Partners

In Community and Economic Development

Federal Reserve Bank of Atlanta
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Atlanta SRO project tests patience

Welcome House provides housing for Atlanta's homeless

By Pat Simms

Bruce Gunter, president of Progressive Redevelopment Inc. (PRI), can smile about the two-and-a-half year effort to build Welcome House, the first Single-Room Occupancy (SRO) facility to be built in the city in decades.

He can smile because Welcome House is finally open, as of December. Lease-up is going well, and the financing obstacles have been managed.

According to Gunter, "I don't think we skipped any problem. We had rain. We had environmental cleanup. We had politics."

Born in protest

Welcome House is a $3.3 million, 209-unit joint venture, developed by PRI, a non-profit affordable housing corporation, and Central Atlanta Civic Development Inc., a non-profit subsidiary of Central Atlanta Progress, in conjunction with developer-consultant Gibraltar Land Inc., a private development company that is a part of H. J. Russell and Company.

But the project was born from a headline-grabbing protest. "The genesis was an occupation by homeless squatters of a downtown abandoned hotel in July of 1990", Gunter says. "It made headlines. The mayor (Mayor Maynard Jackson) made a series of promises." In fact, Jackson promised production of 3,500 SRO units in Atlanta by the end of his first term.

The Welcome House project had momentum.

Gunter says he was optimistic because the project had serious, substantial backing. "Then we began and even with the mayor's support, even with this and such, we encountered a lot of difficulties."

As it seems with all low-income housing tax credit projects, part of the problem was the complex nature of the financing, he says. "It was the first new SRO to be built in Atlanta in maybe two decades. The banks were very, very skeptical.

"And it was going to be located downtown. It was born out of that confrontation, so right off the bat, it had a very high symbolic value. The

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Welcome House, a 209-unit SRO facility, opened on December 31, 1992.

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King Center promotes community development

CCD forms partnership with NationsBank

By Courtney Dufries

Nearly 30 years after Dr. Martin Luther King, Jr. delivered his famous "I Have A Dream" speech on August 28, 1963 in Washington, D.C., the King Center is still pursuing his goal of nonviolent social change and economic justice.

Dr. King's dream included a vision of a "beloved country," free of racism, poverty, and violence. The King Center has established a Center for Community Development (CCD) to assist community-based organizations in low-income neighborhoods address problems caused by poverty by enhancing their capacity to engage in effective community development programs.

As James Oxendine, deputy director of the CCD describes it, "We see community development as nonviolent social change."

In April 1993, through CCD, the King Center established a collaborative partnership agreement with NationsBank Corporation, the fifth largest banking company in America with total assets of $122 billion as of March 1993. The purpose of the initiative is to provide the NationsBank staff with training, education, and research services pertaining to community development. According to Mr. Oxendine, "The NationsBank initiative is an opportunity to enhance the region's leading community development lender's capacity to do community development lending."

The Dr. Martin Luther King, Jr. Center for Nonviolent Social Change is located on Auburn Avenue, Atlanta, Georgia.

The bank-funded $674,000 two-year initiative began with a series of four three-day interactive work-shops with NationsBank's key staff and with consultants from the CCD.

The workshops featured lending experts who discussed the latest community development financing tools and techniques. In addition, the workshops included sessions on using the Principles of Nonviolence to promote community development. As Mr. Oxendine says, "We provide initial training, but the long-term effect is education."

The initiative also provides funding for the installation of a computerized economic development database at NationsBank's Community Investment Program offices. The database was developed by Community Information Exchange, Washington, D.C. The CCD builds on the computer resource to form a stronger network with banks, government agencies, regulators, and community development experts.

The CCD's training for senior staff of NationsBank's Community Investment Program occurred during May and June in Charlotte, N.C., Dallas, Washington, D.C., and Atlanta.

The CCD has several other initiatives underway, including a comprehensive technical assistance program for nonprofit organizations funded with a $2.1 million HUD grant. For more information on these initiatives, contact James Oxendine at the Center for Community Development, 404/526-8907. P

SRO: Welcome House project encounters many difficulties

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WELCOME HOUSE SRO REVISED CONSTRUCTION BUDGET
18 Month Construction and Lease-Up

Sources:		
Construction Loan	$ 1,984,287	(1)
Housing Trust Fund Loan	250,000	
Affordable Housing Program Grant	350,000	
Tax Credit Equity (at closing)	400,000	(2)
Foundation Grant	175,000	
City of Atlanta Subsidy	150,000	
Total Construction Financing	$ 3,309,287	
Uses:		
Land Acquisition	$ 15,604	(3)
Design and Other Consultants	160,415	
Dry Utilities	51	
Special Construction (including Furnishings)	189,357	
Project Administration Fees	250,000	(4)
Marketing and Lease-Up	47,500	
Hard Construction Costs	2,049,735	
Hard Construction Contingency	150,000	
Construction Loan Interest	133,203	
Other Finances, Insurance, and Legal	173,458	
Operating Contingency	53,604	
Environmental Cleanup	86,360	
Total Construction Costs	$ 3,309,287	

