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FROM THE PRESIDENT’S DESK

I am pleased to introduce Profitwise, our new community affairs newsletter written especially for the banking community.

Each issue of Profitwise will be composed of articles, interviews and announcements that will keep you and your staff up-to-date on nationwide community affairs issues, with a special focus on the Seventh District.

Profitwise will highlight successful neighborhood lending programs which have been implemented in the Seventh District, and provide you with practical information on programs and techniques that can help you to develop or enhance your own loan program.

The Federal Reserve Bank of Chicago believes that successful neighborhood lending involves the granting of sound loans that provide the mortgage, rehab, small business and consumer credit upon which our nation’s rural communities, small towns and urban neighborhoods rely to remain strong and healthy. The revitalization and preservation of these extremely important sectors requires a strong commitment on the part of all of us.

The responsibility for community development activities at the Federal Reserve Bank of Chicago rests with our Community Affairs Group, which is headed by Alicia Williams, Assistant Vice President and Community Affairs Officer. Ms. Williams and the other staff members in the Community Affairs Group are profiled in this inaugural issue.

We welcome your opinions and recommendations for Profitwise so that we may effectively respond to your concerns and questions about community reinvestment and the role it plays in banking today.

Sincerely,

Silas Keehn, President
MEET THE STAFF

The Board of Governors of the Federal Reserve System has delegated most of the responsibility for the implementation of CRA to the twelve Federal Reserve Banks. Each Federal Reserve Bank has appointed a Community Affairs Officer (CAO) who is responsible for the full range of activities of the Reserve Bank’s Community Affairs program, including enforcement, assistance with bank holding company applications when CRA-based protests are involved, and technical assistance and education to member banks on CRA and community development issues.

Assistant Vice President Alicia Williams is the Chicago Reserve Bank’s CAO. She is assisted by a staff of three full-time specialists, who are ready to provide assistance in developing community reinvestment programs. We encourage you to call them or visit them when you’re in Chicago, as we have a continuing interest in meeting community affairs officers from our member banks, in discussing your current neighborhood lending programs, and in helping with suggestions and programs that can make CRA compliance programs rewarding and profitable.

Alicia Williams, A.V.P., CAO: Alicia Williams has been with the FRB of Chicago for 10 years, and was appointed Community Affairs Officer in 1982. Prior to her appointment, she was a commercial bank examiner. She is responsible for all of the activities of the Reserve Bank’s Community Affairs Group, and is the officer in charge of all official recommendations and activities regarding CRA compliance, resource development and banker education. She plans to focus this year’s activities on housing-related community development programs, especially Neighborhood Housing Services programs, and on educating bankers on their responsibilities under the Community Reinvestment Act.

Rosie Gantner, Community Affairs Specialist: Rosie Gantner has been with the Chicago FRB for 5 years. Beginning her career at the Federal Reserve Bank as a consumer compliance examiner, she now has primary responsibility for the review of bank holding company applications for CRA and consumer compliance issues, and for reviewing banks’ track records in neighborhood lending. Before joining the Federal Reserve Bank, Rosie earned a degree in consumer economics, and worked in investigative reporting and consumer education for a Chicago television station. Rosie coordinates all of the Chicago Federal Reserve Bank’s workshops and seminars for banker education on CRA compliance and the latest techniques in neighborhood lending programs.

Sally Skoff, Community Affairs Specialist: Sally Skoff joined the Chicago Federal Reserve Bank 13 years ago as a commercial bank examiner, and has worked in the community affairs section for three years. She is in charge of our Visitation Program—a program unique to the Chicago Federal Reserve Bank whereby she and the CAO visit major metropolitan areas throughout the Seventh District and interview local member banks, government officials, community groups and not for profit community development organizations regarding neighborhood credit needs and their perceptions of the lending programs of local banks. She also coordinates Seventh District nominations to the Consumer Advisory and Thrift Institution Advisory Councils.

