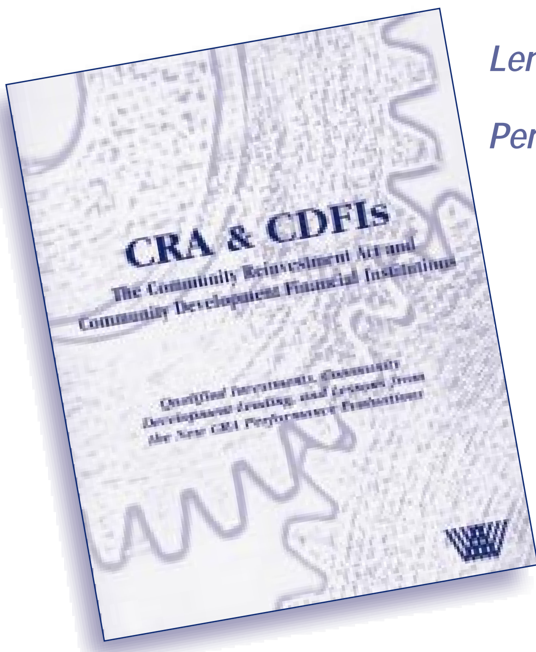
Woodstock Institute Releases Guide on Community Development Lending

In September of 1998, the Woodstock Institute released:

The Community Reinvestment Act and Community Development Financial Institutions: Qualified Investments, Community Development Lending, and Lessons From the New CRA Performance Evaluations.



This report advises community development financial institutions on how they can use the Community Reinvestment Act to attract more resources from banks and thrifts, thereby building scale and increasing their impact in the communities that they serve. It also indicates ways in which the CRA regulation might be improved to encourage financial institutions to increase their investments in Community Development Financial Institutions ("CDFIs").

The 1995 changes in CRA compliance, which fully went into effect July 1997, now require the examination of banks' investments in efforts that promote access to credit and community development activities in low- to moderate-income communities, including CDFIs. The new CRA regulations are a key opportunity for CDFIs to access additional resources and to develop stronger, long-term relationships with conventional financial institutions. Woodstock's report updates readers on the new rules and describes the results of the new CRA examination procedures thus far, including summaries of scores on the three components of the new examinations for large banks (lending, investment, service).

Based on a detailed examination of a sample of recent CRA examinations, the report indicates how regulators are evaluating banks' relationships with intermediary financial organizations, including CDFIs. The report provides strategies for CDFIs looking to garner increased investment from banks and thrifts. It also includes several specific policy recommendations aimed at the regulatory evaluation of banks' CRA investments and community development lending.

If you wish to obtain a copy of this guide, please contact the Woodstock Institute at 312-427-8070. Their fax is 312/427-4007, and e-mail address is: woodstck@wwa.com. Be sure to visit their webpage at: **http://www.nonprofit.net/woodstock/**.

Social Compact makes an impact on Chicago

A year and a half ago, as the world looked toward emerging markets in Southeast Asia and Latin America, a group of executives pioneered a new business approach to emerging markets at home. Looking within America's communities, they found $920 billion of untapped business opportunities in America's underserved neighborhoods. Social Compact has helped make this possible.

"You don't have to cross the International Date Line to find an emerging market. We have some right under our noses."
–Michael Moskow, President, Federal Reserve Bank of Chicago

Putting emerging neighborhood markets in context

The Midwest has one of the healthiest economies in the world. Its gross domestic product is higher than that of the United Kingdom, France or Italy. *(figures 1 and 2)* It is home to Chicago, one of the world's leading metropolitan areas. The U.S. Commerce Department predicts that Chicago will create more jobs in the next ten years than any other city in the U.S. Chicago's GDP alone is higher than the emerging markets of Taiwan, Indonesia, Hong Kong, Thailand, Singapore or Malaysia.

The key to the city's future growth is what Chicago Mayor Richard Daley described in his State of the City speech as the "fundamental building blocks of our city": the neighborhoods.

"The Emerging Neighborhood Markets Initiative drills down to the micro-market building block—neighborhoods—and is a hands-on approach to market development that incorporates the hard realities and disciplines of business."
–Roger Joslin, Chairman, State Farm Fire and Casualty and lead corporate sponsor, Emerging Neighborhood Markets Initiative

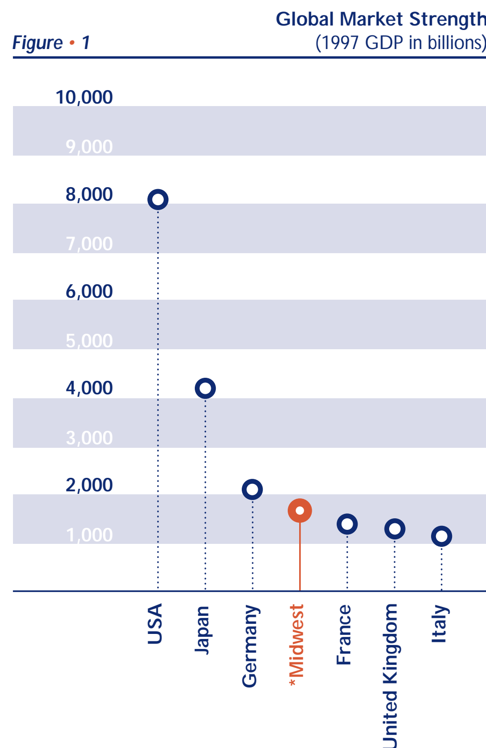
Viewing inner-city neighborhoods through a different lens

The Emerging Neighborhood Markets Initiative has been under development for the past year in two Chicago inner-city neighborhoods: Little Village on the west side and South Shore on the south side.

Inner cities are often overlooked as business opportunities because of the negative stereotypes and poverty-based data sets that define these communities. Traditional economic indicators generated by federal government statistics portray communities like Little Village or South Shore as risks rather than opportunities.

