees seem to work best when they have representation from various areas in the bank. The following is an example of a CRA committee for a large bank. (Many institutions will have smaller committees and less diverse representation).

At least one outside director should be on the committee. Also on the committee should be the bank’s president, the CRA officer, a product development department representative, the marketing person, and lenders from the real estate, consumer, commercial and small business areas. A rep-
BARRIERS: Community improvement requires private capital

Continued from page 6

of negative press from CRA. Finally, train them.

"We are a small bank with limited resources."

Some of the most successful and innovative reinvestment programs come from small banks. Why? Because they are close to their market and have a clear vision of what they do best. Your reinvestment program must build from your bank's strengths to be successful.

Begin with strong ascertainment to learn the credit needs in your niche. Remember, ascertainment is a market assessment. The objective is not documentation, but business. If business lending is your strength, contact chambers of commerce, business persons associations, small business development centers, county extension services, farm bureaus, and offices of economic development. If mortgage or construction lending is your specialty, contact realtors, community groups, legal services agencies, state and local housing departments, and financial intermediaries like the Local Initiative Support Corporation (LISC), the Enterprise Foundation, or Neighborhood Housing Services (NHS). In every case, communicate your bank's products and listen to what your potential borrowers tell you about unmet demand. These are, of course, only partial listings of groups to contact.

To manage cost, build your network and use local partners to shift transaction costs. Your bank may participate in "intermediaries" like consortia, multi-bank CDC's, or a tandem-lending agreement with an NHS.

"We are located in a small community with no CDCs."

There are still places without the benefit of non-profit community development corporations (CDCs), but these groups are rapidly proliferating. A recent survey found that there are more than 2,000 CDCs in America today; almost 400 of those groups have incorporated in the last five years. And do not assume that CDCs exist only in big cities—nationwide, nearly 400 CDCs focus on rural areas. Call the state's Housing Finance Agency and Office of Community Development to find out which non-profits in your area have received low-income housing tax credit allocations and community development block grant (CDBG) funds. Call the state-wide low-income housing coalition and ask what CDCs or Community Action Agencies (CAAs or "CAP agencies") are active in your area. Ask your United Way affiliate which community groups have a development agenda. Contact your local elected officials and ask about community-based development proposals of which they are aware.

Next, support the community groups which now exist to develop their skill further and become more creditworthy. Banks can refer non-profit borrowers to technical assistance providers like Housing Finance Agencies, community loan funds, financial intermediaries, or groups like the National Rural Development and Finance Corporation or the Housing Assistance Council. Other useful referrals may include for-profit firms as potential joint venture partners. Banks can help build their borrowers' capacity through providing pro bono services, technical assistance, operating support grants, and scholarships for training and conferences.

Many banks find that CDCs and other community-based developers are among their finest CD borrowers. Nevertheless, CDCs are not a pre-requisite for successful CD lending. Small business borrowers are almost always entrepreneurs with strong profit motives. Current conditions in real estate have led more and more for-profit developers to "discover" commercial revitalization and affordable housing markets that have not been overbuilt. A word to the wise—it is in a lender's interest to insist that the community is genuinely represented in any CD project.

See BARRIERS, page 13
Barnett Banks announces lending commitment

Barnett Banks, Inc., a $32.9 billion bank holding company headquartered in Jacksonville, Florida, announced a $2 billion commitment to community development lending from 1993 to 1997. The commitment will apply to the 33 Barnett banks (597 branches) located in Florida and Georgia.

The commitment includes $1 billion for residential mortgages, including VA and FHA loans, Fannie Mae’s Community Homebuyers Program, and Barnett’s special loan program called Home Ownership Made Easy (HOME). HOME loans allow lower downpayments and reduced closing costs.

In addition, Barnett will offer $180 million in loans to small businesses owned by women and minorities. Special focus groups have been organized in Orlando, the Tampa Bay area, and Miami to help identify these loan products and develop underwriting criteria to meet community needs consistent with safe and sound banking principles.