Lorraine M. Woos, Community Affairs Specialist: Lorrie Woos has been with the Chicago FRB for one year and brings with her a background in community development, urban planning and real estate finance. She is responsible for community development corporations in the Seventh District, and works with community-based protests filed against Seventh District banks and bank holding companies when applying for mergers, acquisitions, or other expanded activities. She is also editor of Profitwise, and looks forward to hearing (312-322-4758) your comments on Profitwise, and also any “leads” on what banks are doing as part of their neighborhood lending programs.
THE VIEW FROM CHICAGO

by Alicia Williams, A.V.P., Community Affairs Officer, Chicago FRB

We are pleased to introduce this first issue of Profitwise. Profitwise is our new community affairs newsletter that is written especially for the banking community. It is designed to give you important information concerning how to either start or improve your community reinvestment programs. We think that you will find creative and do-able program ideas in each of the articles and interviews in this issue.

Profitwise, the name of our publication, reflects our feelings about community reinvestment. Community reinvestment is a wise policy for banks to follow. Neighborhood lending boosts deposits and loans, protects existing collateral (especially real estate) on outstanding loans, adds value to bank-owned real estate, and does wonders for public relations (just ask bankers with aggressive community lending programs). However, community reinvestment should also mean wise lending for good, credit-worthy loans—in other words, profitable loans that make sense. We are all aware of the perception that “community reinvestment” means “making bad or high-risk loans.” We would respond to this by saying that bad or high-risk loans help no one—neither the bank, the community, nor the regulatory agencies that are responsible for ensuring that banks are operated on a safe and sound basis.

Our goal is that each issue of Profitwise lives up to its name. We hope to assist you in your approach to community reinvestment through our feature interviews, updates on new programs, and articles on other lenders’ creative responses to community credit needs. But, again, we want you to invest your loan funds profitably and wisely. Each issue of Profitwise will share ideas on sound and workable community lending techniques. In addition, my staff and I stand ready to help you incorporate these techniques into your own programs. Please read through this and upcoming issues of Profitwise, and give us a call with any questions or ideas you may have. We look forward to hearing from you!

IN THE NEWS...

REGIONAL BANKS INSENSITIVE? At the Fall ’87 conference of the National Association of Community Development Loan Funds, Mary O’Hara, executive director of the Massachusetts Urban Reinvestment Advisory Group, said that monolithic regional lending institutions are less sensitive to local problems than local banks and so bank officials need to be forcefully reminded of their CRA responsibilities.

DUTCH BANK INSURES MAINE IRBs. Algemene Bank Nederland will jointly insure tax-exempt bonds to be issued and insured by the Finance Authority of Maine, so that the bonds can be sold in the capital markets. Bond proceeds will be used to offer “customized” loans up to $7 million at 3% or below the conventional rates to small/medium-sized manufacturers for land acquisition, capital improvements, or machinery/equipment purchases. Borrowers also pay a 1% commitment fee—applied to the first year’s 75% loan insurance premium—and an average 3.6% closing cost fee. Due to features in the 1986 Tax Reform Act, banks—traditionally frequent purchasers of local IRB issues—have lost some important benefits of investing in IRBs, with the result that banks are no longer as willing to purchase IRBs as before. This program is expected to provide new placement sources for local IRB issues by bringing individual investors into the picture.

PENNSYLVANIA LINKS STATE DEPOSITS TO BAN K COMMUNITY DEVELOPMENT RECORDS. In October, the Commonwealth of Pennsylvania Treasurer G. Davis Greene, Jr., announced a program under which the Commonwealth will review the community development-related activities of each bank in which it deposits Commonwealth funds, and it will also add a new “linked deposit” plan. Under the plan, banks will apply for discounted Commonwealth fund deposits jointly with potential borrowers. Then banks will loan the funds and pass on the discount (banks’ normal rate spreads could be maintained). Greene’s assistant, Greg Penny, said that interest yield on Commonwealth deposits is only one measure of return; therefore, Greene plans to ensure that the Commonwealth’s $4.5 billion investment portfolio, as well as its two $20 billion pension funds, are invested “with a social dimension.” (All of the above news items summarized and printed with permission from CD Digest, 8555 16th Street, Silver Springs, MD, 20910, copyright 1987.)