Federal poverty programs have had the perverse effect of motivating local communities to define themselves in terms of

Figure • 1 Global Market Strength (1997 GDP in billions)

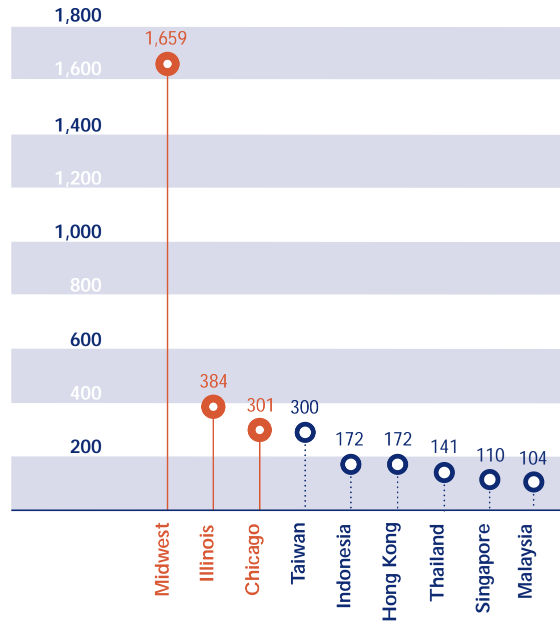


* Midwest: Illinois, Indiana, Iowa, Michigan, Minnesota, Missouri, Ohio and Wisconsin

weakness. The worse a community looks, the more federal assistance it can access. These negative portraits ultimately impact not only how public and private sector decision-makers view inner-city areas, but also how the residents themselves view and define their communities.

The Emerging Neighborhood Markets Initiative is a new and innovative business approach that views lower-income and underserved neighborhoods as competitive "emerging" markets in which to do business. The initiative seeks to identify new market indicators with the goal of attracting sustainable business investment and entrepreneurial opportunities in these communities.

Figure • 2 **Market Opportunity** (GDP in billions)



"We are creating the competitive market knowledge and strategic business alliances that will help companies achieve market success."

–Lynn Reilly Whiteside, Chief Executive, Social Compact

The Emerging Neighborhood Markets Initiative

A team of diverse business leaders represents the Emerging Neighborhood Markets Initiative. Mobilized by Social Compact, a coalition of corporate leaders who have joined forces to stimulate business leadership for and investment in America's underdeveloped communities, the Emerging Neighborhood Markets Initiative seeks to create a new lens through which inner-city markets are viewed.

Pioneering organizations involved with the initiative include: Ameritech, Bank of America, Chicago Association of Realtors, Commonwealth Edison, Delray Farms, Dominick's, Harris Bank and PMI. These industry leaders have unique proprietary databases and/or track records of success in emerging neighborhood markets.

Figure • 3 **Market Indicators**

Buying Power Indicators	Traditional	Innovative and/or Business Resources
Household Income	Census Median Income	Shorebank/Social Compact Buying Power Profiling
Housing Values	Census Median Value	MLS Databases
Density	Census Population	Local Alderman
Stability Indicators		
Population Shifts	Census: Ethnicity Changes	Phone/Utility Hook-up and Disconnect Patterns
		School Transiency Figures
Security Indicators		
Level of Criminal Activity	Police District Uniform Crime Reporting	Fire and Police Violent Crime Data by Beat
		Insurance Company Loss Ratio Data

Lead corporate sponsor State Farm Fire and Casualty successfully challenged the Ford Foundation and the John D. and Catherine T. MacArthur Foundation to provide the financial resources necessary to transform the South Shore/Little Village initiative into a new, replicable model for assessing market opportunity in other inner-city communities. With consulting assistance from Shorebank, this model will provide a new profile of inner-city markets based on dependable business data, diverse business indicators of market strength and the expertise of successful early market pioneers.

"It's about attracting private investment and replacing the old paradigm of poverty pessimism with educated optimism," said William Goodyear, Chairman, Emerging Neighborhood Markets Initiative and Former Chairman, Bank of America Illinois.

"This is not about philanthropy, tax credits or compliance programs. It's about helping companies pursue genuine market opportunity."

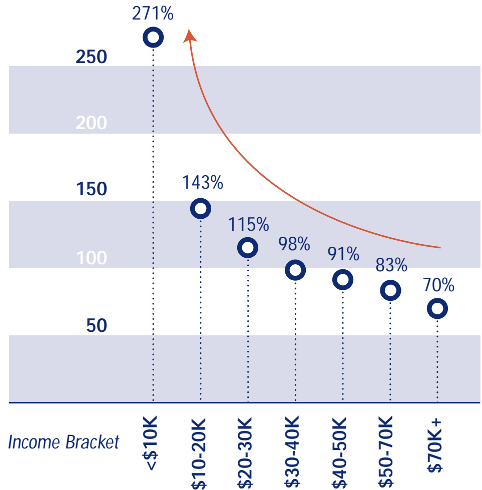
–Lawrence B. Lindsey, Managing Director, Economic Strategies and Public Policy Advisory Group Chair, Emerging Neighborhood Markets Initiative

Creating a new model

Working with pioneering businesses, Social Compact identified three core market drivers that businesses analyzed when making market expansion decisions: buying power, stability/confidence and security. *(figure 3)* But looking at these variables using a traditional resource such as the U.S. Census can misrepresent any community's market potential.

Income is NOT an accurate indicator of Spending Power

Figure • 4 **Spending as a Percent of Income**



Consider the following indicators of buying power —median household income, median housing value, and population density—in Little Village.

According to the 1990 U.S. Census, the median household income in Little Village is $24,049. But income is not an accurate indicator of spending power, according to the Department of Commerce's 1996 Consumer Expenditure Survey. The survey results show that households making less than $30,000 spend more than their reported incomes. *(figure 4)* How can this be?

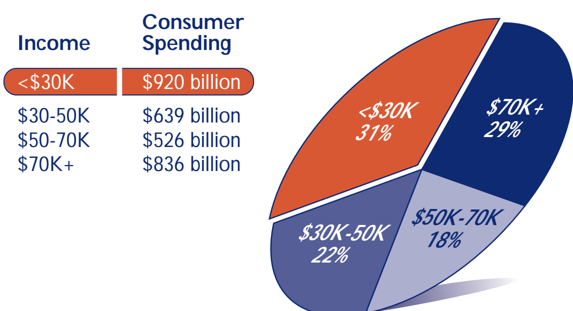
These households are key players in the cash economy—an estimated $1.5 trillion marketplace where cash transactions like car repairs, home improvement services, child care or tutoring go unrecorded. This liquid income often flows back into the consumer economy, according to the Department of Commerce study. Households with less than $30,000 in reported income account for 31 percent of all consumer expenditures in the country. A total of $920 billion a year is spent by the lowest-income households! *(figure 5)*

Shorebank/Social Compact buying-power profiling shows Little Village's concentrated retail spending power exceeding that of Forest Glen's: $128,000 per acre spent in Little Village as opposed to $48,000 in Forest Glen.

