Opinion

Whom should I see?

One bank’s approach to aid those seeking community development lending expertise

By Henry Johnson

It is no surprise that some community-based developers experience confusion and frustration in finding the right person to talk to about a community development loan request. While community development lending (CDL) programs of financial institutions usually have similar missions, the structure of each institution’s program must be tailored to fit its needs. One important determinant of how an institution organizes itself to handle community development loan requests is how the institution’s executive management views the community development market.

Other considerations include where the institution is positioned in its primary markets versus its competition; the scope and breadth of its operations; the maturity of its branch system; level of regulatory pressure (e.g., a need to improve CRA rating); and its level of corporate activity (new branches, acquisitions, etc.)

Changes in these factors coupled with the fact that CDL programs at most institutions in the southeastern United States are relatively new, may cause periodic refinements to an institution’s CDL approach and structure. Such changes could compound the community-based developer’s challenge of finding the right person to talk to about a project loan request or participation in a multi-bank loan program.

The CDL structure at First Union National Bank of Florida has been in effect, with some refinements, for over three years. Although the structure has not undergone any major changes, the focus of CDL staff has shifted as the level of acquisition activity in Florida has diminished.

First Union National Bank of Florida (FUNBF) is a subsidiary of First Union Corporation, Jacksonville, Florida.

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Detecting and eliminating possible discrimination in financial institutions

Excerpted from a speech given by Fed Governor John LaWare at the BA's Bank Audit, Compliance and Security Conference Dallas, Texas, March 30, 1993

I can't imagine a topic that embodies more controversy and affects more people than this one. This nation was founded on the idea that all of us have certain rights and certain freedoms. While the Pilgrims may have not had home ownership at the top of their list, home ownership certainly is part of the American dream today.

Lately, mortgage lending discrimination has become a leading attention getter in the press. Numerous magazine and newspaper articles, and even television programs, have focused on this issue. In turn, these articles have raised the public's perception of mortgage discrimination as a national problem. And, lately, the Congress has held several hearings on this issue.

More regulation, however, does not have to be the solution. In fact, I'm not sure that more regulation will solve the problem. I believe that it is up to us, regulators and lenders alike, to find the solution. We must take a hard look at what we are doing to eradicate discriminatory practices. We have to start now.

First, let me say that I certainly do not presume to have all the answers. I believe, however, that there are things that compliance and audit professionals can do to eliminate discrimination in your institution. Many of them cost little to implement, but will yield dividends in the future.

As I see it, there are three main areas or ideas. The first involves setting up a fair lending framework within your bank. Once the initial framework is established, reviewing what your bank is actually doing and taking steps to correct identified problems, should follow naturally.

Detecting and eliminating discrimination, whether intentional or not, takes special effort. Before you can achieve this goal, you have to make the message loud and clear that discrimination will not be tolerated. You have to make a statement and it should come from the "top of the house". Does your bank have a mission statement that incorporates fair treatment to all applicants? Do all of your employees, from the teller in the lobby to the telephone operator in the back room, know about the bank's position on discrimination? Do your policies and procedures make it clear that discrimination will not be tolerated?

Overt discrimination is easy to find. But that is the rarity. Today's challenge is to find the more subtle forms of discrimination, which include the treatment of some customers slightly differently than others. That type of discrimination is much more difficult to uncover.

If confronted, most of us would state that we do not harbor biases about certain races or income groups. While we may genuinely think this is the case, we may unconsciously treat some individuals with more respect, courtesy, or even offers of help than others. Providing sensitivity training may be an answer if that is the case. That special training may help attune employees to cultural differences and unconscious behavior patterns. Sensitivity training, then, is another means of providing a statement that discrimination will not be tolerated.

After you assure yourself that your loan policies are without bias, you should look at how those policies are working in practice to satisfy yourself that they do not result in unjustifiable disparities in treatment among your customers and potential customers. One place to start is your bank's HMDA data. The data will tell you where and to whom you are lending. It will also enable you, in a very rough way, to compare how your bank is treating similarly situated applicants.

Reviewing HMDA data periodically will help ensure that your bank is kept abreast of how new products or changes in advertising and outreach efforts affect your mortgage lending. If a change in advertising triggers a corresponding increase in lending, it will show up in your periodic HMDA reviews. Likewise, if a new product does not generate new loans, the data will reflect this as well. Learning about a problem early will allow you to correct for it and improve your lending performance during the year. And always, keep top management and board members abreast of what the HMDA reviews are telling you.