INNOVATIVE CHICAGO BANK HOLDING COMPANY DOES IT AGAIN. Shorebank Corp., a socially-minded and profitable Chicago bank holding company that already owns three CDCs and a bank, has recently expanded its neighborhood lending to yet another Chicago neighborhood. Credit-worthy mortgage and small business borrowers in Austin, on Chicago’s far west side, will benefit from South Shore Bank’s new Austin branch, as the bank plans to follow the same policy of aggressive neighborhood lending as it does in South Shore, on the city’s south side. Shorebank Corp. also has plans to “export” the “Shorebank model” to Arkansas, where it has already set up the Southern Development Bancorporation “to undertake a broad program of rural economic development.”
A NEIGHBORHOOD STORY:

A Chicago Neighborhood Shopping District Comes To Life—A Profitwise Interview With Joel Bookman, Executive Director, LADCOR

LADCOR is the Lawrence Avenue Development Corporation, located in the Albany Park neighborhood on Chicago’s mid-northwest side. LADCOR has packaged dozens of small business loans, fought for and won city improvements for the business district, and is now developing a strip shopping center in the heart of the Lawrence Avenue business district. LADCOR was one of the nation’s first nonprofit neighborhood development corporations, and is a recognized model for cooperation between local small business, local residents, and the neighborhood bank.

Profitwise: Could LADCOR have accomplished all it has accomplished without the help of the local bank?

Bookman: What happened in Albany Park is different than what happened in most other neighborhoods. Albank (at that time Bank of Albany Park) was actually one of the founders of the North River Commission, our parent neighborhood organization, in 1962. Albank was also one of the founders of LADCOR in 1975. It has always been right there for us. When suburban flight hit Albany Park in the early sixties, Albank knew that unless someone did something, it would lose deposits, mortgages, and commercial accounts. Its real estate collateral would drop in value, and its own real estate would drop in value.

Profitwise: But in 1975, the idea of a neighborhood development corporation was well ahead of its time. How was it decided that a local development corporation was the way to go?

Bookman: Albank worked with the NRC (the North River Commission) on this new approach. By then, NRC had been in business for about 13 years. NRC’s approach had always been to work with business. NRC was, and still is, an organization primarily for the residents in Albany Park. It was the residents who were the first group to try to pull the neighborhood back up. NRC looked at the commercial strip and knew it needed help. One of the first projects NRC took on was to identify the 50 worst buildings in the neighborhood; when they did, they found that virtually all of them were right next to or behind the commercial strip.

Profitwise: Why start a development corporation to solve these problems?

Bookman: In 1974, the whole idea of a local development corporation was a totally new concept. Only four other neighborhoods in the nation (in Toledo, Philadelphia, Providence and Baltimore) had local development corporations, and they were all funded by a special grant from HUD/SBA/EDA. NRC had some money left over in the budget that year and used it to send one of its board members to visit each of these cities to find out whether this new concept could help Lawrence Avenue. We liked what we heard, applied for the program, were next in line to get funded, and then the program was cut. But we decided to do it anyway.

Profitwise: Why not start a chamber of commerce instead?

Bookman: Actually, we did, as a first step towards starting a local development corporation. LADCOR’s model for neighborhood retail development requires that each group, both residents and local businessmen, organize itself to figure out exactly what it needs, and to provide its constituents with some basic services. Then, the development corporation is formed, with representatives from each group, to balance out those needs and priorities, and to accomplish what is good for the neighborhood as a whole. LADCOR’s experience has been that the NRC members of LADCOR’s board are usually best at looking at long-term goals for the retail development of Lawrence Avenue and the rest of the neighborhood, while the Chamber members are the businessmen who have the practical day-to-day experience that makes it all happen. And the bank is a big part of that.

Profitwise: Exactly what did the bank do?

Bookman: We didn’t have any money. Albank donated some start-up capital, gave us use of a meeting room, and provided a vice president of the bank to be president of the Chamber to give the Chamber visibility and stature. The bank also provided free mailing and xeroxing. Most importantly, the bank really let its business customers know that they were behind the Chamber in a serious way. And this helped a lot—local businessmen (Continued on page 5)
LADCOR

(Continued from page 4)

like to go to Chamber meetings where they can socialize with their local lender to whom they may be applying for a working capital loan the next day.

Profitwise: LADCOR has grown since those early days; your annual budget is now $250,000, you’ve packaged at least $15 million in small business and commercial real estate loans, you’ve successfully negotiated urban renewal clearance and major street and landscaping improvements with the city during times of budget cutbacks, and now you’re co-developing a $2 million strip shopping center right here on Lawrence Avenue. What is your relationship with Albank now?