What about housing values? Little Village's median housing value is $45,112, according to the 1990 Census, but the proposed Emerging Neighborhood Markets innovative resource, Multiple Listing Service (MLS) real estate listings, shows that the average 1996 sales price of a house in Little Village is $110,000.

Little Village's population, according to the 1990 Census, is 49,714. But another new emerging markets indicator, Dunn & Bradstreet projections based on 1996 figures, shows the neighborhood's population to be 97,809. Little Village's profile is dramatically changed when using these indicators. *(figure 6)*

Figure • 5 **Total Expenditures by Income**



Income	Consumer Spending
<$30K	$920 billion
$30-50K	$639 billion
$50-70K	$526 billion
$70K+	$836 billion

Other new methods include evaluating stability using phone/utility hook-up and disconnect patterns or school transiency figures to monitor population shifts; and analyzing a neighborhood's level of criminal activity using fire and police violent crime data by beat, rather than precinct, or looking at insurance company loss-ratio data.

"This is groundbreaking work. And if it can be done anywhere, it will be done in Chicago with this kind of corporate leadership."
–Richard M. Daley, Mayor, The City of Chicago

Business success in emerging neighborhood markets

- The McDonald's in Little Village is the second-highest revenue-generating store in the Chicago.
- A Little Village Allstate agent's account base is twice the state average.
- Last year, the Dominick's supermarket in South Shore made $20 million in sales, putting it in the top three conventional Dominick's locations in the city of Chicago.
- A telecommunications store in Little Village is the fastest-growing Ameritech distributor in the region.

The success of individual businesses speaks for itself, and there are other significant business opportunities in these markets.

A strong local corporate leadership team and excellent city leadership drive the continuing success of sustaining and attracting business investment and entrepreneurial opportunity in Little Village and South Shore. The City's support for the initiative is highlighted by its approach to inner-city development: creating a climate and infrastructure that attracts and supports private investment.

The Emerging Neighborhood Markets Initiative's success in Chicago, though, leads to the bigger challenge of replication in other interested cities across the country.

	Traditional	Innovative and/or Business Resources
Buying Power	Median housing value: *1990 Census: $45,112*	MLS 1996: $110,000 *(average sales price)*
	Median household income: *1990 Census: $24,049*	D&B projection 1996: *$34,307*
		Concentrated Retail Spending Power: *Shorebank/Social Compact Profiling: $128,000*
	Population: *1990 Census: 49,714*	D&B projection 1996: *97,809*
Security	District composed of eight beats	Four Little Village beats comprise 50% of district = *36% of crimes*

"You can feel the electricity on the streets in these emerging neighborhood markets. We want to transplant what's happening in these places to cities across the country."
–Laurence H. Meyer, Governor, Federal Reserve System

Conclusion

Demand for the Emerging Neighborhood Markets initiative is intense. With the resources in place to create a model in Chicago within a two-year period, what remains is the execution of this new framework for assessing other inner-city markets' business strengths.

The Emerging Neighborhood Markets Initiative is about creating a model that will measure the market strengths of redeveloping neighborhoods and identify strategic business partners; a model that can be applied and adapted locally to communities across the country. And the goal is to strengthen the micro-market building block: the neighborhood.

The Emerging Neighborhood Markets Initiative is all about business. What makes it unique is that it is driven by a cross-industry group of business leaders, built on the pragmatism and reality of business and grounded on the disciplines of the marketplace.

Businesses and local government interested in learning about or becoming a resource to the Emerging Neighborhood Markets Initiative can visit its Web site at www.neighborhoodmarkets.org.

Source for all figures: *1996 Consumer Expenditure Survey*, Department of Commerce.

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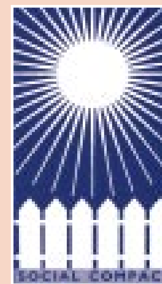

Wisconsin Section 8 Owners Can Now Get

Equity Takeout Loans *as an Incentive*

Attempting to retain low-income housing, the Wisconsin Housing and Economic Development Authority (WHEDA) is offering second mortgage loans to Section 8 owners to take out equity and is using authority under state law to increase partnership distributions for some projects.

In another strategy, WHEDA established an affiliated trust about a year ago to purchase properties and hold them, especially in cases where nonprofits lack the wherewithal to buy them.

WHEDA is attempting to protect Section 8 new construction and substantial rehabilitation projects that are financed with tax-exempt bonds but are not FHA-insured and therefore not subject to the mark-to-market program. There are 147 projects and 11,000 to 12,000 units in this portfolio.

The contracts for these properties allow owners to prepay the mortgage after 20 years and refinance the properties.

Problems for Owners

In recent years, Section 8 properties have become less attractive for owners. Many have not received rent increases due to federal restrictions. In addition, the owners are facing taxes on phantom income since accelerated depreciation is running out and the cash return has been limited.

Although the partnership distributions on these so-called "old reg" pre-1980 properties are not restricted by the U.S. Department of Housing and Urban Development ("HUD"), Wisconsin has limited the return on WHEDA-financed projects to 6 percent. The developments have built up large reserve pools that owners can't access to pay taxes or for other purposes.

"What we have tried to do is offer a program to get owners to lock in low-income use for the full term of the mortgage or for an additional period," said Daniel O'Connell, WHEDA portfolio development officer. "We know this won't meet everyone's needs, and there will be a few properties we can't help. There may be other tools we can develop."

Wisconsin law has been amended so WHEDA can allow owners of pre-1980 projects to take cash out, lower the debt service by reamortizing the mortgage, and take out a second mortgage to withdraw equity. In exchange, the owners must lock in affordable use restrictions for a longer period than originally agreed to.

"What we have tried to do is offer a program to get owners to lock in low-income use for the full term of the mortgage or for an additional period."

Daniel O'Connell
WHEDA portfolio development officer

Mortgage Terms

The terms of the second mortgage vary, according to financial circumstances, said O'Connell. Typically, only the interest is paid on the mortgage with the balance due at the end of the first mortgage term, though some second mortgages have 10-year terms with a balloon payment. WHEDA has used nonbonding resources to finance the second mortgages.

Another option is for the owner to agree to continue the mortgage to its term and to renew the Section 8 contract for the same period without a second mortgage. WHEDA then agrees to increase the allowable distribution.