Another $800 million will be allocated for consumer loans, including home-improvement loans, student loans, and consumer loans for under $3,000. Consumer loans in that range represent a change in policy, and is an attempt by the bank to better meet the credit needs of low-income persons.

Barnett previously announced a $26.7 million commitment to First Housing Development Corporation, Tampa, Florida, a state-wide corporation established to finance multi-family real estate developments for low- and moderate-income people. First Housing Development (see Partners, Volume 1, Number 3), is funded by eleven financial institutions.

According to Kathy Wiese, director of community development, the "commitment is not all new programs. Our staff has worked with these or similar products before, which means the customer shouldn’t have difficulty getting information from our branches." Barnett has appointed Community Affairs Officers at each of its 33 banks to further assist customers who want information on these loan programs.

ALBANY

Continued from page 4

homeownership programs in place. However, Rudy Goddard, Community Development Director for the City of Albany, has stated that a pre-purchase counseling program is being developed.

Project officials are hoping that self-esteem associated with homeownership, the formation of a Homeowners Association, and a monthly $15 charge for groundskeeping, will instill a sense of pride in the residents and keep the neighborhood from deteriorating.

After twenty years of having no new development, the neighborhood has started to see signs of recovery. Along with Hampton South, a police community center was constructed, and a neighborhood watch has been organized. The City is attempting to acquire a tract of land across the street from Hampton South to develop a neighborhood retail center. Efforts are underway to attract an anchor tenant for the center. This project has opened up the lines of communication between banks in Albany and city officials.

As Mr. Goddard said, "We have an excellent working relationship with the bank. They aren’t just dealing with housing. They are providing economic development loans as well."

Before Hampton South was developed, the neighborhood was in a severe state of decline. Now, with the partnership between Security Bank and the city, the goal of providing Albany citizens with decent, affordable housing and an improved quality of life is becoming a reality.
The U.S. Small Business Administration (SBA) will begin making 10-year loans of up to $750,000 to 35 selected private, community-based non-profit lenders. In turn, those lenders will use the funds to make small loans to emerging entrepreneurs. The "microloans" will range from just a few hundred dollars to as much as $25,000. Borrowers who seek more than $15,000 must show that they cannot get credit elsewhere on comparable terms. The small ventures most likely to benefit from this program tend to be part-time or home-based businesses.

According to the statute creating the program, the initiative is meant to "assist women, low-income, and minority entrepreneurs, business owners, and other individuals possessing the capability to operate successful business concerns. At least half of the non-profit lenders funded under the program will provide microloans to small businesses located in rural areas.

Congress approved $15 million for fiscal year 1992 to fund 35 microloan demonstration projects. The interest rate on the loans will be negotiated by borrowers and lenders, but cannot exceed four percentage points over the prime rate. Each intermediary is expected to provide, from non-federal sources, a loan loss reserve account equivalent to 15 percent of the loan amount.

The loans will have a maximum term of six years, can be used for working capital, inventory, supplies, furniture, fixtures, machinery and equipment. Approved Sixth District microloan participants are:

- **Community Equity Investments, Inc.**
  Pensacola, Florida
  Contact: Dan Horvath
  (904) 433-3619

- **Small Business Assistance Corporation**
  Savannah, Georgia
  Contact: Tony O'Reilly
  (912) 232-4700

- **Delta Foundation**
  Greenville, Mississippi
  Contact: Harry Bowie
  (601) 335-5291

If you have been unable to find a secondary market for your home loan program for low- and moderate-income people, we want to hear from you. Please call Hank Helton at (404) 589-7200 or send a letter to *Partners.*

---

**Fannie Mae Foundation's Maxwell Awards of Excellence**

Three Sixth District nonprofit sponsors of low-income housing projects were given $25,000 Maxwell Awards of Excellence. Established in 1988, the award program recognizes community-based nonprofits that develop housing to meet specific needs of low-income families and individuals.

- **Community Service Programs of West Alabama, Inc.,**
  Tuscaloosa, Alabama, for development of the first new low-income housing in Tuscaloosa in 10 years.

