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WORKSHOP RECAP:

*CRA and the Low Income Housing Tax Credit Featured at “Banking On Michigan”*

The author of this article is Lorraine M. Woos.

Bankers from southeastern Michigan were “Banking On Michigan” on June 16-17 at the Detroit Branch of the Federal Reserve Bank of Chicago, where the Chicago Reserve Bank and its Detroit Branch co-sponsored the first of a series of “Banking On Michigan” workshops. Eighty participants from different Michigan lending institutions came to hear about the history and theory behind the Community Reinvestment Act and how the new Low Income Housing Tax Credit is being used around the country to produce affordable rental housing.

Mr. Joseph McNeely of the Development Training Institute, Baltimore, Maryland, discussed the history of the Community Reinvestment Act from its beginnings at the turn of the century with the labor, civil rights and settlement house movements, to its passage by Congress in 1977. He also discussed the evolution of community groups from block clubs, to protesters, to their current role as partners in neighborhood development. Also included in his presentation was an update on techniques being used by progressive lending institutions in structuring sophisticated public/private and for-profit/nonprofit partnerships.

The workshop also included a presentation on the use of the Low Income Housing Tax Credit by some of the nation’s foremost experts in the field: Richard Goldstein, Lane & Edson, Wash., D.C.; Julie Johnson, Banc One, Columbus, OH; Robert Lyon, FRB of Chicago; Dwight Robinson and Douglas Shelby, Michigan State Housing Development Authority, Lansing, MI; Harry Silverman, Coopers & Lybrand, Boston, MA; William Tierney, FNMA, Chicago, IL; and, as moderator, Wesley Finch, The Finch Group, Boston, MA. The Low Income Housing Tax Credit is a provision of the Tax Reform Act of 1986 that permits equity investors in certain types of low-income rental projects to utilize significant tax credits against ordinary income.

(continued on page 2)
Workshop Recap
(continued from page 1)

The tax savings provide an economic incentive for engaging in low-income housing development projects. Mr. Finch and the other presenters provided a general overview of tax credit projects, detailed information on specific accounting and legal issues, and the saleability of tax credit deals to the secondary market. These are the considerations which can impact both the feasibility and profitability of a project using the tax credit.

A number of banks, bank holding companies, and bank and holding company-owned Community Development Corporations (CDCs) around the country have begun to make loans on tax credit projects. A number of CDCs have also recently participated as equity partners in these projects in order to use the tax credits to shelter bank and holding company income, while at the same time incorporating participation in these projects in their CRA programs. A highlight of the tax credit session was Julie Johnson’s description of the issues faced by Banc One’s experience, tax credit projects are “subsidy sandwiches” which frequently require the involvement of a local not-for-profit group that can access government grants and low-interest loans, Section 8 rent guaranty certificates for the project’s low income renters, grants from foundations and corporate-giving programs, and other low- or no-cost “social investment” funds which can make these projects economically feasible. When asked, in light of the extensive effort that Banc One put into structuring and negotiating the Cleveland project, “if they’d do it again,” she responded,

“We're going to make money on this...(but) the partnerships with these neighborhood groups that come about as part of these projects are really going to be a greater benefit to us than the financial rewards we'll get through the CDC.”

As a special feature, Federal Reserve Governor Martha Seger addressed the attendees at the tax credit session and emphasized that while programs like the tax credit should not be regarded as a panacea for either neighborhood reinvestment or for a bank’s CRA program, lenders do have an obligation under CRA to stay informed about programs and lending techniques that can help lenders make creditworthy loans in their local communities.

The Federal Reserve Bank of Chicago has since received a number of calls requesting additional information on banks’ investments in tax credit projects,
THE VIEW FROM CHICAGO:

Discrimination and Lending — Have You Looked At Your Record Lately?

This column, by Alicia Williams, Assistant Vice President of the Federal Reserve Bank of Chicago and the Bank’s Community Affairs Officer, is a regular feature of Profitwise.


If these headlines come as a surprise to you, your area, unlike Atlanta or Detroit, has not been hit by the wave of newspaper articles and investigations regarding banks’ lack of consumer and business lending in their local communities. These headlines symbolize what may become one of the biggest issues in banking today — increasing allegations of discriminatory lending practices by banks across the country.