For owners who want to sell and get out of the Section 8 program, WHEDA will work with nonprofit purchasers. "But in many cases, nonprofits don't have the financial capacity to purchase a project," O'Connell noted. "Even if they attempt to use a second mortgage for the owner's equity takeout, the deal sometimes doesn't work," he said.

Wisconsin Housing Preservation Trust

To protect these properties, WHEDA has created the nonprofit Wisconsin Housing Preservation Trust, which will buy projects, allowing owners to realize their equity in cash. The plan is for the trust, which has $15 million at its disposal, to hold the projects for a certain period. O'Connell said that some of them may eventually be sold to other nonprofit entities.

In addition to projects with tax problems, there is a group of properties in danger of opting out of Section 8 because market rents are higher than current subsidized rents. "These are very attractive properties to the elderly population who live there," O'Connell said. "There is a potential result that could be devastating, and this inventory could never be replaced."

To this point, these properties have stayed in the Section 8 program, O'Connell said, but added, "They (owners) are biding their time to see what happens at the federal level and at the state level."

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Example: A mortgage with 20 years remaining to maturity could be reamortized for a 30-year term, lowering the debt service. The amount of the second mortgage would be tied to the reduction of payments on the first mortgage, since that amount would be available to service the second.

MCAP Makes a Difference

The Foreclosure Intervention Program (FIP)

The Mortgage Credit Access Partnership (MCAP) is an innovative program in which "an alliance of organizations or interested parties in the home purchase process" ....work together "to eliminate potential disparities in the home purchase process in the Chicago metropolitan area." MCAP was formally launched in August, 1996 by the Federal Reserve Bank of Chicago, the City of Chicago, the Cook County Board of Governors, the Latino Institute, the Leadership Council for Metropolitan Open Communities, the Commercial Club of Chicago and The Chicago Urban League. *(See the Winter, 1997 edition of Profitwise for a profile of MCAP).*

MCAP focuses presently on four areas of the home purchase process: appraisal issues, FHA issues, credit-related issues, and consumer and professional education. Task groups were formed in the fall of 1996 to address these four areas and to develop recommendations for changes to policies and practices that would reduce or eliminate disparities based on prohibited factors (such as race and gender). Periodically, *Profitwise* will feature updates on the MCAP program and on specific recommendations, policy changes and programs stemming from MCAP.

This article focuses on a specific initiative that resulted from a recommendation of the FHA task group.

Avoiding Foreclosures

The FHA task group issued a comprehensive set of recommendations to relieve the effect of high concentrations of FHA foreclosures in a handful of metropolitan neighborhoods and communities. The FHA and HUD themselves have responded with new loss mitigation for FHA mortgage servicers to assist borrowers with temporary interruptions in income, along with geographically-based reviews of lender default rates through its Neighborhood Watch program. Geographically-based reviews allow the agency to determine whether individual lenders have a disproportionate rate of default, which is especially useful in areas that are already less stable due to a high rate of default, foreclosure and abandonment.

Scenario #1

Henry Alvarado and his wife of 20 years (they have no children) purchased their home in 1994 with a substantial down payment. Henry was a construction worker for 25 years until an injury in the spring of 1996; his wife Marie has been a bookkeeper for 15 years. Their credit and payment history were exemplary until he was injured on the job, falling 13 feet off a ladder, and requiring multiple surgeries. After a partial recovery, he was unable to return to construction work, and took a job in a factory on an assembly line. Due to severe back pains, he was unable to continue to work on the assembly line for more than a few months, and had to undergo further surgery. Henry applied for disability through Social Security but was denied, although he is appealing. Marie and Henry made every effort to repay their bills, but Marie eventually was laid off from her job and was out of work for 17 weeks.

For an extended period after Henry's accident, the couple stayed current on their mortgage by depleting their savings. Rather than have their car repossessed, they returned it to the dealer voluntarily. In time, their savings were fully depleted and they fell behind 90 days on their mortgage and were late on various other accounts. Their lender declined to restructure their payments due to their late payments on other accounts. Through the FIP, NHS was able to provide a large enough loan from the city's loan fund to reinstate their mortgage, and also referred them to the Legal Assistance Foundation. Although it was their hope not to file for bankruptcy, this option was the only one that would allow the Alvarados to keep their home unencumbered by other creditors while they got back on their feet.

Foreclosure Intervention Program

The Foreclosure Intervention Program (FIP) was developed by Neighborhood Housing Services of Chicago (NHS) and Consumer Credit Counseling Service of Greater Chicago (CCCS), also in direct response to a recommendation of the Mortgage Credit Access Partnership (MCAP) FHA Issues task group. The program provides counseling from NHS and CCCS, and financial assistance from the City of Chicago (through NHS, for qualifying households) for families or individuals delinquent on their mortgage. The program was introduced to the lending community on October 9, 1997 at an informational meeting at the Federal Reserve Bank of Chicago, and is not restricted to FHA borrowers. Lenders participating in FIP include First Chicago/NBD, LaSalle Bank and Harris Bank; the private mortgage insurer Mortgage Guaranty Insurance Corp. (MGIC) is also participating. These institutions have also contributed funds to initiate the program.

A variety of lender/servicers have referred delinquent borrowers to NHS to take advantage of the program. To date, roughly 40 borrowers have benefited from the counseling and the contingency loan funds available from the city Department of Housing through NHS.

Profiled below are two of the households that have benefited from FIP. The names are fictitious; all other information is factual.

In both cases, the loan was FHA-insured, meaning that once the properties were foreclosed, they might have remained in HUD inventory, vacant, potentially for an extended period of time. Such a situation would not serve the homeowners involved, their neighbors, or their communities.

Initiatives such as the FIP truly represent the spirit and intent of the MCAP initiative. The Foreclosure Intervention Program is an important first step by MCAP participants to ensure that Chicago's communities continue to prosper and provide expanded opportunities for homeownership.

For more information on the MCAP Initiative, contact Michael Berry at 312/322-5192, or Susan Madler at 312/322-4780.

By Michael V. Berry
MCAP Project Manager
Federal Reserve Bank of Chicago

Scenario #2

Helen Wilkins lives alone. She is a bus driver for the Chicago Transit Authority where she has worked for six years. She purchased her home in August of 1997. During the following winter, Helen began to experience headaches accompanied by dizzy spells, and was diagnosed in April with a brain aneurysm. After two surgeries, her condition improved, but she soon experienced other neurological setbacks, including impaired speech. She was forced to go on disability and be cared for by family members while she underwent therapy.