Notes:
(1) Will convert to permanent loan of $1,250,000 upon stabilized occupancy.
(2) Total equity investment of $1,239,000 paid-out over five years.
(3) $450,000, 40- year lease not included.
(4) Does not include $50,000 consulting fee or $64,000 development fee.

whole process was very visible. The city had to donate the site. We had a series of deadlines that had to be met. Then there was the soil contamination. It just seemed that we were almost lurching from one crisis to another throughout the project."

In fact, Stan Goldsboro, a LIHTC specialist with the Georgia Housing Finance Authority, says the project just made the deadline for carrying over the $258,359 in 1990 tax credits received.

"The project received the carryover allocation December 31, 1990," Goldsboro says. "They had two years from that point to get the project in service. Literally and figuratively, they got it done at the midnight hour. The 8609 was issued on December 31, 1992."

In the beginning

But in the beginning, the problem was money. Ray Kuniansky, now vice president of Bank South, was with HomeBanc, a small community-based bank, when the project began two-plus years ago.

"I got involved when the package was first put together. They were trying to obtain conventional financing, and they really did not have a lot of background information on how a bank would underwrite this kind of project," Kuniansky stated.

Kuniansky says part of the difficulty was cash flow. "You had a budget of $4 million, but the income stream from the property, as far as a permanent loan went, would only support $1.5 or $1.6 million in debt. The reason, of course, is that they were targeting people that could only pay $7 a day. So you had a big gap between how much income there is, and what it costs to run, and what is left over to pay the first mortgage."

Kuniansky says it became obvious other sources of funds had to be found. "One of the ideas was that we would go to the city and get them to set up a funding mechanism to help pay the first mortgage," he says.

At the same time, Kuniansky says he applied for and got a Federal Home Loan Bank grant—worth $350,000 to the project. And, under a variety of different pressures, "the city is getting ready to establish a half-a-million-dollar fund that will pay $35,000 a year of debt service.

Everybody at the table

In the end, Wachovia Bank, through the Atlanta Mortgage Consortium, provided the permanent loan and the construction loan to the tune of $1.9 million, Kuniansky says. "Part of that is bridged money that covers the tax equity that comes in at certain points of time."

In addition to the tax credits, the Georgia Housing Finance Authority also put in a $250,000 subordinated 20-year mortgage loan from the Georgia Housing Trust, he says.

And, according to Goldsboro, the Enterprise Social Investment Corporation is buying the credit, which will generate more than $2.5 million in tax credit over 10 years.

But the variety of funding sources put the project in a constant state of flux, Goldsboro says.

"The number of funding sources and the constant changes in financing and the

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SRO required gap financing

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unexpected costs in terms of having to scramble for additional funding for environmental cleanup did make it difficult."

"And it was one of the first SROs to be completed in the city. The concept had to be accepted politically. This is in the downtown area. It may not be the most prime land, but anything in the downtown area tends to have certain types of perceptions by the business community. There had to be mutual education on how it was going to be managed and what type of impact, socially speaking, this type of facility would have on an area so close to downtown."

"It took a while to reach comfort levels acceptable to all parties involved," says Goldsboro.

And every time a new source of funding came on board, he says, the rules changed. "Every source was trying to protect their part of the action. When you have so many funding sources, each has their own requirements in terms of underwriting."

Then they found a buyer for the credits, Goldsboro says. "And their requirements were more stringent than ours in terms of set-asides and percentages, so we had to go back and underwrite it again."

"It was a pretty dynamic process for a period of years."

In fact, construction was shut down in June due to delays in the closing. Construction restarted in mid-July when the financing closed.

Compliance monitoring

One somewhat unusual factor of the project, says Goldsboro, is the large compliance monitoring fee the Welcome House project is paying to the state.

"This project has a compliance monitoring fee of $66,394. That's a fairly hefty compliance monitoring fee."

Goldsboro says the state had been waiting for guidance from the IRS before collecting it. Now, the state is going ahead, though the Welcome House project has asked that it be allowed to restructure the payment of $50,000 of the fee.

Soil contamination

Most people agree, however, that the unexpected soil contamination on the site was a downer.

The land, in an industrial, warehouse-type area, was provided on a ground lease from the city to the Urban Residential Finance Authority. The ground lease was then sold to PRI, Kuniansky says.