- **Southern Mutual Help Association, New Iberia,**
  Louisiana, for a self-help project in which members of a community of displaced sugar cane workers learn basic renovation skills and help renovate each others' homes.

- **Woodland Community Development Corporation,**
  Clairfield, Tennessee, for a self-help construction program for low- and very-low-income residents in an area of sub-standard "coal camp" houses.
"Our local government doesn't support this type of lending"

The 1980s were a time when all levels of government learned the buzzwords of "leveraging" private dollars and "forging public/private partnerships." Nevertheless, governments, particularly local governments, are only beginning to understand the requirements of CRA and its implications for the public sector. Last year, the National League of Cities published a guidebook on CRA and held a conference for more than 80 local officials in Atlanta.

Spend enough time to know what programs are available in your market, and communicate to public officials your knowledge of what credit gaps still exist. One way to do this for housing is to participate on a drafting committee for the Comprehensive Housing Affordability Strategy (CHAS) in your area. This document is required to receive federal housing funds and it establishes funding priorities. The CHAS process will enable you to understand the public financing universe while exerting leadership for new public credit enhancements. Alternatively, work with local government and other bankers to conduct a joint credit needs assessment. This can be the first step in a common blueprint for public/private reinvestment and community revitalization.

If your local government doesn't seem to support your reinvestment efforts, maybe they don't understand. Very few governments are against increasing the tax base or jobs, which are both byproducts of CD lending. CD lending is more than low-income housing. In Illinois, when six banks formed a multi-bank CDC capitalized with $500,000, they were able to convince their local counties to hire their first full-time Economic Development director. Use your commitment to bring others to the table with matching commitments.

"Our bank doesn't make real estate loans"

That's okay—plenty of banks don't. Small business lending and economic development are two of the most important ways to comply with CRA. Many banks find that their small business lending can be enhanced by using government credit enhancements. Two important contacts for the business leader will be the SBA (ask about their Small Business Initiative for Rural America) and the Farmers Home Administration, whose Business and Industry loan guarantee programs are too often overlooked.

If your bank determines that affordable housing development is needed in your market, there are a number of ways that you can support it without making real estate loans. First, you can provide a bridge loan or a letter of credit enabling a developer to undertake a project before equity is paid in or additional financing is finalized. Second, your bank could provide a letter of credit to enhance a local bond offering. Third, your bank could make a direct purchase of municipal bonds, or, if you have consistent tax liabilities, your bank could purchase low-income housing tax credits (typical yields range from 15-25%).

The Goal

Luckily, not every bank faces all of these obstacles. But persistence is a key to success in the CD lending market. Banks that approach community reinvestment with a strategic plan to maximize their strengths, minimize their weaknesses, and mitigate potential risks can reap significant rewards. CD loans are good for market share because over a third of consumers polled by the American Banker said that CRA performance would affect their choice of a bank. CD loans are good for employee morale, because everyone wants to strengthen their hometown. CD loans are good for corporate culture because the "can do" attitude required to make community development pencil out spills over to proactive lending relationships with other customers. Finally, CD loans are good for the bottom line because they perform.

For additional information, please contact John Weiler at (410) 764-0780.
The Local Initiatives Managed Assets Corporation (LIMAC) purchased its first loans under the National Community Development Initiative with Freddie Mac (See Partners, Volume 1, Number 1). The $100 million program is an attempt to establish a secondary market for affordable housing loans by providing market returns to institutional investors. LIMAC purchased a $5 million portfolio of eight mortgages on low-income housing from Harris Trust and Savings Bank of Chicago. The loans for 219 units kicked off the program; the loans were swapped for Freddie Mac participation certificates. The securities were then sold to the General Board of Pensions of the United Methodist Church. Harris Trust will continue to service the loans and retains some risk. The originating lender retains 20 percent pro rata risk, while LIMAC covers 80 percent of the loss on the top 20 percent of a loan, or up to 16 percent of the loan amount. Freddie Mac covers the remaining loan losses. The program is designed to free up capital for lenders to make loans to local community development corporations for low-income rental housing projects in their area. The initiative also reduces an institution's long-term interest rate exposure. According to LIMAC figures, only 9 percent of outstanding multifamily loans were securitized at the end of 1990, compared to approximately 50 percent of all single family mortgages.