Unfortunately, Helen had used her savings to contract for improvements to her kitchen two months prior to her diagnosis. The contractor was paid but never completed the work. Helen returned to work two months after her surgery, but quickly suffered symptoms once again, causing her to miss more work. Her savings was gone and her lender, by the time she sought to restructure her payments, was unwilling to cooperate as she was already seriously delinquent. Although fully recovered and ready to return to work by July, her mortgage was in default, and Helen could not come up with the necessary funds to reinstate it. By August, when Helen approached NHS, her mortgage was five months past due. In September, NHS lent Helen enough money to reinstate her mortgage. Although she was forced to file bankruptcy, she has managed to keep her home and is reestablishing her credit.

Beginning a *Legacy*

A new bank opening within Milwaukee's central city is truly a historic event. Although many banks have opened or maintained branches, loan production offices, and ATMs in the central city over the years, there have been no new banks in the central city among the almost twenty new ("de novo") banks that have opened in Wisconsin over the past ten years. Legacy Bank, however, is special for another reason: it's the first bank in Milwaukee conceptualized and developed solely by African-American women. "That's not the only thing that distinguishes us from other banks in Milwaukee," laughs Margaret Henningsen, president of Legacy. "In fact, that wasn't even part of the strategy. We're three women who have known each other for years, lived in this community, and we collectively agreed that we need to address some problems that are being overlooked by larger banks."

The application to form Legacy Bancorp, a de novo bank holding company, was approved by the Federal Reserve Bank of Chicago on October 9, 1998.

The three principals of Legacy bring much experience to the new bank. Margaret Henningsen was most recently vice president and CRA officer for TCF National Bank in Milwaukee. Deloris "Dee" Sims served as vice president and business banker at Firstar, and one of her responsibilities with Firstar was to identify small business lending opportunities in the targeted area to be served by Legacy Bank. Shirley Lanier has a long history in Milwaukee as a successful entrepreneur who has owned and operated several small businesses, most notably, C. Ross Home Healthcare, Inc., a successful home healthcare agency.

"We're three women who have known each other for years, lived in this community, and we collectively agreed that we need to address some problems that are being overlooked by larger banks."

"The experience we bring to the table will undoubtedly benefit Legacy," continues Henningsen. "We will be a full-service bank and will offer everything from consumer checking accounts to commercial lending services. My background in lending and community development is vital, Dee Smith knows SBA lending inside-and-out, and Shirley Lanier has the business savvy to effectively serve the small business loan market. Our experience, I believe, will make Legacy a winner."

Deloris Sims, Shirley Lanier, and Margaret Henningsen stand in front of the new Legacy Bank headquarters.

in Milwaukee

The community chosen as Legacy's assessment area (roughly bordered by Capitol Drive, Holton Avenue, Canal Street, and 41st Street) is among the most underserved areas in the city. Data on small business lending during 1996, for example, reveal that the central city is home to 26% of the Milwaukee MSA's population and 20% of its businesses; however, this area only received 12% of the small business loans generated in the entire MSA. Virtually all of the Milwaukee MSA's low-to-moderate income and minority population live in the central city. "We will do all that we can to help foster and service entrepreneurs in our service area," adds Henningsen.

Raising Capital

Several local investors, including one of Milwaukee's largest banks, have helped Legacy raise the required capital it will need to operate. Firstar has been the largest investor among financial institutions with $1 million, along with its sale to Legacy of a bank branch and equipment at 2102 W. Fond du Lac Avenue that will serve as Legacy Bank's headquarters.

Other Milwaukee banks, including Park Bank, Merchants and Manufacturers, and Associated Bank have committed a collective $2 million. Many local small businesses, churches, and individuals that strongly believe in Legacy's mission, have committed up to $800,000 towards the $5 million Legacy needs to open its doors the early part of 1999. Additionally, several Milwaukee-area corporations have committed to establish a depository relationship with the new bank. "We have not yet raised the entire $5 million," says Deloris Sims, "but we're still confident that we will meet our goal to open in early 1999."

Competition vs. CRA Incentive

Why would Milwaukee's banks care to support a new financial institution that will serve a market that many banks now find lucrative? "It's due in part to CRA," says Robert Mau, Wisconsin Community Affairs Program Director of the Federal Reserve Bank of Chicago. "Banks can actually benefit from Legacy's status as a minority- and woman-owned financial institution, rather than regarding Legacy solely as a competitor. In accordance with the lending and investment tests of the Community Reinvestment Act, loans to these institutions may count as 'community development loans,' and direct investments and/or deposits in these institutions may qualify as 'qualified investments'.

Furthermore, Legacy Bank is seeking (and expects to receive) designation as a certified community development financial institution (CDFI) when it opens its doors. "Our mission is that of a community bank," says Henningson. "Therefore, I believe we meet the test for the designation. The additional monies available through the CDFI program would augment our own lending dollars available to customers in our assessment area." Bank support of a CDFI is another permissible activity under the CRA lending and investment tests. "Once Legacy receives CDFI designation, any technical assistance offered to Legacy may count under the 'community development services' test, too," adds Mau.

"We will be a full-service bank and will offer everything from consumer checking accounts to commercial lending services. Our experience, I believe, will make Legacy a winner."

Legacy Bank will soon occupy this former Firstar branch, at 2102 W. Fond du Lac Avenue. This branch closed on November 21st, and Legacy took possession by the end of 1998.

"Banks can actually benefit from Legacy's status as a minority- and woman-owned financial institution, rather than regarding Legacy solely as a competitor."

Community Poised for Growth

Legacy has every reason to be optimistic for the growth of its customer base. The community in Legacy's service area is "ground zero" for millions of dollars worth of planned development. Mayor John O. Norquist views Fond du Lac Avenue as the "gateway to downtown;" indeed, travelers southbound on Fond du Lac Avenue are treated to a "postcard view" of the Milwaukee skyline. Both state and federal agencies are supporting redevelopment of the Fond du Lac Avenue corridor, which cuts through the heart of Milwaukee's central city, or "target area," the city's largest concentration of low- to moderate-income residents.