Albank Pres. Bob Gecht and LADCOR’s Bookman at new shopping center construction site

Bookman: We have a terrific working relationship with Albank. Members of the bank’s management are on all executive committees of LADCOR and the Chamber, and are involved in doing long-term planning, all shopping promotions, and our nationwide marketing campaign to regional and national franchisers. Albank gives us free marketing services by letting us use its outdoor sign board, and sends out LADCOR and Chamber information as statement stuffers to its customers. We use its lobby display boards, sponsors a summer concert series to bring more shoppers to Lawrence Avenue, it gives out free popcorn at sidewalk sales, and sponsors us through donations and buying ads in our programs and ad books. But perhaps most importantly, Albank makes loans on the business deals we bring it. Of course, we don’t bring the bank bad deals—no chamber or local development corporation should take its local bank (or ANY bank) bad deals. Bank loan officers refer borrowers to us who need SBA loan packaging, and call us for our opinion on certain deals because they know our chamber staff are out there on the street every day talking to our businessmen, looking at their merchandise, seeing who’s shopping the street, and which businesses are trying to meet those shopping needs. Albank will “talk a deal through” with us before we submit it to let us know, up front, what it wants and what it is looking for. Our businessmen know this, and we get their respect and cooperation, not just on loans and long-term development projects, but also on sidewalk sales and group ads, and all those seemingly small but important day-to-day activities that make a neighborhood business strip work. Finally, Albank was one of the original backers of our “special service area” (Editorial note: In Chicago, retail associations can vote to establish a small monthly tax based on assessed property value or other appropriate basis, to be paid by all businesses in the designated area, with collected funds to be used for retail strip management, such as snow removal, parking lots, street sweepers, etc.). Based on its own retail footage area, Albank pays a substantial special assessment, and has taken a leadership role in lobbying local businesses for the upcoming debate for renewing the “special service area” designation.

Bob Gecht and Joel Bookman work together on small business loans

Bob Gecht on the bank’s Sculpture Garden - one of the bank’s many contributions towards commercial strip beautification

Profitwise: Thank you for sharing your story with us. Is there any final word of advice you’d like to give our readers?

Bookman: Yes, and this may be directed more towards local development or neighborhood groups than the bankers who are your readers, but I do want to say that we never ask the bank to do something for the good of the neighborhood—we ask them to do it because it will make them money. Neighborhood economic development is in everyone’s best interest, and we’ve found that this is the best motivating force we have.

Profitwise is published quarterly by the Community Affairs Section of the Federal Reserve Bank of Chicago, 230 S. La Salle St., P. O. Box 834, Chicago, II., 60690-0834, (312) 322-4758.

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Profitwise welcomes story ideas, suggestions, and letters from all bankers and other subscribers in the 7th Federal Reserve District.
THE BOOKSTORE

These materials can be useful additions to your CRA library. All are available free of charge by writing to the Federal Reserve Bank of Chicago, Public Information Center, P.O. Box 834, Chicago, IL 60690-0834. (312-322-5111)

- CRA Performance Category Grid, published by the Federal Reserve Bank of Chicago. A chart depicting the composite rating system by which examiners score banks' CRA programs in five performance categories.
- Community Development Corporations and the Federal Reserve, 6 pages, published by the Board of Governors of the Federal Reserve System. An explanation of CDCs and how to apply to form a bank holding company CDC in your area.
- Disclosure Act (HMDA) of 1975. FHA and ECOA are generally familiar to bankers and the public as well. They prohibit discrimination in the granting of credit to individuals on the bases of race, color, national origin, religion, sex, marital status, age, receipt of public assistance and exercise of consumer protection rights. HMDA is quite different in both intent and administration of its provisions. First, as HMDA was passed by Congress as a result of citizen complaints and protests against lenders' mortgage red-lining practices, it is concerned with discrimination against certain neighborhoods rather than individuals, and it focuses solely on credit for residential real estate. Second, the requirements and administration of the Act require that banks provide information on where they make residential mortgage and rehab loans. Community groups, government agencies and bank regulators make good use of this information to determine whether a given bank is, in fact, making credit available to neighborhoods within its market area.