Gunter says the groundbreaking ceremony took place in early March. "We took pictures, shook hands and smiled. Then we started."

Gunter says a Phase I environmental test and soil surveys had been done, but apparently they didn't test deeply enough. "When the backhoe got out there and started digging down 10 or 12 feet, the odor was a clear indication of contamination."

They found a 100-year old abandoned sewer. "It cost us $150,000 to haul the bad soil out, and we had to take two industrial oil tanks out."

In the end, the city agreed to reimburse PRI $150,000 for the cost of environmental cleanup. "I went on a handshake," says Gunter.

Welcome home

The project itself, offers 163 singles and 46 doubles, fully furnished with a twin-sized bed, dresser, desk and chair, refrigerator, and lavatory sink. Bathrooms are shared, and there are common kitchens on every floor.

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This excerpt is reprinted with permission from SECTION 42 OUTLOOK, a twice monthly report for participants and advisors in the low-income housing tax credit program.

SOUNDBITES

The Greater Huntsville Loan Fund, Inc., had a lot to celebrate on its first anniversary. As of June 30th, the Fund had approved 12 loans totaling $374,200. Northeast Alabama Regional Small Business Development Center administers the program, which has $1 million in loanable funds for small businesses needing short-term financing. Six banks are participating: AmSouth, Central Bank of the South, Colonial, First Alabama, First Command, and SouthTrust. For further information, contact Jeff S. Thompson, NEAR Small Business Development Center, Huntsville, Alabama (205) 535-2061.

The Delta Partnership, a five-year program formed to assist the Delta regions of Mississippi, Louisiana, and Arkansas, has been formed with the assistance of a $6.6 million contribution from the Pew Charitable Trusts of Philadelphia. The Foundation for the Mid South in Jackson, Mississippi, will be the managing partner of the projected $11.8 million budget. For more information, contact the Foundation for the Mid South, Jackson, Mississippi (601) 355-8167.

Jackson State University, Jackson, Mississippi, has been selected as one of nine historically black colleges and universities to receive $500,000 as part of a $4.5 million HUD program for neighborhood revitalization, housing, and economic development activities in fiscal 1992. The grant will be used to acquire and rehabilitate 40 vacant homes in Jackson that will be sold to low- and moderate-income individuals with the proceeds used to establish a revolving loan fund for future development.

Minority Business Development Centers

Technical assistance providers reach out to serve minority entrepreneurs

By Jennifer Grier

Few people would dispute that the small business sector is vital to the nation's economy. According to the U. S. Small Business Administration (SBA), small firms employ 57.3 percent of our work force and create 45 percent of the new jobs. However, more work is still needed to achieve an equitable representation of minorities in business ownership.

Although the trend is improving, the number of minority-owned businesses in the U.S. is significantly less than their proportionate share of the population. For example, the 1987 Census Bureau's Survey of Minority-Owned Business Enterprises states that African-Americans account for only 3.1 percent of businesses in the U.S., while African-Americans account for almost 12 percent of the U.S. population. However, there are formidable challenges facing minority entrepreneurs that perpetuate the underutilization of their growth potential.

Many minority entrepreneurs lack the initial capital or financial and managerial skills to start a business. As a result, they may not qualify for conventional debt financing, and they experience problems procuring government and corporate contracts. Fortunately, there are agencies that can provide technical assistance to businesses that will prepare them to anticipate and overcome these barriers.

Minority Business Development Agency

Since its inception in 1969 by Executive Order of the U.S. Department of Commerce, the mission of the Minority Business Development Agency (MBDA) has been to increase opportunities for racial and ethnic minorities to participate in the free enterprise system. The MBDA seeks to fulfill this mission by forming and developing competitive minority-owned and -managed firms through its business development center program. The agency is headquartered in Washington, D.C., and has regional offices in Atlanta, Chicago, Dallas, New York, San Francisco, and Washington, D.C.

Minority Business Development Centers (MBDCs) are located in 100 metropolitan statistical areas (MSAs). The centers are funded by MBDA grants, also known as cooperative agreements, that are awarded on a competitive basis to for-profit and non-profit companies. The agreement with the center operators is renewable each year for a total of five years. Consequently, the MBDA requires a quarterly progress report from each MBDC to determine whether the terms of the agreement will be extended.

Counselors at the centers provide clients with a variety of services including accounting, inventory control, bid estimation, bonding, personnel management, contract negotiations, and marketing. The services are offered for a nominal fee based on the size of the business.