When you look at where your loans are made, compare your loan distribution with your bank's community delineation. Are any areas underserved? Are any areas excluded? If segments of your community are being left out, find out why. Figure out what you can do to ensure that these areas receive credit. Are credit products advertised in media which reach all segments of the bank's market? Or are credit products marketed in media that reach only a portion of the market?

When you find weaknesses in the data, take action to improve the profile. Long term sustainable solutions are best, but the results may take time to materialize. Be patient. If you have not served some markets, it may take time to become a familiar player. Successful business development efforts don't happen overnight as all bankers know. Establish a dialog with community groups, particularly those in the minority community, and let them know about the new product. Don't rely entirely on the media. Get out there and talk to people and press the flesh.

The HMDA data show who is applying for mortgage and home improvement loans and who is, and is not, getting them. If you receive few loan applications, you need to find out why. Is it an advertising problem? Is it an outreach problem? Does the bank need to focus more outreach efforts to solve the problem? Or is the low application rate from minorities or others an indication of discrimination in the prescreening process? Some applicants may feel intimidated by the bank or the application process itself.

In many cases, the quality of a marketing effort is more important than the quantity. Does your advertising reflect the community you are targeting? Are all of the faces on your advertisements white, or do they represent the cultural diversity of the community? Some banks have found it beneficial to work with community groups, such as a church group or other community organization, to promote a particular loan program.

If minorities are not applying for special programs, maybe the programs don't fit their needs. I recently heard of a bank that had expanded its advertising budget in an attempt to attract more minority applicants to a new home improvement product. Despite these budgeted increases, however, no new
LaWare: Re-evaluate credit underwriting policies and practices

Continued from page 2

loan customers appeared. After consulting with a community group, the bank discovered that its minimum loan amount was too high. In short, it did not meet the credit needs of the group targeted.

Another area for investigation is credit underwriting standards. Sometimes these standards may unduly affect a certain segment of the community.

No one advocates lenders sacrificing safety and soundness in their pursuit of low-income and minority lending. Today there are many innovative and successful lending programs that reflect new and different underwriting standards.

Test policies and practices by saying, “How does this underwriting standard help me evaluate risk? Is there an alternative that will achieve the same result?” Credit reports may not show payment histories that are important to many. For example, credit reports do not typically include rent and utility payments, which can be used as an indication of an applicant’s ability and willingness to support a mortgage.

How do you evaluate an applicant with numerous job changes? Minimum standards for the size or age of a house, off street parking or the number of bedrooms may exclude residents from urban communities with older homes from the mortgage market. But those factors may be of little significance to the soundness of the loan.

As a double check on credit process and underwriting standards, you might consider having a second or a management review of the bank’s loan denials. This second review is another way to ensure that all applicants get at least an even chance at obtaining credit. Sometimes, the second review results in a loan origination.

While not a method for detecting discrimination, participation on mortgage review boards demonstrates a bank’s willingness to “go the extra mile” to give a potential homeowner a second chance. For these boards, representatives from a group of banks gather to review denied mortgage applications. Participation on mortgage review boards and the use of committees to review internally denied loans makes a positive statement about the bank’s commitment to the community. Loan experience gained from this participation may indicate ways in which the bank’s underwriting standards could be adjusted to attract more creditworthy minorities.

If you think there is a possibility of uneven treatment, alert top management and the Board of Directors. Tell management and the Board your findings and recommendations. Disparity in applicant treatment is apparently not uncommon, despite the existence of fair lending laws. Assuring identical treatment for all applicants should improve results.

The Federal Reserve Board has a Consumer Advisory Council composed of members from the banking industry, academia, and consumer groups. At last year’s March meeting, several of the consumer representatives related stories about subtle, but inconsistent treatment between minority and white testers shopping for credit. The differences ranged from a black female not even being asked to sit down for a loan interview to a loan officer telling the applicant that the bank did not offer credit for mortgages under $40,000 and to “try the bank down the street”, even though this type of credit was included on the institution’s CRA statement.

Along these lines, one approach that I support is the use of credit “shoppers”. Your board may want to consider authorizing the use of “shoppers” to visit various branch offices posing as mortgage applicants to test the bank’s actual credit practices. Different treatment of similar applicants is cause for concern. Report the detailed findings to your Board. They need to know and to be part of the solution.