What is especially interesting about the Atlanta and Detroit investigations is that the accusations of discrimination are not aimed at any one bank, but at the entire banking industry in these two cities with large minority populations.

In Atlanta, reporters from the Atlanta Constitution-Journal confronted banks with their own Home Mortgage Disclosure Act (HMDA) data to show lower home mortgage lending in Atlanta’s black neighborhoods. In Detroit, reporters from The Detroit Free Press also used HMDA data to confront lenders about several issues: an alleged unwillingness to make home mortgage loans in Detroit’s black neighborhoods; an overall pattern of disinvestment in Detroit in favor of white suburban areas; and a growing trend of Detroit’s major financial institutions to move their corporate facilities from downtown to suburban and exurban locations.

We understand that three more cities are currently targeted for extensive newspaper investigations on discriminatory lending practices.

More and more, the requirements of CRA and other equal opportunity lending laws are being viewed by concerned consumers and government officials as the responsibility of the banking industry as a whole. While this does not mean that individual banks and savings and loans will not be held responsible for compliance with these laws, it does mean that the public and its lawmakers are developing a growing understanding of the importance of an industry-wide commitment to ensuring that local communities continue to enjoy equal access to credit. Consumers in credit-starved communities are increasingly concerned about expanded bank powers, increasing regional mergers and acquisitions, and the industry’s growing ability to enter into nonlocal markets. As a result, voters are asking their elected representatives to take these concerns into account when voting on current expanded bank powers legislation. I share this information not to cause alarm, but to emphasize that these serious and increasingly articulated concerns should not be ignored or dismissed.

What can you do to determine the impact of your lending practices, as well as the community’s views of your responsibilities? Take the time to look at your institution’s lending patterns. If your institution is subject to HMDA, use that data to see where mortgage and home improvement loans are, and are not, being made in your communities. If you do not file HMDA data, then use your knowledge of the community to determine where housing loans are being made. Next, look at where you make small business loans, large development loans, and consumer loans. Make a point of getting out of your bank and talking with local community groups, government officials, and nonprofit local development organizations about local credit needs and how those needs are being met. Talk to the other bankers in your community, and help them understand the benefits of a unified commitment to meeting the community’s credit needs.

Convince your fellow bankers to take a look at the overall lending patterns in your community, and assess how good a job the financial community as a whole is doing in fulfilling the requirements of CRA. It is up to you to be responsive.
A NEIGHBORHOOD STORY:
Rehabbing for CRA and Profit—A Profitwise Interview With John Pritscher, President, CIC

CIC is the Community Investment Corporation, a nonprofit Chicago, IL mortgage banking firm that provides favorable financing for acquisition and rehabilitation of multi-family housing (six or more units) in the city of Chicago. In this article, John Pritscher talks with Profitwise about how this small nonprofit organization grew, with the help of its 26-member loan pool, into a sophisticated mortgage banking firm where neighborhood lending is not only good business, it’s their only business!

Profitwise: How did CIC get its start?

Pritscher: CIC began in 1974 as a not-for-profit mortgage banking firm created by a group of fourteen Chicago banks and S&L’s to serve as a neighborhood financing vehicle. For the first nine and a half years, the pooled funds from these lenders enabled CIC to specialize in single-family lending for home rehab, or for mortgages to credit-starved areas of the city.

Profitwise: So why did CIC change from single-family lending to multi-family financing?

Pritscher: CIC changed to multi-family lending for three basic reasons. One, conventional single-family financing was becoming more readily available in lower income areas of Chicago, in part because of HMDA followed by CRA. Two, 59% of Chicago residents rent and a great majority of lower income households live in apartment buildings built sixty or seventy years ago. Combined construction and long term financing was needed to stimulate the rehabilitation required to preserve these buildings. Three, CIC could not cover our operating expenses from fee income generated by 1 to 4 unit rehab loans. The city was willing to provide community development funds to subsidize interest rates in certain areas, but not to help cover administrative costs. In 1984 city administrative cost subsidies stopped, as did all other operating subsidies to CIC. In February of 1984, the lenders on the board of CIC knew that mortgage loans to acquire and repair apartment buildings were practically impossible to get in many neighborhoods of the city, and so CIC’s multi-family loan program was born.