The MBDCs do not provide direct capital loans or legal services. However, the centers do assist clients in assembling financial packages for submission to lenders. In addition, government agencies and private corporations utilize the MBDCs to identify qualified minority-owned businesses to procure contracts.

Orlando Minority Business Development Center

MBDCs strive to identify financing gaps and obtain funding sources to fill those gaps. For example, many small businesses have trouble obtaining small dollar ($5,000 to $50,000) start-up and working capital loans because the administrative costs for banks to book these loans may exceed a fair rate of return.

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MBDCs: Financial intermediaries

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The Orlando MBDC recognized this problem and helped formulate a program designed to make financing more accessible to minority businesses through the coordinated effort of financial institutions, the City of Orlando, and the Orlando MBDC.

The Orlando MBDC serves as an intermediary to the banks by referring completed loan packages of its qualified clients. A loan committee comprised of representatives from the community and each participating bank makes the loan decision based on established lending criteria. The loan is then funded by one of the banks on a rotating basis.

The Orlando Minority Business Loan Program (MBLP) has commitments totaling $11.4 million from eight local banks: Barnett Bank of Central Florida, N.A., First Union National Bank of Florida, Liberty National Bank, Metro Savings Bank, NationsBank, Orange Bank, Security National Bank, and Sun Bank, N.A.

According to Jack Perkins, Project Director of the Orlando MBDC, "This program is providing a great stimulus for the minority-businesses in Orlando. I feel that this model can be duplicated by all the MBDCs."

The Orlando MBLP pledged to make 40 loans totaling $4 million in the first year. Since March, the program has approved and funded eight loans. "We are very pleased with the success of the program. Jack Perkins is able to give the individual assistance to these clients that we can't always provide. Best of all, the MBDC is providing us with workable deals", says Sandra Jansky, executive vice president, Sun Bank, N.A., Orlando, Florida.

The Orlando MBLP is designed to reduce financial barriers confronting minority-businesses. In an increasingly competitive business environment, the importance of intermediaries like MBDC's cannot be understated. P

MINORITY BUSINESS DEVELOPMENT CENTERS

Location	Director	Telephone
ALABAMA		
Birmingham	Timothy B. Clay	(205) 324-3525
Mobile	Rosalyn Allen-Hill	(205) 471-5165
Montgomery	Stanley Dixon	(205) 834-7598
FLORIDA		
Jacksonville	Ira Jean Pettis	(904) 353-3826
Orlando	Jack Perkins	(407) 422-6234
Miami/Ft.Lauderdale	Ricardo Martinez	(305) 591-7355 485-5333
Tampa	Thomas Huggins	(813) 289-8824
West Palm Beach	Tony McCray	(407) 863-0895
GEORGIA		
Atlanta	Harry Zachariasz	(404) 586-0973
Augusta	Gwendolyn Bullock	(706) 722-0994
Columbus	Greg Dawson	(706) 324-4253
Savannah	Rudolph Quarterman	(912) 236-6708
LOUISIANA		
Baton Rouge	Lenora Pitts	(504) 924-0186
Shreveport	Ronald E. Patterson	(318) 226-4931
TENNESSEE		
Memphis	Gary Rowe	(901) 527-2298
Nashville	Marilyn Robinson	(615) 255-0432 255-0433
MISSISSIPPI		
Jackson	Barbara Taylor	(601) 362-2260

GRASPing for success

Nonprofit promotes small businesses

By Hank Helton

Despite the many opportunities, the odds are still against the small business person. The Office of Advocacy of the U.S. Small Business Administration reports that as of January 1992, 62.2 percent of all small businesses are dissolved in their first six years for a number of reasons, not all of them financial. Many small businesses are marginally capitalized from the beginning, while others meet their demise when operational problems go unnoticed or uncorrected, forcing the owners to close or sell. Fortunately, the Greater Atlanta Small Business Project (GRASP) is working to channel the excitement, ideas, and energy of the entrepreneurial spirit into sound management practices to create viable small businesses.

Formed in 1985 as a partnership between the city and county governments, in 1988, GRASP became an independent, non-profit organization whose mission is to expand and stabilize the local economy by fostering and developing small businesses. Working with both the public and private sectors, the organization targets economically distressed areas in metro Atlanta.

GRASP concentrates its efforts in three major areas. First, it provides technical assistance to existing small businesses as they grow. Second it trains and empowers low-income individuals, minorities, women, and others to achieve economic self-sufficiency through small business ownership. Finally, it promotes community economic development using a comprehensive approach aimed at creating thriving neighborhood business districts. GRASP has also established a small service business incubator that currently serves 14 businesses.

GRASP's assistance, from 1988 through 1992, helped client firms secure $5.4 million in debt and equity capital, and helped create, stabilize, or expand 578 businesses and generate 550 jobs. GRASP intends to assist 160 businesses helping create about 110 new jobs in 1993.