Decatur Federal Investigation

Decatur Federal is a savings and loan headquartered in Atlanta and one of the largest home mortgage lenders in that area. In the fall of 1992, the Department of Justice issued a consent decree against Decatur Federal, charging the S&L with discrimination against black homebuyers. This order is the first of its kind issued against a savings and loan, or any financial institution, for that matter.

Although Decatur Federal had received satisfactory CRA examinations and had never been accused of discriminatory practices, disparities in HMDA lending patterns triggered the Justice Department’s review. A team from Justice entered Decatur in 1991 and reviewed mortgage loan applications which were rejected between January of 1988 and May of 1992. From its in-depth review, Justice concluded that Decatur had “engaged in a pattern or practice of discriminating against prospective black homebuyers.” Contributing to this case were the facts that the bank:

- closed branches when black populations reached 85 percent and opened new branches in white neighborhoods;
- excluded black advertising media directed toward the black community;
- subjected black applications to stricter loan standards than white applicants; and
- rejected black applicants at a higher rate than white applicants.

The Justice Department’s consent decree requires that the savings and loan not only pay $1 million in damages to those discriminated against, but also take steps to correct the deficiencies I mentioned. The work done by the Justice Department was intense and time consuming. As part of this investigation, Justice reviewed credit files and compared white accepted applicants with black rejected applicants. Altogether, it took the Justice Department three years to investigate. As an outgrowth of that experience, Justice now has proven investigative procedures to use in other institutions.

This gets me to my point. The Justice review of Decatur was the first of its kind. Further reviews are planned. You may have heard about the “200 bank list.” This is a list that Justice compiled based on denial rates and low minority applications volume noted in HMDA data.

To date, there has been no decision on which or how many of these institutions will receive a “Decatur” type investigation. Knowing that Justice, as well as community groups and other banks, are looking at your HMDA data should be an incentive for you to look at it first, determine which areas need additional study, and correct the deficiencies noted.

In closing, I’d like to say that loan customers of all colors are valuable to every financial institution, especially today. To find and eliminate possible discrimination, you first have to take a stand against it. You have to let your employees and customers know you will not be damaged in your organization. You have to set the framework so that everyone within your institution and everyone who comes in contact with it knows that your are a fair and equitable lender.

Discrimination is illegal and morally repugnant. It is also bad business. It robs the individual of his dignity, to say nothing of his chance to own his own home. It also robs the bank of a chance to make a loan and a profit. And who among you is not interested in adding to the bottom line? I urge all of you to look hard at your bank and eliminate any and all mortgage lending discrimination.
New reporting requirements for small business and farm loans

As a result of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), insured lending institutions will now be required to disclose their levels of lending to small businesses and small farms.

Beginning with the June 30, 1993 reporting period, banking agencies as part of the Reports of Condition and Income filed by commercial banks and FDIC-supervised savings banks, will be required to report this information. Each quarter banks will complete a continuation of Schedule RC-C to reflect lending activity to small businesses and small farms.

Insured institutions will report the following data:

- The number and amount of outstanding non-farm, non-residential real estate loans and commercial loans with original amounts of up to $1 million, grouped by loan size: (1) $100,000 or less, (2) more than $100,000 to $250,000, (3) more than $250,000 up to $1 million.
- The number and amount of outstanding real estate and agricultural loans with original amounts of up to $500,000, grouped by loan size: (1) 100,000 or less, (2) more than $100,000 to $250,000, (3) greater than $250,000 up to $500,000.

The reporting is an effort to help the regulatory agencies assess credit availability to small farms and businesses. The new reporting schedule provides a box to be checked in cases where all, or a majority of, business and farm loans are extended in original amounts of $100,000 or less. Institutions eligible for this will only be re-
Collaboration holds promise

Civil rights organization and banking organization forge new ties

By Jennifer Grier

"HISTORIC CIVIL RIGHTS ORGANIZATION TEAMS UP WITH FOURTH LARGEST BANKING COMPANY IN UNITED STATES TO PROMOTE COMMUNITY DEVELOPMENT LENDING."

The idea may sound somewhat far-fetched; however, this unique partnership is promising to challenge the status quo by focusing on a mutual objective to meet the credit needs of traditionally underserved communities.