Based on lending data provided in annual HMDA reports, community groups and legislators found that certain neighborhoods in many communities did not appear to be receiving residential real estate loans they needed to remain viable. In their view, HMDA had done its job by providing individual bank information on where mortgage and rehab monies were going.

As a result, many of the concerns that prompted the passage of HMDA also prompted the passage of CRA. However, CRA's focus extends beyond housing to cover all of the credit needs of the communities in which banks and thrifts operate. Its premise is that banks and thrifts have a continuing obligation, as government-chartered institutions, to help meet the credit needs of the communities in which they are chartered, consistent with safe and sound banking practices.

CRA requires the Federal Reserve to encourage each in-

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THE BANKER'S CORNER

MAKING THE COMMUNITY INVESTMENT CT WORK FOR YOUR FINANCIAL INSTITUTION

by Guest Columnist Tom Wentland, Senior Vice President, Marine Bank, N. A., Milwaukee, Wisconsin

Tom Wentland is Profitwise's first Guest Columnist. Marine Bank has recently begun negotiating with Milwaukee community groups for special neighborhood lending programs. As a result of these negotiations, he has gained experience in the art of developing constructive working relationships with community groups.

The Community Reinvestment Act (CRA) has been a part of every financial institution's legal responsibility for over 10 years. Recently, increased attention has been drawn to CRA as financial institutions seek to grow across state lines in the current deregulated environment. In order to make CRA work for a financial institution, rather than against it, the bank or savings and loan must take a proactive approach. Going beyond the letter of the law in establishing communications with community groups and their leaders, reviewing credit approval on an ongoing basis, and aiding in the planning of community development are all sound means of not only meeting CRA requirements, but also going beyond them. The proactive institution will seek involvement in its community, rather than waiting for the community to seek its involvement.

Some important aspects, though not all inclusive, in building a high quality community reinvestment program are: Establishing open lines of communication between the community and the institution. This will involve meetings between the institution's management and community leaders, with the goal of determining the needs of the community through its spokespersons. Regular channels of communication must be opened and maintained so that the institution can develop a positive working relationship with community groups, while understanding the needs of the various organizations. The community must encourage communication so that its needs are not only being heard, but also addressed by the institution. Regular review meetings should be held to ensure that both parties are making progress towards the goals which have been mutually agreed upon. Through regular communication, the institution and the community will form a partnership which will benefit both.

Secondly, the bank can conduct ongoing reviews of its investment record in the community. Careful review of loan policies and the loan portfolio; periodic surveys of community wants and needs; and review of the community involvement of its officers are all important factors. If the institution is alert to opportunities in its community, it will more than meet CRA requirements. The proactive institution will have sufficient knowledge of its CRA record to seize these opportunities.

Finally, the participation of the financial institution in the planning of community development and the financial education of those living in the community are key factors in a CRA program. This is not to say that the institution should be responsible for community development, but that it actively participate in such development along with community and governmental groups. The institution can also conduct educational programs and seminars to familiarize the community with new financial services and concepts.

The institution must also have an ongoing commitment to community involvement as part of its business philosophy. It must be conscientious and cooperative in responding to the community and its needs. A positive, proactive approach to CRA should make a positive difference, both for the institution and the community.

CRA

(Continued from page 6)

institution it regulates to contribute to the well-being of its community within the requirements of safety and soundness. It also requires that banks' performance under the Act be assessed and rated; that banks' records be taken into account on bank and bank holding company applications for expansion (on the premise that if a lender is not adequately serving its current market, then it should not expand into other markets); and that banks comply with other listed technical requirements.

CRA encourages dialogue between financial institutions and community representatives to discuss and exchange views about community credit needs. It should be the goal of community groups and bankers alike that such dialogue develop into useful partnerships.

In our next issue of Profitwise, we'll give you some tips on how you can conduct a quick and easy self-evaluation of your current CRA program, and include a special reprint of a checklist you can use to both evaluate your program and develop some new approaches.
**CRA CALENDAR:** March - April, 1988

3/23-25:*  
**Contact:** (202) 223-4735

4/10-13  
**Contact:** (202) 223-4735

4/11-12  
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