Profitwise: Exactly what was it about multi-family loans that made them so risky, or was this just the view of the lending community?

Pritscher: There was, and still is, to a degree, a misconception on the part of the lending community that many Chicago neighborhoods are “too risky.”

On the other hand, lenders that are willing and have the expertise to do this type of lending simply cannot afford to get involved with the smaller neighborhood deals due to the fact that they have to do many more deals to earn the fee income and interest spread that they can earn by doing just one large downtown or suburban loan.

Also, doing neighborhood apartment building lending in (continued on page 5)
Chicago means having to do rehab lending as well, given the age of the rental stock. Although there are a number of multi-family lenders who do sophisticated mortgage and new construction lending, there are not many who know how to make and monitor a moderate rehab loan on a neighborhood twelve-flat. Even Chicago lenders who have a great deal of "savvy" in making single-family mortgages in some pretty tough areas of the city feel uncomfortable with multi-family lending. This is why the CIC loan pool was such a good idea. Since multi-family lending is all CIC does, we have been able to develop specialized expertise, so we can deliver multi-family loans in an efficient and cost-effective manner with very low risk to our lender pool.

"We're talking about lending in the city of Chicago, making Chicago a stronger city in which to do business. One has to say--what's the alternative if we don't do this: who, in fact, is going to provide the funds in the inner city? By pooled risk and specialization CIC is making a major impact and investing institutions are receiving a good return on secure loans."

—Richard Hartnack
Senior Vice President
First National Bank of Chicago
and CIC Chairman

Profitwise: What are the key features of CIC's program? Can an individual bank do what you do?

Pritscher: Yes, any rehab and real estate lender can do what we do, but I don't know if they'd int to. Our margins are smaller than they're used to due to the comparatively small size of our loans, so getting a sufficient loan volume going in order to justify the effort might be a problem. Also, since a combination acquisition/rehab loan is frequently required, most lenders are simply not equipped to get into this type of financing.

Let me answer your question about the key features of our program. Basically, I can sum them up: POOLED RISK, CONVENTIONAL UNDERWRITING and CONSTRUCTION MONITORING. First and foremost, "pooled risk" is something that our member lenders can live with. The risk on each loan is pooled with the 26 institutions sharing in each loan, based on their percentage of the pool. But "pooled risk" is meaningless without sound underwriting; no one wants a share of a pool of defaulted loans, no matter how good it might look for their CRA program!

Seriously, our underwriting is thorough, but conventional. We force our borrowers to be realistic about building income and expenses. We know city neighborhoods, and with 206 loans under our belt, we are very familiar with what rents and properties are going for in the neighborhoods. We will only do an 80% loan-to-value or loan-to-cost, whichever is lower, and require a 1.2 : 1 debt coverage ratio. We also specialize in rehab lending and have learned many hard lessons about what happens to rehab costs once the construction crew gets in there and a simple electrical upgrade turns into an entire re-wiring job.

We have a very consistent and organized approach to construction monitoring. We stay with the building every step of the way and demand that the property receive every last bit of rehab that's coming to it. At closing, we require that construction, tax, insurance and interest escrows are fully funded, along with a ten percent contingency escrow. If construction is delayed, we have up-front agreements from our borrowers that they will add to these escrows. Our construction staff is "field experienced." All accounts are monitored, not just on paper in the office, but also in the field on a monthly basis. This is labor-intensive, but it is also the only way to do what we do and do it right. And that's what our participating lenders demand. It's why there are no investor losses of principal to date.

Profitwise: What are the terms of your loans? And what is the return to the lenders who invest in the loan pool?