According to Maurice Coakley, executive director, "We attempt to analyze the behavior of our prospective clients as it relates to the behavior of successful entrepreneurs, and the higher the match between those two, the higher the success rate will be for that individual."

Through its education and training services, GRASP offers Project Enterprise, a six-month entrepreneurial lifestyle and business skills training course. This program is available to public housing tenants and unemployed persons. To qualify, participants must pass a basic skills test and participate in psychological and personality tests, as well as a personal interview. The top graduates are awarded 3 percent interest, 36-month loans ranging from $1,500 to $4,000 to be used towards start-up costs. These loans are funded through a U.S Department of Health and Human Services Project Independence grant and are administered by GRASP. This program graduated 120 students in 1992 and 1993, of which approximately 50 have initiated new businesses.

GRASP has also been chosen as one of 52 new lenders participating in the SBA Microloan Demonstration Program. These loans will benefit women, low income, and minority entrepreneurs, and very small businesses (less than 10 employees) located in economically distressed neighborhoods. GRASP anticipates average loans of $7,500 and maximum loans of $25,000. The average term is expected to be 3 years with a 6 year maximum maturity. Interest rates will be

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Recent graduates of GRASP's Entrepreneurial Training Program.

Atlanta Mortgage Consortium

AMC honors its 1,000th client at a reception held at the Hoosier United Methodist Church in Atlanta, Georgia.

By Chuck Scheid

When lenders and community groups see news of loan discrimination (i.e., Washington Post - June 8, 1993) conversations always lead to current working solutions on delivering a loan product to low-income households who probably have credit problems. The best known solution is that of "lender consortia."

Currently the Atlanta Mortgage Consortium (AMC) is one of the largest single-family consortia in loan volume in the country. At approximately $60 million in closed loans and some 1,200 families, the average borrower is an African-American, single female head-of-household with 1-2 children with household income of $22,700.

The downside on consortia lending—lending with expanded credit criteria—has been the lack of a secondary market purchaser, until now!! Freddie Mac has purchased $16.6 million in AMC loans and in so doing, opens the door to the creation of lender consortia nationally.

To explain how this purchase was accomplished one should understand the mission, history and production process of the AMC.

Mission

The mission of the AMC is to provide single-family loans for individuals with household incomes of less than 80% of the median income (i.e., less than $37,200).

History

The AMC was originated as a single-family and multifamily lender in April 1988. Originally, eight lenders created the consortium with Trust Company Bank assuming the original lead bank position. To date there are nine members: Bank South, First Union, Georgia Federal, The Merchant Bank, NationsBank, The Prudential Banks, SouthTrust Bank, Trust Company Bank and Wachovia Bank.

Production

The consortium has closed approximately 1,200 loans and reports a 7.0 percent delinquency ratio. For comparison purposes, the Georgia delinquency for FHA products as of March 1993 was 8.25 percent. A Federal Home Loan Bank study of some 600 loans conducted in 1991 shows the AMC's portfolio performance has improved since its 1990 figures because of the strong emphasis on buyer education and good management controls.

When we review our delinquency ratios, we recognize that some families may have problems caused by loss of work, excessive medical bills, or other unplanned family problems that create a mortgage non-payment problem. Our 90 day-plus delinquency shows households where we are working with families, allowing them to get back on their feet. In some cases, however, they follow the advice of TV attorneys who preach the gospel of bankruptcy. We currently carry a total of 21 bankruptcy cases, which we do continue to pursue for resolution.

AMC loans are originated by any member branch office. Loans are mailed/faxed to our central processing/underwriting office. Loans are closed according to AMC lending criteria. Closed loans are serviced by Standard Mortgage Corporation.

To continue now with our process, we might liken it to turning a battleship around on a narrow river. One needs a pilot who is familiar with the river and a captain familiar with the ship. The battleship, USS Freddie Mac was piloted by Ray White. Ray is the local Atlanta regional marketing representative for low-income Freddie Mac products. With Ray as the captain and the AMC as pilot, the procedures

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Chuck Scheid is executive director of the Atlanta Mortgage Consortium.

AMC: Selling unconventional loans to the secondary market

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for meeting Freddie Mac charter requirements were reviewed and examined as to how Freddie Mac could purchase a consortium portfolio that included no mortgage insurance.