The Wisconsin Housing and Economic Development Authority (WHEDA) has committed to the development of 200 new homes. Additionally, the Federal Home Loan Mortgage Corporation ("Freddie Mac") in cooperation with Select Milwaukee and New Opportunities for Homeownership in Milwaukee (NOHIM) committed $50 million dollars for a new home mortgage product in central city Milwaukee, which will be structured to attract middle-income homebuyers back to the city. "Furthermore," adds Henningsen, "we're discussing some other opportunities for partnerships with large foundations here in town that have expressed a strong interest in the economic development of this area."

Lastly, Dee's involvement with Legacy has an ironic twist: she's returning to the same building where she had spent so many years while with Firstar. "I worked in this same office for 23 years. I'm delighted, though, to be back in this community in a position that truly gives me the chance to make a difference here."

Neighborhood Housing Services of Kenosha:

Sixteen Years of Progress

About 50 miles north of Chicago and about 30 miles south of Milwaukee is Kenosha, Wisconsin—an industrial city of about 80,000 residents, which sits on the picturesque shores of Lake Michigan. Kenosha happens to be the home of one of the busiest Neighborhood Housing Services in the Seventh Federal Reserve District.

Since its inception in 1982, Neighborhood Housing Services of Kenosha, Inc. has worked in two neighborhoods in Kenosha (Columbus Park and Lincoln Park), which include approximately 10 percent of Kenosha's population. "These are areas that are close to downtown Kenosha, have the oldest housing stock, and the most problems endemic to older, urban communities: drugs, abandoned property, crime, and joblessness," says Domenick Martinelli, NHS Kenosha executive director.

Neighborhood Housing Services of Kenosha places approximately 30 families per year in homes of their own, averaging about $80,000 per home. Through various enhancements available through NHS Kenosha and state programs, a buyer typically needs only about $1,600 of his or her own funds. "We're already in our third year at this pace," says Martinelli. "Now we've expanded to Washington Park on the north side of downtown, which is experiencing problems similar to those of our other two service areas. We plan to organize block clubs, implement neighborhood watch networks, and organize neighborhood beautification initiatives so the neighbors here will have a real investment in their community."

Jean Schoenborn of NHS Kenosha in front of Victoria's Restaurant; this restaurant was the result of a successful partnership between the owner and NHS Kenosha. Its presence has helped bring much-needed foot traffic back to the Uptown area.

For an $80,000 house obtained with the help of NHS Kenosha, a typical financing package would look like this:

$64,000	*Mortgage amount*
$12,000	*Low-interest second mortgage (through CDBG or HOME funds, administered through NHS Kenosha)*
$ 2,400	*Downpayment assistance through Housing Cost Reduction Initiative ("HCRI"), administered by the State of Wisconsin, Division of Housing*
$ 1,600	*Borrower's own funds*
$80,000	

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22nd Street in Kenosha's Uptown community. The new awnings and streetlights are only the beginning of changes to come.

Everything Old is New Again

In both Columbus, Lincoln, and now Washington Parks, NHS Kenosha constructs infill housing that looks remarkably like the homes that have been in these communities for over a century.

"Through rehab and/or new construction, we deliver approximately 10 homes a year, with a total investment of about $950,000," says Martinelli. "We deliberately create new homes that are harmonious with existing housing because we believe that we are not only building new homes, but also *restoring* these communities so they once again are a source of pride for our city." NHS Kenosha will often obtain vacant lots directly from the city, and work with absentee landlords to purchase deteriorating homes. These homes are either rehabbed or demolished, depending on the cost of rehab versus that of demolition and new construction.

Martinelli is adamant that Columbus, Lincoln, and Washington Parks become *mixed-income* communities, rather than remain low- to -moderate. "We've certainly learned that we can't have sustainable neighborhoods of just poor people. That is why we don't have income maximums for any of our purchasers (certain enhancement programs are limited by income). We would like our service areas to 'neighborhoods of choice' for all prospective homebuyers."

Kenosha Renaissance

Kenosha is known as the home of Jockey International, American Brass, and the site of a Chrysler Motors plant, which was once an assembly plant for American Motors Corporation. In the 1970s and 1980s, Chrysler pared down manufacturing in Kenosha and Jockey downsized, plunging the local economy into a tailspin. It was during this era that the NHS communities of Lincoln and Columbus Parks fell heavily into decay. Luckily, both the City of Kenosha and the State of Wisconsin took advantage of Kenosha's proximity to Illinois, and was successful in attracting many companies "north of the border" through the combination of newly-developed Class A industrial space along Interstate 94 and Wisconsin's favorable tax structure for business and industry. The growth of industry and retail along the I-94 corridor helped cushion the loss of jobs following Chrysler's contraction and Jockey's downsizing. Kenosha County rebounded strongly in the 1990s, and now has among the lowest unemployment rates in the state: 2.2 percent as of September, 1998.

Uptown Business Improvement District

According to Martinelli, NHS Kenosha's success is due in part to their strategy of "clustering"—that is, the practice of identifying a community and addressing its needs top-down—from sidewalks and streetlights to home rehab. This strategy has best exemplified itself in Kenosha's "Uptown" business district, which is adjacent to the city's Columbus Park community directly west of downtown.

In 1987, the City of Kenosha created the Uptown Business Improvement District ("BID"), which NHS Kenosha helps manage along with its federally sponsored commercial loan funds. Commercial development is unusual for a Neighborhood Housing Services organization, but the City of Kenosha was impressed with NHS Kenosha's success in housing redevelopment, and was desperate to rehabilitate the Uptown retail corridor. NHS Kenosha got the "green light" to help manage the BID in 1987 and has not slowed down since. "This was the neighborhood retail district for years," says Jean Schoenborn, resource development coordinator for NHS

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Two homes in Washington Park in Kenosha. Which is the new home and which is the rehab? The one on the *far right* is currently being constructed by Kenosha NHS.

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Kenosha. "However, the development of the megastores and outlet malls on the Interstate really hurt the small 'mom and pop' stores on 22nd Street. The Uptown BID did much to restore the beauty of the street through facade improvements, new streetlights, and uniform signs and awnings. Since then, we've seen boutiques open-up, and most recently, a restaurant/banquet hall."

The loan funds and tax incentives available to businesses from Uptown BID continue to lure small establishments to 22nd Street. "We complete at least two projects per year, totaling about $150,000 of reinvestment," continues Martinelli. "Usually these projects include both storefront improvements and start-up money." Uptown BID, in conjunction with the City of Kenosha, is currently in the process of developing a small park on the south end of 22nd Street, reconstructing sidewalks, and reconfiguring parking accommodations.