On December 19, 1991, the National Association for the Advancement of Colored People (NAACP) and NationsBank Corporation formed a partnership to develop community development resource centers that would provide consumer and business education, credit counseling, economic development advocacy, and technical assistance. To date, five centers have opened in Charlotte, North Carolina; Columbia, South Carolina; Austin, Texas; Richmond, Virginia; and Atlanta, Georgia. A sixth center is scheduled to be opened in Fort Lauderdale, Florida later this year.

As part of its $10 billion, 10-year commitment to community development lending, NationsBank has committed $1.1 million in operating funds to the centers for three years. The success of the program will determine whether NationsBank will expand the program to other markets.

The NAACP is responsible for staffing and operating the centers in an effort to take advantage of its access to the community through its wide network of offices. Each of the resource centers is staffed with an Education/Counseling Director and a Business Development Director who initiate programs and seminars to promote small business development and homeownership in the respective cities. Ardell Walcott, project manager, is headquartered in Atlanta and has administrative responsibility for the five centers.

As the oldest and largest civil rights organization in the country, the NAACP also provides identification for the minority community. "Minorities are commonly intimidated by conventional banks, largely because of the number of rejections made to minority applicants," says Jane English, Education and Counseling Director of the Georgia center.

The NAACP's involvement helps dispel some of these misgivings about using the resource centers.

The Georgia Center is conducting several HomeBuyers' Education and Money Management seminars to potential homeowners. The focus of the curriculum is devoted to topics that will help ease the transition from renter to homeowner such as budgeting, credit ratings, and personal finances.

The centers also provide counseling for entrepreneurs of existing and start-up businesses on issues ranging from developing a business plan to learning about government loan programs. "Although the needs of each client are different, we hope to provide them with the necessary tools to become successful business owners," says Darlene Martin, Small Business Director of the Georgia center.

In addition, clients have access to a resource laboratory equipped with reference materials and computer workstations.

The NAACP/NationsBank partnership could serve as a model for other banks of the possibilities of collaborations with non-profit organizations. According to Earl Shinhoster, Southeastern Regional Director and Resource Center Administrator, the mutual objective of this project is "to make a real difference in the lives of families, individuals, and communities long denied access to capital and financial services."
PARTNERS IN COMMUNITY AND ECONOMIC DEVELOPMENT

OPINION

Local management involvement is vitally important

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which will be the eighth largest banking company in the United States when all announced acquisitions are completed. FUNBF has attempted to proactively meet the credit needs of all segments of each of its communities since its entry into the Florida market in 1985. However, the bank's interest in establishing a separate community development lending function arose in 1989 in connection with its proposed acquisition of Florida National Banks of Florida, Inc.

In a situation involving an important acquisition, it would have been expedient to create a new department hastily. However, FUNBF management felt strongly that the community development lending structure selected should be compatible with the bank's culture and the holding company's corporate community reinvestment plan.

Responsibility for devising a proposed community development lending structure was given to two senior level FUNBF executives, Fred Pruitt and Ted Brooks. They researched community development lending concepts and organizational alternatives. They eventually settled on a structure that resembles the "broker" model described in Community Development Finance: Tools and Techniques for National Banks, a publication of the Office of the Comptroller of the Currency. The program was adopted by FUNBF in the fall of 1989 and implementation actions were commenced immediately. From inception it was determined that FUNBF's CDL program would focus on the following types of loans:

- Loans that foster affordable housing for low and moderate-income individuals and/or affordable housing in low- and moderate-income neighborhoods.
- Loans that foster development in low- and moderate-income neighborhoods which include community development programs, business loans and government loan programs (insured, subsidized, or guaranteed).

While the original structure has been refined over the last three plus years, the basic concept and focus remain intact today. FUNBF's program is staffed by a full-time state CDL Coordinator and three regional CDL officers whose responsibilities also include coordination of community reinvestment activities within their respective geographic areas. These four individuals are charged with developing FUNBF's overall approach for meeting the needs of the community development market. Specific activities include participating in the needs ascertainment process, evaluating "unmet" credit needs, matching identified needs with existing products, recommending changes to existing products, participating in the development of new products, identifying government (local, state and federal) programs that may be used to mitigate FUNBF's credit risk, and training personnel at loan entry points.

Like the OCC's "broker" model, FUNBF's CDL unit does not have its own loan portfolio, but unlike that model, FUNBF's CDL officers do have loan authority. If the program operates as designed, CDL officers will rarely utilize their personal loan authority since their responsibility is to match incoming loan requests with the appropriate lending units. Once loan requests enter the bank, they are considered in accordance with established procedures for the type of transaction involved. Members of the CDL unit may be consulted at various stages of the loan application process and the loan approval process; they are resources to existing lending departments.