Community Home Buyer's Program

In the two years since its implementation, the Community Home Buyer's Program has served families with an annual income range of $28,000 to $47,000. The program provides the borrower with a comprehensive buyer education course, sets more flexible qualification criteria, and insures low- and moderate-income loans with low down payments so that lenders can sell them to Fannie Mae and Freddie Mac. As of March 31, 13,500 loans worth $1.02 billion have been delivered to Fannie Mae under the program. General Electric Capital Mortgage Insurance Corporation, which helped to create the program (See Partners, Volume 1, Number 3), announced recently that it had passed the $500 million mark last month in insuring loans under the program. Fifteen months ago, GE had insured only about $70 million in affordable housing loans. GE estimates that 35,000 low- and moderate-income families have taken advantage of the program's education course, although only about 5,000 have become owners. In GE's portfolio, there have been no foreclosures and only 14 delinquencies.

DIRECTORS

Continued from page 9

personal involvement

Finally, what can you do personally to help your institution comply with CRA? First, attend the final discussion that examiners conduct with senior management when the examination is completed. Directors are always welcome, and examiners appreciate your participation. Second, when your bank receives the examination report, read it. Give any feedback you have for the response that goes back to your regulatory agency. Most important, stay involved. Know the community. When possible, meet with local government officials, industry leaders and with community groups. Your leadership of the bank is a cornerstone of your bank's leadership in the community.
**Articles**


**Studies**


**Booklets/Pamphlets**

- *A Guide to Business Credit for Women, Minorities, and Small Businesses* explains the credit application process, types of loans, and relevant regulations. Board of Governors.
- *Business Opportunities Casebook* is an effort to assist rural communities in their economic development efforts. For a copy, contact U.S. Small Business Administration, Rural Development, Business Development Division, 999 18th Street, Suite 701, Denver, Colorado 80202.
- *Community Affairs Officers at Federal Reserve Banks* outlines the Community Affairs Officer's role, duties, and responsibilities, particularly those responsibilities related to the Community Reinvestment Act. Federal Reserve Bank of Richmond.
- *Home Mortgages: Understanding the Process and Your Rights* details where and how to shop for a mortgage and explains the credit analysis process. Board of Governors.
- *How to Establish and Use Credit* discusses how to qualify for credit and use it wisely. Federal Reserve Bank of Philadelphia.
- *Is My Bank Meeting Its Community Reinvestment Obligations?* explains the requirements of the CRA and the examination process. Federal Reserve Bank of Atlanta.
- *Mid-Atlantic Conference on the Community Reinvestment Act and Community Development Corporations* is an enlightening transcript of a conference on the subject. Federal Reserve Bank of Richmond.

**Software**

- *Public/Private Partnership Model for Home Mortgage Lending* by Ronald Zimmerman is a Lotus-based, interactive computer model that enables the user to specify program underwriting criteria to determine a borrower's or a program's potential. Federal Reserve Bank of Atlanta.
**July**

Please notify Partners if your organization would like to publicize an upcoming conference. The editor also welcomes information about community and economic development efforts in your community.

**July**

National League of Cities, July 23-24, Baltimore, Maryland, *Financing Local Economic Development: Sources, Strategies and Creative Solutions*. Contact (202) 626-3170. This seminar will be repeated September 24-25 in Dallas.


**August**


National Housing and Rehabilitation Association, August 27-30, Quebec City, Quebec, Canada, *Summer Institute*. Contact (202) 328-9171.

**September**


**PARTNERS**

Community Affairs  
Department of Supervision and Regulation  
Federal Reserve Bank of Atlanta  
104 Marietta St., N.W.  
Atlanta, Georgia  30303-2713