Pritscher: Our mortgages are three-year adjustables at 2.5 points over three-year Treasuries. Our initial rate to in-

(continued on page 11)
THE EXAMINER’S PERSPECTIVE

The Community Reinvestment Act: It’s Good Business Part II

This is the second in a three-part series of articles that will provide you with a behind-the-scenes look at the way an FRB examiner reviews and rates a bank’s CRA compliance program. Hector Lareau, the author of this article, is a consumer compliance examiner for the Federal Reserve Bank of Chicago. He welcomes any questions or comments you may have on the series; you can write him in care of Profitwise.

In the last issue of Profitwise (see Vol. 1, No. 2, Summer 1988), I began my discussion of banks’ CRA compliance responsibilities with the first two CRA performance categories as listed in the CRA Performance Grid. (The Grid is an oversized chart that provides a clear and concise summary of how the Federal Reserve rates banks in each of the five CRA performance categories. See the “CRA Bookstore” in this newsletter for information on how to send for free copies of the Grid.) Specifically, I discussed the bank’s obligations under Performance Categories 1 and 2 to determine local credit needs, to develop effective marketing of available loan products, and to actually meet those needs by offering needed loan products and extending every reasonable effort to make loans.

In this issue, I will discuss the bank’s responsibilities and our examination procedures for the next two performance categories: “Geographic Distribution” and “Discrimination or Other Illegal Credit Practices.” Under these performance categories, the bank is obligated to make every reasonable attempt to give priority to meeting the credit needs (i.e., make loans) in the local community which it has designated and included in its CRA Statement, and to meet the requirements of CRA and other consumer compliance regulations in a non-discriminatory manner. Let’s proceed and discuss in greater detail the compliance requirements and examination procedures for each of these categories.

Geographic Distribution

It is most practical to regard the compliance requirements for this category in two parts—first, develop a reasonable definition of your bank’s “local community”; and second, exert every reasonable effort to make the needed loans in your community, consistent with safe and sound banking practices. You may delineate your community by using existing boundaries, such as MSAs, your effective lending territory, or any other reasonably described area that meets the purposes of the Act and does not unreasonably exclude low- and moderate-income neighborhoods.

During the examination, you can expect the examiner to review your delineated area and to ask you to discuss the basis for developing its boundaries. In general, boundaries should be equidistant from the location of the bank and its branches, and low- and moderate-income census tracts that fall within these boundaries should not be excluded. The bank will be expected to provide a reasonable explanation of irregular, oddly-shaped, or otherwise “skewed” boundaries.

The examiner will plot a sample of your institution’s loans by location on community maps, in order to get an idea of what proportion of various types of loans your institution makes within its delineated community, compared to outside of your delineated community. This analysis assists the examiner in determining how active your bank is in lending to its community. The examiner’s next step is to analyze the proportion of loans which were made in low- and moderate income and minority-populated census tracts within your bank’s community. (These tracts are identified by use of data from the U.S. Bureau of the Census.) I frequently recommend that bankers periodically plot for themselves the location of a sample of their bank’s approved and denied loan applications. This information will help to determine where loans are being made and will provide the bank with the opportunity to conduct any investigations or take any (continued on page 7)
PROFITWISE INFORMATION SERIES — Number 2

Community Workshop Checklist

☐ Assign a workshop coordinator to supervise all aspects of the workshop.

☐ Decide the purpose of your workshop.

☐ Select a topic or topics for your workshop. Remember, it is usually better to focus on one or only a few topics at any one workshop, rather than on too many. Consider that you may need a series of workshops to cover all of the different topics you wish to include.

☐ Select your audience and target all of your planning and advertising towards that audience. Depending on circumstances, you may need to select your audience before you select a topic—this will more likely be the case if the PURPOSE of your workshop is to INVESTIGATE rather than to MARKET or EDUCATE; however, circumstances will dictate which you do first. For example, your bank may want to market its new FHA home improvement product, so topic selection will come first. On the other hand, your bank may be concerned about an unexpectedly low number of home improvement loan applications from a certain neighborhood and therefore your primary concern will be to target those residents as an audience for a workshop to INVESTIGATE why this is the case.

☐ Make sure the time, date and location are convenient for your target audience. Decide on the logistics of your workshop. Conduct sufficient research in the target community to ensure convenient scheduling and adequate seating and building access (especially for the elderly and handicapped). Also consider other needs, such as for bi-lingual interpreters and written materials.