This approach was selected because of its consistency with the bank's overall community reinvestment plan, which emphasizes incorporating community reinvestment activities into existing operations. Community development initiatives will vary from community to community, so local management is best equipped to make decisions regarding participation in loan programs and projects in its market area. In addition, since local FUNBF managers are ultimately held responsible for all aspects of performance in their communities, including meeting the credit needs of low-to-moderate income neighborhoods, bank managers should serve as gatekeepers and shepherds for CDL loan requests.

Local decision making is undesirable for CDL programs at some institutions because it

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Community development subsidiaries provide needed versatility

By Courtney Dufries

With regulatory approval, banks and bank holding companies may use a variety of investment vehicles to address credit needs in low- and moderate-income areas. Increasingly popular, community development corporations (CDCs) can provide a flexible structure to meet changing credit needs over an extended time period; leverage federal, state and local resources for small business or neighborhood revitalization efforts; limit lender liability; and provide yet another opportunity to comply with the Community Reinvestment Act (CRA).

CDCs are designed to be flexible. These corporate entities established by banks, government agencies, community groups or others can be formed individually or through a consortium. They can be for-profit or not-for-profit. Once incorporated, they have limited liability from their activities.

Typically, CDCs specialize in development and rehabilitation of real estate, provide investments in small businesses, engage in commercial redevelopment, or help finance development of community facilities in a specific low- or moderate-income area.

Bank- or bank holding company-sponsored CDCs must meet a "community welfare" test, which ensures that the primary beneficiary of its activities will be low- and moderate-income persons and economically disadvantaged neighborhoods and communities.

Tennessee BHC forms District's first development subsidiary

In 1989, First American Corporation, a multi-banking company in Nashville, Tennessee, formed First American Community Development Corporation (FACDC), a state-wide nonprofit CDC to provide technical assistance to nonprofit housing organizations and to engage in some specific housing development efforts.

As a nonprofit CDC, FACDC is able to solicit government grants and tax-deductible donations, which can then be leveraged with bank loans or other funds to meet low- and moderate-income housing and business needs. However, because operating and project-related funds for nonprofit organizations are usually limited, banks are sometimes reluctant to form nonprofit CDCs. Some bankers fear that too many nonprofits in a community soliciting the same funding sources could be counterproductive.

FACDC has avoided this problem by working closely with existing nonprofit organizations. In addition, operating expenses of the three-person staff are paid by the bank, eliminating the need for grants to cover overhead expenses. Also, close working relationships with the affiliate banks reduce the need for a large staff at the CDC.

Louisiana CDC addresses affordable housing needs

Recently, five affiliate banks, all located in Louisiana and owned by First Commerce Corporation in New Orleans, formed a CDC to address affordable housing needs in Alexandria, Lafayette, Baton Rouge, Lake Charles, and New Orleans. The CDC will serve as a nonprofit real estate developer and will work with existing nonprofit organizations where possible. The board of the CDC consists of eight bank representatives and five community representatives.

As both the Tennessee and Louisiana CDCs will work closely with their affiliate banks to provide permanent financing for low- and moderate-income individuals who purchase homes in the neighborhoods they target.

Most bank or bank holding company CDCs are formed as for-profit corporations. For example, SouthTrust Corporation, a multi-banking company headquartered in Birmingham, Alabama, established a for-profit CDC to address multi-family housing needs, and NationsBank/Tennessee, a commercial bank in Nashville established a for-profit CDC to address both housing and small/minority business projects (see Partners Vol. 2, No. 2).

For more information on CDCs or other community development investments, contact Dianne Rawls at the Federal Reserve Bank of Atlanta (404) 589-7307.
HMDA Data Access Expanded

As of December 1, 1992, the Federal Financial Institutions Examination Council (FFIEC) made HMDA data available to the public in two new formats.

A reporter index will list all HMDA reporters within an MSA, and provide information such as the reporters' location and asset size, as well as loans originated and applications received by state and county. A three-report package is available in hard copy that provides an analysis of individual institutions' home lending activity by MSA, including:

- report on disposition of loans by income and race
- report on distribution of loan originations by racial and income characteristics of the census tract
- summary of loan activity by census tract

These reports can be ordered from the FFIEC at a charge of $45.00 per requested MSA for nonprofit organizations and $75 per MSA for all others. Contact: FFIEC, 2100 Pennsylvania Ave., Suite 200, Washington, D.C. 20037, 202/634-6526, 202/634-6556 (FAX).