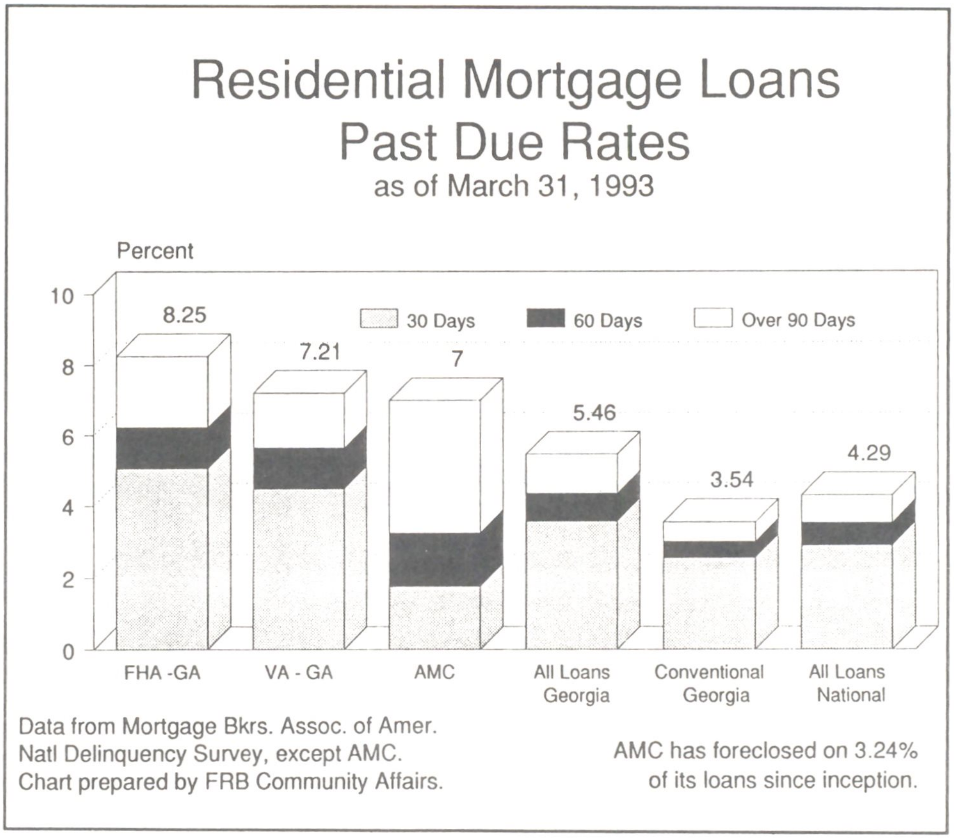
Because of Ray White's perseverance, the dedication of all participants with Freddie Mac, and the AMC Board of Directors' professional guidance, it was discovered that a consortium portfolio, with no mortgage insurance could be securitized if the consortium established a reserve account to guarantee payment of loans.

This type reserve account had never been tried, yet it met the charter requirements of Freddie Mac. Therefore, at the time of sale, a 5 percent reserve account of all loans with LTVs over 80 percent was established as a one-time payment. The AMC has been making loans since 1988, so this reserve equaled about 3.8 percent of the total $16.6 million, since a large percentage of loans were now less than 80 percent LTV.

The AMC is not a Freddie Mac seller/servicer, so all loans were assigned to our servicing company, Standard Mortgage Corporation.

The actual pricing of the loans was based upon the market value of each loan coupon rate. All of this was handled by Standard Mortgage Corporation, and specifically, Kevin Kingsman, the general manager and myself reviewed pricing.

As single-family consortia continue to develop, each organization should meet with Freddie Mac and include this in the discussion on how to create an consortium product. Remember to create the product so it meets the needs of the low-income community and not necessarily the secondary market. P



GRASP: Serving small businesses

Continued from page 7

12 percent annually. Funding should be available in the fall.

GRASP pursues funding for development programs mainly targeted at disadvantaged populations and non-traditional entrepreneurs. GRASP has received Community Development Block Grant funds and special purpose grants from the Departments of Labor, Commerce, and Housing and Urban Development, Health and Human Services, and the U.S. Small Business Administration (SBA).

Since 1991, federal grants have averaged $900,000 annually. In addition to bank and other corporate donations, GRASP recently secured a fee-based contract with the Macon, Georgia, Housing Authority to provide training and technical assistance to its residents.

The overall mission is to empower people who have traditionally been left out of the economic mainstream by providing them with the necessary tools to compete. As Mr. Coakley says, "If you give a man a fish he will eat for a day. If you teach a man how to fish he will eat for a lifetime. That's what economic empowerment is all about."