☐ Develop and advertise your agenda.

☐ Use a variety of speakers. Using a number of different speakers during the workshop creates variety in the presentation and serves to hold the attention of your audience.

☐ End with a “question and answer” session. It helps ensure that attendees leave with a better understanding of what was discussed and also helps you identify whether the workshop accomplished its goals. Attendees’ questions and comments will tell you much about what they thought about your workshop. Prepare planned questions if you need help getting your “question and answer” session going.

☐ Plan an advertising campaign. Advertising is critical to the success of your workshop—remember, no one will come if they don’t know about it! Also, avoid the temptation to advertise in ways and places that appeal to YOU—you will frequently be developing workshops for audiences who have backgrounds or lifestyles quite different from your own, so RESEARCH your target audience. Find out where your targeted audience works, where they shop, where they live, what TV and radio stations they listen to, etc. This information should dictate where you advertise. Design your advertising campaign well in advance of the actual workshop date and review it with community leaders or any others who are familiar with your target audience. Implement your campaign so that each aspect is in place at least one week before the workshop.
Inform your local newspaper about the workshop. A call to your local newspaper could result in good publicity for your workshop. If you invite the press, ask them to send a photographer along with the reporter and offer to help the photographer set up some pictures. Also, prepare a written press release or statement; the easier you make it for the reporter, the more likely it is that your workshop will get press coverage.

Prepare and use visual aids and handouts. They are always a good idea, especially if you are trying to communicate very specific or technical information.

Consider providing refreshments.

Prepare for the seating needs of your audience. Senior citizens need comfortable chairs; families or single parents who must bring children need sufficient room between the seats to manage their active children. If you provide too many chairs, your audience will tend to sit toward the rear of the room instead of close to the speakers.

Circulate a sign-in sheet. A sign-in sheet will provide you with a valuable mailing list for future workshops. Also, an analysis of the addresses can suggest what aspects of your advertising campaign were successful.

Remember to announce any follow-up workshops. Let your audience know whether a follow-up workshop or meeting is planned. You can benefit from “word of mouth” advertising as your attendees will recruit friends for your next workshop.

Plan to evaluate your workshop. Develop other methods to evaluate the success of your workshop. Solicit attendees’ opinions or distribute brief written evaluation forms. Next-day discussions with community leaders are also a source of information that will help you evaluate the effectiveness of your workshop. Keep in mind that low attendance is frequently a sign of poor advertising or scheduling, rather than a reflection on the content of the workshop itself.
corrective actions it feels are necessary.

The bank’s record of opening and closing of offices is also considered for its impact on the community, along with other data and information collected from the bank and from sources outside of the bank, to complete this portion of the examination.

**Discrimination or Other Illegal Credit Practices**

This category can also be viewed in two parts. First, the examiner is obligated to ensure that the bank does not engage in any practices which may discriminate against consumers on a “prohibited basis.” To review, these bases are: race, color, religion, national origin, sex, marital status, age, the fact that all or a part of the applicant’s income is derived from a public assistance program, or the fact that the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The examiner will review samples of approved loans, adverse action notices and related loan applications and other documentation, and the bank’s policies and underwriting criteria (whether written or unwritten). The examiner then interviews various bank personnel to ensure that the bank does not have any discriminatory practices or policies.

I want to emphasize at this point that sometimes banks that have the best of intentions regarding their responsibilities under the Equal Credit Opportunity Act, Fair Housing Act, and other federal non-discrimination laws, in fact have in place policies or practices that appear discriminatory. Therefore, not only are overtly discriminatory policies and procedures prohibited, but also any policies or procedures that have the effect of discriminating, even though the bank’s intent is not to discriminate.

For example, “minimum income requirements” for submitting a loan application may have the effect of excluding lower-income persons who belong to racial or ethnic minority groups, or who are female, or whose source of income is a public assistance program. This policy may have a discriminatory “effect” based on one or more of these three prohibited bases. Therefore, the examiner will apply the “effects test” to each of the bank’s policies and procedures as part of the regular examination process. Of course, as part of the examination, the examiner will also review the other compliance requirements of the various non-discrimination statutes, such as proper wording on loan application forms and proper questioning of applicants on items such as source of income and marital status.