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takes longer to implement. However, in FUNBF’s case, it had been determined earlier that community reinvestment initiatives should become a part of the way First Union does business. While community development is considered a distinct market, it was concluded that the market can best be served by the established FUNBF credit delivery systems as opposed to creating a separate lending unit that may become isolated from other lending departments. In that event, decision making for local programs and projects would be removed from the community level.

In framing FUNBF’s CDL structure, Messrs. Pruitt and Brooks adopted the philosophy that community development lending is not a philanthropic exercise and that loans made under the program are not contributions. This philosophy is consistent with the following conclusions reached in Principles & Practices of Community Development Lending, published by the Federal Reserve Bank of Minneapolis and First Bank Systems, Minneapolis, Minnesota:

“The less fortunate areas of our country need an on-going, substantial flow of capital for housing and business development. Only good investments will generate sufficient return for the bank to assure that it will continue to help provide that needed capital.”

Accordingly CDL was viewed as a way of focusing energy on an increasingly important market within most of the Florida communities served by FUNBF. Over a period of time, the CDL staff concluded that the best strategy for serving the community development market was

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CDCs: Gaining in popularity

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Credit needs change over time, and CDCs are designed to be flexible and meet those changes. For example, although primarily a housing developer, FACDC recently encountered a company that produces and packages bakery mixes (primarily pancake and biscuits) for defense depots, commissaries, and other government institutions. Working with ARC Diversified (ARC), a nonprofit agency serving people with disabilities, FACDC obtained a grant from the Tennessee Valley Authority (TVA) to allow ARC to hire an accountant.

With systems and controls in place, FACDC helped package a $423,000 loan for both equipment and operating capital. According to Doug Jackson, director of FACDC, “This was an extremely complicated loan. We had to have a very sharp, technical lender on this or we wouldn’t have been able to work it out.”

The work has paid off. A closed manufacturing facility has now reopened, and its labor force consists primarily of employees with disabilities. FACDC put it together, a nonprofit company owns the business, the bank made the loan, TVA provided grants and technical assistance, and the federal government provides a market for the products manufactured.

According to Mr. Jackson, “This is good business for us, and it’s the kind of project we look for to allow us to reinvest in our communities. Internally, it helps create a stronger partnership between the FACDC and our bank lenders.”

See PARTNERS IN COMMUNITY AND ECONOMIC DEVELOPMENT
West Alabama success story

Community action agency utilizes comprehensive approach

By Hank Helton

A number of obstacles block the path to developing affordable housing and alleviating the problems associated with poverty in small to medium-sized communities. However, Community Service Programs of West Alabama, Inc. (CSP), has not been discouraged in its 26-year history, and constantly evolves to meet the needs of its constituency.

CSP is a private, non-profit, community action agency whose goal is to take a holistic, direct service provision approach in its efforts to alleviate the problems associated with poverty in a six-county region of west Alabama. The organization concentrates its efforts in Tuscaloosa, Lamar, Fayette, Bibb, Greene, and Hale counties. CSP will begin working in Jefferson County this year.

During the past five and one-half years, the agency has become increasingly focused on low-income housing development and production. CSP housing programs emphasize partnerships among community-based organizations, local and federal governments, religious institutions, private banking institutions, and others in the private sector to design and produce affordable housing programs and revitalize neighborhoods.

From 1987 to present, CSP has developed or rehabilitated 305 housing units valued at approximately $9 million. A number of these deals have involved local lending institutions.

“When looking at the financing structure of these housing developments, I put myself in the shoes of the banker,” stated Bill Edwards, Executive Director of CSP, who attributes the agency’s success with lending institutions to that philosophy.

Mr. Edwards also points to CSP’s extensive outreach to its clients as a reason for the program’s success. Auxiliary programs prepare participants for homeownership and provide them with direct services such as counseling, weatherization programs, and homeless assistance.

Currently, CSP has completed eight housing developments and has two others scheduled to be complete by this summer.