Any small business owner or prospective owner in the metro Atlanta area can participate in GRASP. Most of the programs operate on a fee for service basis. However, grants and local government funds are available for qualified participants. For more information on GRASP and its programs, call, Mr. Maurice Coakley, Executive Director, (404) 659-5955. P

Taking Note of Annual Reports

The Enterprise Foundation: Seeds of Change, 1992 Annual Report, features a colorful "Grassroots Activity" report that summarizes some of the foundation's many activities in 28 states. Six community development organizations in Florida, one each in Georgia and Louisiana, two in Mississippi, and four in Tennessee were featured. At year-end 1992, Enterprise assets totaled $46.3 million, which included a 26.8 percent increase in loans to neighborhood housing groups from 1991. The fund balance totaled $18.7 million, an increase of $4.3 million from the prior year. The profitable year can be attributed in part to a $1.4 million increase in grants received and a $1.6 million increase in equity in subsidiaries. Program activity expenses also increased 32.3 percent. According to the report, cumulative loan losses (from neighborhood groups) since its inception 11 years ago totaled only $287,000 and amount to less than 1 percent of the approximately $40 million in loans.

Neighborhood Reinvestment Corporation: Critical Investments for Critical Times, 1992 Annual Report, features exceptional photography and skillful graphs to supplement its financial statements. At fiscal year-end September 1992, assets totaled $9.1 million and included $3.6 million in congressional appropriations to fund neighborhood revitalization organizations with revolving homeownership capital available until September 1994. Although congressional appropriations increased 21.8 percent from September 1992 to 1993, a $245,000 dollar operating loss was reflected because of lower interest income earned and a higher level of grants and grant commitments made. NRC reports a total fund balance of $1.04 million, which measures 11.46 percent of total assets.

Seedco: Partnerships for Community Development, 1992 Annual Report, provides a highly informative narrative report on its activities to forge partnerships among community-based groups and "anchor public benefit institutions" to promote revitalization of impoverished inner-city neighborhoods. Supported by a major grant from the Ford Foundation, and many other grants from public and private sources, Seedco has been active throughout the district, especially with Historic Black Colleges and Universities. Anchor public benefit institutions are those whose primary mission is serving a public interest, such as hospitals, utilities, colleges, etc. Seedco is an acronym for Structured Employment/Economic Development Corporation. Seedco is currently active in 26 cities, including Atlanta, Jackson, MS, and New Orleans. With total assets of $6.9 million as of September 30, 1992, Seedco grew 36.8 percent from fiscal-year 1991 and increased its fund balance by 37.5 percent to $2.3 million.

Reading File

- *Closing the Gap: A Guide to Equal Opportunity Lending*, 27 pps., Federal Reserve Bank of Boston. For copies, call (617) 973-3459.
- *Banking in a Changing World*, speech by Susan M. Phillips, Governor, Federal Reserve Board, June 1993.
- *Detecting and eliminating possible discrimination in financial institutions*, speech by John LaWare, Governor, Federal Reserve Board, March 1993.
- *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.
- *A Path to Community Development: The Community Reinvestment Act, Lending Discrimination, and The Role of Community Development Banks* is the sixth public policy brief published by The Jerome Levy Economics Institute of Bard College. For copies, call (914) 758-7412.

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

A changing social landscape

Susan Phillips

Excerpted from a speech by Federal Reserve Board Governor Susan Phillips on June 23, 1993, before the American Bankers Association's Graduate School of Banking.

Unless you've been sojourning in a cave for the last few years, you've already heard a speech about the changing environment for banking. I will not replow that particular ground. Instead I *do* want to talk about a related but less visible set of changes facing banking today. These are *social and cultural* changes that are slowly but surely transforming our society.

The social trends I will focus on will dramatically influence how your institutions approach three fundamental issues—who will be the bank customers of the future; what products and services will they need and demand; and how will those products and services be marketed and delivered?

When we think of change, we often tend to think in terms of technological change. And it's true that technological advances can be dazzling. But isn't it equally striking to realize that about one out of every four U.S. residents now claim African, Asian, Hispanic or American Indian ancestry? In fact, racial and ethnic minority groups are growing seven times as fast as the majority.

Most social and cultural shifts occur relatively slowly and, as a result, are not so obvious as technological changes. But they can have implications perhaps more profound than changes in technology or industry consolidation. And that is precisely why bankers must be attentive, not only to the newest technological innovations and systems, but also to the wider social landscape.

Strategic planning that incorporates societal changes is prerequisite to a successful business future.

Aging of America

Among the most significant of these societal trends is the aging of the population. In 1990, there were 2.7 retirees over age 60 for every 10 workers. By some estimates, that number will increase to 4.3 retirees for every 10 people working by the year 2025. The dramatic shift to an older population of customers will have affected every type of business-including banking. All phases of planning will be touched—product development, physical design of branch facilities, marketing and so on.