Finally, the findings of the examination team regarding the bank’s compliance posture in relation to the other consumer protection regulations that are part of the standard consumer compliance examination are also taken into account in rating the bank in this category.

In summary, the underlying theme of the portion of the examination that deals with “Geographic Distribution” and “Discrimination or Other Illegal Credit Practices” is to determine whether the bank affords equal access to its credit products and whether the bank affirmatively accepts its responsibility to seek out and make qualified loans in its local community, as encouraged by the CRA.

The last article in this series will focus on Category 5: Community Development. It will discuss some community development programs which various banks have implemented in their local communities.

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**Workshop Recap**

(continued from page 2)

as well as another workshop session on the Low Income Housing Tax Credit. As it looks likely that Congress will extend the “sunset” provisions of the tax credit through 1990, we are the process of planning another updated workshop on tax credit projects, with an emphasis on how lenders can utilize FNMA secondary-market financing for these projects. See the Special Announcement on page 11 of this newsletter for further information on our upcoming tax credit workshop.
The author of this article is Rosie Burditt, Community Affairs Specialist. This is the first of a series of articles that will appear in Profitwise. "Building Your CRA Program" is written especially for those of you with direct responsibility for your bank's CRA program. We hope that the program information and helpful hints will make your job a little easier and stimulate your creativity in designing your CRA program!

"Help! I'm supposed to arrange a workshop with some community groups and I don't know where to start!"

This "cry for assistance" is a familiar one to the Consumer and Community Affairs staff at the Chicago FRB, and perhaps it also sounds familiar to you if you are the Community Affairs Officer for your bank. Since one of my responsibilities at the Reserve Bank is to develop and conduct educational workshops, Profitwise asked me to share some ideas and suggestions to help make your workshops "CRA success stories."

There are three key points to remember when planning and conducting a successful workshop. First, clarify the purpose for your workshop. You may want to hold one, or perhaps a series of workshops, to describe and MARKET your bank's loan products, deposit services, or other services to neighborhood residents in order to increase their patronage of your institution. You may want to hold workshops to EDUCATE your customers as to what the bank expects when reviewing a loan application. Or, you may want to hold a neighborhood workshop to INVESTIGATE why local consumers or small businesses are not using certain of your bank's services or products, and to get feedback on what changes your bank can make to increase loan volume or customer patronage. Remember, it is usually best to focus on only one or two topics in any one workshop.

Second, select the appropriate audience for your workshop. If you are holding the workshop at the request of a community group, chamber of commerce, or other neighborhood organization, then you already know your target audience. However, when your bank has taken the initiative to conduct a workshop, you will need to determine the best audience and plan and advertise the workshop in a way that attracts your target audience. Remember, one of the most frequently voiced complaints about workshops is that the wrong audience was invited. It is always a good idea to review your list of proposed topics and speakers with some of the knowledgeable representatives of your target audience to make sure that you are providing the information they want.

Third, be thorough in researching the time and travel constraints of your target audience, so that you don't inadvertently schedule your workshop for a time when many of the attendees will be unable to attend. Be thorough in researching other logistical needs or problems your audience may have, so that you can handle them in advance. For example, if your topic is the lack of home mortgage applications from a certain lower-income neighborhood, your target audience will probably include lower-income families who may have to bring their children to the workshop because they cannot afford the expense of a babysitter. In addition, senior citizens need comfortable chairs, and parents who must bring small children need sufficient room between seats to manage their active children. Representatives from your target audience will probably be happy to provide you with this type of information, as well as suggestions on how best to advertise the workshop. In many cases simple xeroxed flyers in grocery stores, on church bulletin boards, or left door-to-door in the neighborhood bring better results than more expensive notices in local newspapers. Ask your neighborhood group for help and advice; in my experience, they have always been happy to demonstrate their knowledge about their community and to share ideas with bank staff.