The most recently completed project is Tuscaloosa South, Ltd., a multi-family development, consisting of 22 two-bedroom units located in downtown Tuscaloosa. CSP is the general partner and SouthTrust Bank Redevelopment Corporation is the sole limited partner. CSP contributed $61,000 for land acquisition and SouthTrust provided $714,000 in construction financing as its partnership interest. Over the next ten years, SouthTrust will receive $642,600 in low-income housing tax credits and a monthly rental income for its direct equity investments. In terms of the provision of affordable housing and the effectiveness of low-income housing tax credits, Mr. Edwards commented, “The low-income housing tax credit program provides a successful and innovative strategy to engage the non-profit, public, and private sectors of the community in partnership to produce affordable housing programs.”

The Northport Creative Housing Partnership (NCHP) is another CSP development begun in April 1991 in Northport, Alabama. The partnership is two-fold with substantial rehabilitation being combined with new construction.

NCHP’s new construction program involves a collaborative effort between CSP, St. Mark United Methodist Church ($20,000), New Zion Baptist Church ($5,000), other area churches (volunteer labor), the Northport Citizenship League (volunteer labor), First Federal Bank of Tuscaloosa using the Federal Home Loan Bank’s Affordable Housing Program ($500,000), The Lilly Endowment Fund ($150,000), the Alabama Department of Economic and Community Affairs ($500,000), and the local community (volunteer labor).

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Opinion: Stronger collateral values and economies cited as benefits

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through active pursuit of public/private partnerships involving community-based organizations and various levels of government (local, state and federal). Using this approach FUNBF is more likely to provide financing for projects and programs that have been identified as priorities in affected communities and that are supported by area residents. In addition, public funds are usually available for such projects which may mitigate the credit risk assumed by FUNBF. This strategy is also consistent with the following conclusions shown in Principles & Practices of Community Development Lending:

"The key to making safe and successful community loans is using the wide array of public and nonprofit sector credit enhancements available to all lenders and communities. Many successful development projects have been completed using blended public and private funds. Public money has been used to achieve policy goals such as housing or job creation, and private financial institutions have enjoyed respectable earnings on their community investments."

In addition to a higher quality loan portfolio, FUNBF will derive benefits from stronger collateral values in revitalized neighborhoods and stronger local economies. Healthy communities support healthy banks, while stagnant and declining communities are likely to have banks with similar characteristics.

FUNBF's CDL structure will, in the long run, simplify the frequent dilemma of community-based developers who experience difficulty in finding the right department for their projects. This is viewed as a long-term proposition in that all lenders at all loan entry points must gain a working knowledge of the myriad government programs that make the public/private partnership strategy work. While this approach takes more time to fully implement, the result is an institution that is well positioned to be an important player in neighborhood revitalization and other economic development projects and programs throughout Florida.

Alabama: "I put myself in the banker's shoes."

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The rehabilitation program is for low-income families who own their homes but need funds to make repairs. Twenty-four homes have undergone substantial rehabilitation as of March 1993, and possibly two more will be completed by year-end. The source of funds is the state's Community Development Block Grant allocation. The average grant is about $15,000. Eligibility is based on income (80 percent or less of area median) and the ability to prove homeownership.

New construction under the program is designed to create affordable home ownership opportunities for eligible Northport families with incomes between 65 and 80 percent of the area median income. The families obtain ownership of the new homes through a lease/purchase program. The families will lease the homes for 24 months, gaining title in the 25th month. The first 24 payments are used as the downpayment.

To date, two new homes have been occupied. A total of 15 are to be built by the fall of 1993.

Monthly home costs average about $325 (including taxes and insurance) for 20 years. In an effort to keep costs to a minimum, all participating homeowners are required to provide "sweat equity" toward the construction of both their home and other homes constructed in the program. Families are also required to attend a free 12-week homeownership class, which provides instruction on topics such as home maintenance, household budgeting, energy efficiency techniques, and the rights and responsibilities of homeownership.

For more information on the variety of programs offered by CSP, contact Community Service Programs of West Alabama, Inc., 601 17th Street, Tuscaloosa, Alabama 35401, (205) 758-4756.
Central Florida and Tampa Bay Community Reinvestment Corporations

Within a span of two months, the first annual board of directors' meetings convened for the Central Florida and Tampa Bay Community Reinvestment Corporations. The meetings serve as the culmination of years of dedicated work and commitment by Florida banks, community residents and organizations, and local governments. Opening the door for business also marks the genesis of new opportunities for more residents of Orange, Pinellas, Hillsborough, and Pasco counties to afford safe, decent housing.