Illinois Commuters Discover Kenosha

Kenosha is experiencing another renaissance, of sorts. Downtown Kenosha is the northern terminus of the Union Pacific North Line—a branch of METRA, the Chicago-area commuter rail system. Consequently, many Illinoisans have discovered Kenosha as an alternative to Chicago's high-cost northern suburbs. New home construction along I-94 has been booming for the past ten years, and NHS Kenosha has seen a renewed interest in Kenosha's older neighborhoods near the city's center.

"Kenosha is truly benefiting from the Illinois transplants who can't believe the price differential in housing," adds Martinelli. "By adding an extra fifteen or twenty minutes to their commute, they subtract fifteen or twenty thousand from the cost of a house. And where in the Chicago area could you buy a rehabbed Victorian for under $100,000?" he asks with a wink.

For more information on Neighborhood Housing Services of Kenosha, please contact (414) 652-6766.

Will We Be Ready for Y2K?

By Jeffrey A. Siegel, Consumer Regulation Director

The Sky is Falling! Unless you've been hiding out in a cave without television, radio, or electricity during the past two years or so, you're undoubtedly aware of the Millennium Bug, also known as Y2K. The media are saturated with news on Y2K. There's no getting away from it. Many of the stories featuring Y2K are informative and present real concerns about this once-every-1000-year event; however, many border on the sensational. Among the worst are those reports that showcase pessimists and dooms-day proponents who have turned Y2K into cottage industries: peddling wares based on Y2K fears and selling non-perishable food and household goods. Some self-appointed prophets are even advising people to sell their stock, find an alternative sources of water and electricity and withdraw all their money from their financial institution. In other words, you just might want to hide out in that cave, because at the stroke of midnight, 2000, there will no longer be television, radio, or electricity!

How Banks Can Respond

The public's perception of the problem has become almost as important as the problem itself because perception often magnifies the problem and causes greater panic.

As a financial institution one of the Reserve Bank's recommendations is that you minimize your customers' fears by educating them about Y2K. What is it? What can it affect? What are financial institutions doing to ensure that people will have access to their money? The more people understand the Y2K, its implications, and what the industry is doing to address the problem, the more they will realize what steps they should take to ensure that their money will be available to them January 1, 2000.

Per the May 13, 1998 Policy Statement on consumer awareness, agencies are encouraging customers with questions and concerns about Year 2000 to contact their financial institution directly. Regulatory agency representatives will not be available to educate your customers on your institution's Y2K readiness status. However, the Reserve System has developed a PowerPoint Software program that financial institutions can obtain free of charge by contacting the Consumer & Community Affairs Section

of the Chicago Reserve Bank. (312-322-8232). The software program reviews the overall industry approach to Y2K and relates to consumers what steps are being taken to ensure that their bank will be ready for Y2K. The program can be customized with the institution's name and address.

Another tool available for financial institutions is a publication entitled: *Are you Ready to Do business in the Year 2000?* This publication was developed by the Federal Reserve Bank of San Francisco and is also available from the Chicago Reserve Bank Consumer & Community Affairs Section. Additionally, this publications is also downloadable from San Francisco's Web Site **http://www.frbsf.org**.

Financial institutions should consider whether or not their small business borrowers depend upon computers, or if any of their suppliers depend on computers, to operate and facilitate their commerce. If the answer to this question is "yes", the question becomes "Have these computer systems been tested to ensure that they will operate correctly in the Year 2000?" If the answer is "no", systems have not been tested, then there is a potential problem that the small business may face problems that threaten their operations in the Year 2000. Many small businesses still have no plans to even assess their potential risk and some still don't know what Y2K is. Holding a small business seminar for your small business customers and a separate seminar for your consumer customers may be an effective way to get the message across.

Financial institutions should consider the most effective ways of communicating its status of Y2K readiness with its various types of customers. Depending upon the institution's size and business environment, possible methods of communication include:

Providing informational brochures or other written disclosures in monthly or quarterly statements;

Establishing toll-free hotlines for customer inquiries;

Holding seminars to discuss the Year 2000 problem and efforts the financial institution is taking to prepare for the century date change; and

Developing Internet sites-or perhaps an exclusive portion of their existing site-to inform customers of their Year 2000 preparedness efforts.

We also recommended that financial institutions consult with legal counsel before issuing information describing the status of Year 2000 readiness efforts. The institution's customer awareness program should ensure that personnel who regularly interact with customers are trained to respond appropriately to inquiries by referring customers to appropriate materials or expert financial institution staff.

Community Organizations and Consumers

In general, consumers need to understand what the problem is, what steps are being taken to address the problem and what they can do to ensure that they will have access to their funds. If you are a community organization, the Consumer & Community Affairs staff is available to conduct consumer presentations that address these questions. Contact Jeffrey A. Siegel, Consumer Regulation Director, at 312-322-8386 to schedule a free presentation for your organization. Important items for us all to remember are that onsite examinations of financial institution's Y2K readiness are being and will be conducted by specially trained federal examiners. In case other industries fail (power and communication), financial institutions are expected to have contingency plans in place to ensure that your funds will be available.

There are particular precautionary steps you can take as a consumer. These include:

- Keep good records of all transactions
- Check your transactions against your statement; especially compare statements from December 1999 and January 2000
- Verify direct deposit and other electronic transactions
- Obtain a printed history of loan payments
- Review your credit history in 1999 and 2000
- Beware of con-artists and other who may use scare tactics.

By taking necessary precautions, we can be reasonably assured that New Year's 2000 will arrive with minimal disruption. And that will certainly be another reason to celebrate!

Deanne A. Korenchan
Consumer Regulations Director
Federal Reserve Bank of Chicago

Advisory Services Program

The Chicago Fed's Advisory Services Program offers free technical regulatory assistance to financial institutions. This service provides technical assistance on seventeen (17) consumer regulations and laws, including:

- Responding to telephone calls pertaining to requests for interpretations on consumer laws and regulations, including fair lending, truth-in-lending, and the Community Reinvestment Act. National and state non-member banks are also encouraged to follow up with their primary regulator.
- Providing on-site technical assistance, which may include interpreting and evaluating bank policies and procedures and briefly reviewing loan files, including disclosures for compliance.
- Offering presentations to employees, officers, and directors regarding any consumer law and regulation. These presentations are customized to the bank's individual needs and requirements and can range from one hour, to a day-long presentation. One of the most frequently requested presentations is on fair lending, which includes topics such as the three types of discrimination and the difference between an inquiry versus an application.
- Conducting seminars, workshops, and conferences on regulatory issues.