We have inserted a Community Workshop Checklist in this issue of Profitwise for you to use in planning your next community workshop. I hope you'll find that this article and the checklist have helped you make your workshop a success.
**CRA CALENDAR: October—November, 1988**


11/1-3 Madison, WI: “Revitalizing Downtown.” Sponsor: National Main Street Center, National Trust for Historic Preservation. Contact: (202) 673-4000


11/14-16 Chicago, IL: “A New Housing Partnership.” Sponsor: National Training and Information Center. Contact: (312) 243-3035


**IN THE NEWS:**

NEW DES MOINES LOAN pool. The Neighborhood Housing Services (NHS) of Des Moines, Iowa, and twelve area banks and savings and loan associations have formed The Drake Area Guaranteed Loan Program. The program is a lending pool to assist neighborhood residents in obtaining home purchase, improvement, and new construction funding for homes in Des Moines’ Drake neighborhood. All twelve lenders contribute equally to the pool and share an equal portion of the $300,000 guaranty fund provided by the Northwest Area Foundation in Minneapolis. The lenders will receive a weighted average yield of 8% on their investments. During the first six months of operation, the program has closed or committed on 17 loans totalling $725,000. Thirteen of these loans consisted of residential properties from absentee-owned to owner-occupied housing. For further information, call Jon White, NHS of Des Moines, (515) 277-6647.

DETROIT’S “RACE FOR MONEY.” The Detroit Free Press ran a series of articles titled “The Race for Money” which describes alleged racially-biased lending patterns in the city of Detroit. Similar to a series of articles called “The Color of Money” in the Atlanta Constitution-Journal, this series has also received national attention. Meetings are currently underway between banks, community and civil rights groups, and Detroit city government officials.

NEW HOME MORTGAGE DISCLOSURE REGULATIONS. Proposed changes to the Home Mortgage Disclosure Act (Regulation C), effective September 19, 1988, add savings and loan service corporations and mortgage banking subsidiaries of bank and savings and loan holding companies to the list of financial institutions which are now required to file annual HMDA reports. Redrafted instructions were also developed to further simplify and clarify the reporting forms.

EXPANDED BANK POWERS MAY BE LINKED TO CRA. During the summer session of Congress, the House passed the “Community Benefits Amendments of 1988” as an amendment to proposed new expanded bank powers legislation. The bill, currently awaiting Senate approval, provides for more rigorous CRA evaluation and enforcement by federal regulators and contains provisions for expanded community input into the CRA examination process. Lenders’ CRA ratings would be made public under the proposed legislation.
BANKING ON MICHIGAN
JUNE 16-17, 1988
DETROIT, MICHIGAN

Dwight Robinson, Acting Director, Michigan State Housing Development Authority and MSHDA staffer Doug Shelby meet with a conference participant.

Mike Morton, Federal Reserve Bank of Chicago Small Business Advisory Council and Joe McNeely

Discussion groups hard at work

Governor Seger and the "Banking On Michigan" panel

Elaine McMahon, Loretta Smith and Laura Massetti, Comerica - Detroit

Dick Buss, First of America - Kalamazoo and Gary Dolezan, Inner City Bank, Benton Harbor

Governor Seger addresses "Banking on Michigan"

Joe McNeely shows the historical development of the neighborhood reinvestment movement
A Neighborhood Story
(continued from page 5)

vestors as of September 30, 1988, was 10% less 5/8% for servicing. Remember, this is with no required investor staff costs in initiating the loans.

Profitwise: This all sounds great from the point of view of your participating lenders, but how does this help Chicago neighborhoods, especially low- and moderate-income neighborhoods?

Pritscher: It has to be remembered that simply the availability of mortgage and rehab financing for apartment buildings was, and still is, a big issue in Chicago and, I suspect, for a lot of other communities in the Midwest. However, affordability is also a critical factor, especially in some of Chicago’s lower-income neighborhoods where expenses are just as high as in other neighborhoods, but where affordable rents are considerably lower. We may be somewhat unique in that we don’t automatically assume that a building is not “economically feasible” just because it’s in a low-income neighborhood. However, we do know how to do arithmetic, and if the numbers don’t add up, our special city funding comes into play.