The full extent of how this aging of our population will affect banking is not very clear but is likely to be significant. For example, one aspect of the aging of America is the transfer of wealth. As the World War II generation dies, "boomers" will receive what FORTUNE magazine calls "the biggest intergenerational transfer of wealth in U.S. history."

Some believe that this windfall income will be used to pay off existing debts. Others predict that a good deal of the money will be used for business start-ups. Both impact lending opportunities. And, of course, many of these recipients of sizable assets will need financial advice on a scale not typically provided to middle class customers.

An aging population also puts a focus on retirement financing. This will stimulate the market for financial planning products and investment services.

Diversity in America

While the aging of America will have profound effects on our economy, America's growing diversity could also reshape our economic life. It has been estimated that by the year 2056, most U.S. residents will trace their roots to Africa, Asia, Hispanic countries, the Pacific Islands, or American Indian tribes. In about 100 of the 500 or so largest U.S. cities, minorities are, in fact, reported to be already in the majority.

The increasing racial and ethnic diversity of our population will continue to stimulate minority business development. A growing number of entrepreneurs representing a multitude of racial, ethnic and cultural groups will be looking to financial institutions for financing and other services.

Another dimension of our growing diversity is the dramatic emergence of women as active participants in the nation's working economy. Government figures indicate that in the 5 years between 1982 and 1987, the number of women-owned businesses grew 58 percent to a total of 4.1 million. During that same period, it is estimated that annual receipts for women-owned firms grew from $98 billion to $278 million. Some institutions have begun to focus on this market, but clearly others have not.

Ethnic diversity in our society will obviously translate to our national workforce. A high percentage of new workers in the next decade will be blacks, Hispanics, and

See PHILLIPS, page 12

Calender

AUGUST

Florida Association of Mortgage Brokers, August 25-28, Boca Raton, FL, *Annual Convention.* Contact (904) 942-6411.

National Housing & Rehabilitation Association, August 26-29, Martha's Vineyard, MA, *1993 Summer Institute.* Contact (202) 328-9171

SEPTEMBER

Ms. Foundation for Women (MFW), September 9-13, Peachtree City, GA, *6th Annual Institute on Women and Economic Development.* Contact (212) 353-8580.

Institute for Professional and Executive Development, September 22-23, Washington, D.C., *"Housing the Non-Wealthy Elderly."* Contact (202) 331-9230.

Information provided on upcoming events and other organizations should be viewed as strictly informational and not as an endorsement of their activities.

SRO: Serving the "working poor"

Continued from page 4

It is designed to serve the "working poor". Welcome House residents sign six-month leases and pay between $7 and $9 a night for a 10-by-10 carpeted room. To move in, residents must pay a $20 application fee, a $5 phone deposit, and the first week's rent.

Unless applicants can show proof of employment or some prior rental history, they must undergo six months of counseling services.

Residents also share laundry facilities, a television lounge and weekly maid service.

All the rooms in the brick-and-stucco building are restricted to 50% of area median income.

Project model

Goldsboro says the process for Welcome House was so tortuous because it was a first and because so many people were involved.

"You have a lot of different homeless groups vying for involvement. You got a lot of players, a lot of stakeholders, but now that we've gotten this one under our belt, the next one can become a little easier. We have a model now, and we brought people to the same table and achieved comfort levels."

According to Goldsboro, "It's sort of a monument to a lot of people's hard work."

Gunter agrees. "Right now, I couldn't be more pleased. People are happy with the appearance of the building. We are happy with the lease up, happy with the house rules.

"We even ended up with $30,000 in donated landscaping plants. It's going well right now." P

Phillips: Ethnic diversity in the workplace

Continued from page 11

recent immigrants. Banks—in fact all of corporate America—will face the challenge of diversifying a primarily white managerial team to supervise a work force that will be increasingly Hispanic and non-white.

Business will also have to develop the wherewithal to train a workforce that is capable of dealing effectively with a diverse customer base. Hopefully, every banker in this room is aware of—and concerned about—the racial disparities in mortgage lending demonstrated by publication of the Home Mortgage Disclosure Act data.

Much of the problem may be due to subtle cultural bias. No doubt some of this problem could be diminished if lending officers better match the diversity of bank customers. But even further, bank management must examine its practices and policies to assure that the chances of mortgage discrimination are minimized. This can be done through intensified analysis of lending practices, second review programs, self-testing, employees education and outreach marketing efforts.

Overall, I am suggesting something rather straight forward. Those banks that anticipate and understand the dynamics of social and cultural diversity will be ahead of the curve. Those banks that respond effectively with appropriate research, product development, marketing and employment practices will be the leading institutions in the future. P

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