The Central Florida Community Reinvestment Corporation (CRCRC) is funded by 16 banks in Orange County. The CFCRC members have committed to participate in the $50 million loan pool based on their percentage of deposits in Orange County. The fund should be a catalyst for the development of significant affordable housing projects throughout central Florida. President Judith Kovisars can be reached at (407) 237-4787.

Area lenders and public officials met to discuss the community reinvestment corporation concept in January 1992 (See Partners, Volume 2, Number 1). As a result, the Tampa Bay Community Reinvestment Corporation (TBCRC) opened for business on April 1, 1993. A total of 33 banks are participating in the $50 million revolving loan pool that will offer permanent loans for newly constructed or rehabilitated multi-family projects. Debra Reyes, president of TBCRC, will also serve as the organization's senior loan officer. She can be reached at (813) 224-2366.

CFCRC and TBCRC are based on similar organizations that the San Francisco-based Development Fund has helped to establish in the states of California, Hawaii, Washington, Idaho, and Nevada.

Neighborhoods selected by LISC

Seven neighborhoods in New Orleans have been selected for intense technical and redevelopment assistance from LISC, the Local Initiative Support Corporation. LISC, funded primarily by the Ford Foundation, has matched a $1 million local fundraising effort with $1 million of its own funds for redevelopment efforts. The initial list of local donors included First National Bank of Commerce, Whitney National Bank, Liberty Bank, and the Greater New Orleans Foundation, among others.

The chosen communities include Central City, the Lower 9th Ward, Old Algiers, Gert-Town, Mid-City, Holy Cross, and the 6th Ward. The next phase for these areas is to establish neighborhood-based, non-political, community development corporations. After the local corporations choose their projects, LISC can provide flexible financing to get the redevelopment efforts started. Permanent financing is expected to be provided by banks and other lenders. Although LISC will provide project-related investments with its available resources, volunteer labor and local fundraising efforts will be necessary to pay any operating expenses of the local neighborhood organizations.

Reading File

- Tools for Lenders: A guide to Successful Community Reinvestment, the Woodstock Institute has prepared this publication to help guide financial institutions as they assess their CRA compliance (1990). The manual is available for $50 for the first copy, $25 for additional copies. For copies call (312) 427-8070.
- Widening the Window of Opportunity: Strategies for the evolution of microenterprise loan funds, 110 pps., Charles Stewart Mott Foundation, Flint, MI. For copies call (313) 238-5651.
- Detecting and eliminating possible discrimination in financial institutions, speech by John LaWare, Governor, Federal Reserve Board, March 1993.

Copies of materials produced by the Federal Reserve System can be obtained by writing or calling the Community Affairs section at (404) 589-7307.

Did You Know?

In January, Chattanooga Neighborhood Enterprise, an affiliate of The Enterprise Foundation, became the first non-profit Fannie Mae seller/servicer in the state of Tennessee.
Calendare

May

Institute for Professional Development and the Housing and Development Reporter, May 4-5, Boston, MA, Rental Housing Finance Revitalized: State of the Art Approaches to the Challenges of the '90s, Contact (202) 331-9230.


American Bankers Association, May 19-21, Reston, VA, 1993 ABA National Community Development Lending Conference, Banking on Community Development. Contact (202) 663-5291.

Federal Reserve Bank of Dallas, May 20, Dallas, TX, Tools and Techniques for Successful Community Development Lending. Contact (214) 922-5276.


June

National Association of Affordable Housing Lenders, June 6-8, Washington, D.C., Spring Conference. Contact (202) 328-9171.

Federal Reserve Bank of Boston, June 17, Boston, MA, Microenterprise Lending Workshop. Contact (617) 973-3289.

National Association of Housing and Redevelopment Officials, June 30 - July 2, St. Louis, MO, Financial Manage-

tment for Public Housing Authorities. Contact (202) 429-2960.

August

Institute for Community Economics, August 5-8, Cincinnati, OH, Heading Home: A National Conference on Community Land Trusts and Building a Progressive Housing Policy. Contact (413) 746-8660.

New CAO

Effective April 1, 1993, Cynthia Goodwin was appointed Assistant Vice President for Consumer and Community Affairs and named Community Affairs Officer for the Federal Reserve Bank of Atlanta.

Partners

VICE PRESIDENT
Ron Zimmerman

EDITOR
Cynthia Goodwin

ASSOCIATE EDITOR
Courtney Dufries

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