The City of Chicago runs a number of loan programs in tandem with CIC that provide either no- or low-interest second mortgages or interest buy-downs directly controlled by CIC which can enable up to a 1.5 point reduction in effective interest to the borrower. In addition, some borrowers come in with Section 8 rent certificates, grants, etc., which also help make the deal work. I want to emphasize that CIC’s philosophy is not to waive our standard underwriting criteria for the sake of these loans, but to locate and work with the proper subsidies which make these loans “economically feasible.”

Profitwise: What are CIC’s plans for the future?

Pritscher: CIC is beginning a new round of raising loan capital from existing and new investors. We are seeking to raise $28 million to bring our recycling loan capital pool to $100 million. While Community Reinvestment Act motivations will be a strong incentive to many, our presentation to lending institutions in and around the Chicago area focuses on the sound business sense of an investment in CIC. Investment in CIC is secure, provides a good return and preserves neighborhoods. A promising new development for us just a few months ago was being approved to sell loans to Freddie Mac and to Fannie Mae. We plan on marketing our ability to refinance seasoned CIC mortgages so that owners can use the cash they receive from the refinancing as equity to purchase and rehab other buildings in the area. We feel that good developers and landlords are essential to a neighborhood’s viability, so we want to make available loan products that encourage them to reinvest in Chicago neighborhoods.

Profitwise: Thank you for taking the time to talk to us. Any words of advice for bankers who are considering starting a “CIC” in their own communities?

Pritscher: We and our lenders have had excellent experience with the loan pool concept, and we attribute our success to using sound lending practices when underwriting our loans. I feel confident in saying that all our lenders feel more comfortable with the concept of “neighborhood lending” since they’ve seen that it can be done in a secure and businesslike manner. I would be happy to share our underwriting guidelines, sample loan committee packages, investor documents and general experiences with your readers. In our case, we definitely feel that imitation is the sincerest form of flattery!

John Pritscher welcomes your comments and questions on CIC. You can write him at CIC, 600 S. Federal Street, Suite 306, Chicago, Illinois 60605, or call him at (312) 341-0070.

SPECIAL ANNOUNCEMENT

The Federal Reserve Banks of Chicago, Cleveland, Minneapolis and St. Louis will soon be announcing their first jointly-sponsored CRA workshop, “Looking Ahead To 1989: Housing Programs That Work,” to be held this fall. “Looking Ahead To 1989” will provide bankers with what they need to know to develop effective affordable housing programs in their local communities as part of their community reinvestment programs. Who should attend? The community affairs officer, real estate lending staff, and key decision-makers at your bank who are responsible for your Community Reinvestment Act compliance program. Watch for our upcoming mailing on this important conference, or call Rosie Burditt, Federal Reserve Bank of Chicago, at (312)322-5877.
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, Consumer and Community Affairs Section, P.O. Box 834, Chicago, IL 60690-0834, (312) 322-5950.

- CRA Performance Category Grid, published by the Federal Reserve Bank of Chicago. A chart explaining the composite rating system by which examiners score banks' CRA programs in 5 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.

Also available from FNMA and The Woodstock Institute...

- NEW: Fannie Mae's Low- and Moderate-Income Housing Initiatives, 49 pages, published by the Federal National Mortgage Association. Describes over 15 programs developed by FNMA and local banks around the country for affordable mortgages. For copies, write or call: FNMA, Midwestern Regional Office, One South Wacker Drive, Suite 3100, Chicago, IL 60606-4667, (312) 641-0740.
- NEW: 1986 Community Lending Fact Book, 430 pages, published by The Woodstock Institute, a private nonprofit organization involved in research relative to community reinvestment by financial institutions. Designed to be a tool to increase reinvestment in Chicago's neighborhoods, the Fact Book contains data on the number and type of housing loans made by banks, savings and loan associations, and mortgage bankers within each of Chicago's 77 community areas. Cost is $100 for for-profit lenders and other businesses. To order, write or call: Woodstock Institute, 53 W. Jackson Blvd., Suite 304, Chicago, IL 60604, (312) 427-8070.