It is important to note that staff providing this service includes both commissioned examiners and former bankers. While the Advisory Services Program is independent of the Supervision and Regulation Division (it does not conduct exams, although the staff occasionally assists), the program complements S&R exam activities by following up on compliance/CRA exam concerns (i.e. ratings, supervisory actions, or identified weaknesses).

The Federal Reserve Board of Governors has mandated this service, which offers each Reserve Bank a unique opportunity to enhance its effectiveness in areas of regulatory compliance, consumer credit, and civil rights. This service will be provided upon request to state member banks. As schedules permit, we also provide assistance to non-member banks as well as thrifts and national banks. If you are interested, please call Deanne Korenchan at 1-800-333-0894 (x6098).

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– Deanne A. Korenchan

Hot Topics

Private Mortgage Insurance

The Homeowners Protection Act of 1998, which is effective July 29, 1999, addresses automatic and borrower cancellation of Private Mortgage Insurance ("PMI"). The act allows cancellation in three instances: 1) The borrower can request cancellation when the loan is paid down to an 80% loan to value; however, the borrower must have a good payment schedule and provide evidence of the current property value; 2) Automatic cancellation by the loan servicer when the loan is paid down to a 78% ltv based on an amortization schedule; and 3) If PMI has not been canceled by 1 and 2 above, then automatic cancellation will occur at the midpoint of the amortization schedule. The act requires new disclosures and notices at the time a loan with PMI is closed, at the time when PMI may be terminated, and annually. There are no "model forms" as with the Truth in Lending Act; however, there is likelihood that commercial business form providers will draft the necessary forms in time for the implementation. *(NOTE: No regulator has interpretive authority for this Act.)*

Regulation Updates:

1) ***Home Mortgage Disclosure Act, Regulation C***
On September 24, 1998, the Federal Reserve Board amended Regulation C in anticipation of "Year 2000" data systems standards. The format of the loan application register has been changed to require dates to be reported with a four digit rather than two digit year. Other technical changes to the regulation include clarifying the coverage of nondepository institutions and deleting the requirement to provide the name and address of the reporting institution's parent company on the transmittal sheet. The amendments apply to data collected for calendar year 1998, to be reported by March 1, 1999.

2) ***Electronic Fund Transfer Act, Regulation E***
Truth in Savings Act, Regulation DD
Consumer Leasing Act, Regulation M
On September 24, 1998, the Federal Reserve Board published final amendments to Regulations E, DD, and M.

Under Regulation E, the time periods for investigating alleged errors involving point-of-sale and foreign-initiated transactions were revised. The final rule requires financial institutions to provisionally credit an account within 10 business days (rather than 20) and leaves in place the 90 calendar day period to complete the investigation of an alleged error. The Board also extended the time periods to provisionally credit funds and investigate claims involving new accounts. The rule applies to claims made within 30 calendar days after an account is opened. The rule allows 20 business days for resolving an alleged error and up to 90 calendar days for completing the investigation. The rule is effective September 24, 1998 and compliance is optional until April 1, 1999.

Under Regulation DD, rules for indoor lobby signs were modified, subsequent disclosure requirements for automatically renewable time accounts with terms of one month or less were eliminated, and civil liability provisions as of September 30, 2001 were repealed. This rule is effective September 24, 1998.

Under Regulation M, several technical amendments were made concerning lease payments, advertisements, and the treatment of taxes. This rule is effective September 24, 1998; however, compliance is optional until October 1, 1999.

3) ***Regulation DD***
On July 27, 1998, the Federal Reserve Board made final an interim rule regarding the disclosure of the annual percentage yield ("APY"). The rule permits institutions to disclose an APY equal to the contract interest rate for certain time accounts; the rule applies only to time accounts with maturities greater than one year that do not compound but that require interest distributions at least annually. The rule is effective August 28, 1998.

To access the summary and final rule for the above regulation updates, visit the Federal Reserve Board's Website: **http://www.bog.frb.fed.us/boarddocs /press/Board Acts.**

(See Miscellaneous Website Information on next page)

Miscellaneous Website Information

APR Verification Software

The Comptroller of the Currency recently released the windows version of the Annual Percentage Rate (APR) program 5.0. The software is available at the OCC's Website: **http:// www.occ.treas.gov /useful.htm**. In addition, the APY software is also available at the same Website.

Federal Financial Institution Examination Council ("FFIEC")

The FFIEC provides a free geocoding website (**http://www. ffiec.gov/geocode**) to assist financial institutions when completing their loan application register for Regulation C. All that is needed for input purposes is the street address, city, state, and zip code. Output includes the Metropolitan Statistical Area Code, State Code, County Code, and Census Tract or Block Numbering Area (BNA) Code. Summary Census Demographic information pertaining to the specific tract or BNA is also available.

I Know Banking©

Interactive Knowledge is providing a free service until February 1, 1999, to access the banking wing of their library. The banking wing allows you to access such items as banking laws, regulations, and agency publications through a browse and search feature. The website address is: **http://www. iknowbanking.com**.

Federal Register

The Federal Register is online and can be accessed through a search feature. The website address is: **http://www. access.gpo.gov/nara/index.html**.

Disclaimer: The Federal Reserve Bank of Chicago does not endorse the above Websites.

www.frbchi.org

Seminar Calendar

January-July, 1999

January 11
Orlando, FL
Investment Portfolio Stress Testing Workshop.
Sponsor: Bank Administration Institute.
Contact: (800) 224-9889 or visit http://www.bai.org.
Note: This conference will be repeated January 13 in New York, NY; January 20, Chicago, IL; January 22, San Francisco, CA.

January 12-13
Lexington, KY
Building on Our Strengths; Helping Local Economies Become More Competitive.
Sponsor: Appalachian Regional Commission.
Contact: Ray Daffner at (202) 884-7777.

January 20-23
Tempe, AZ
If You Build It, Will They Come?
Sponsor: Council for Urban Economic Development.
Contact: (202) 223-4735;
e-mail: mail@urbandevelopment.com or visit http://cued.org/.

January 25-26
Washington, DC
NARC/NADO EDA Forum.
Contact: (202) 624-7806.

January 25-26
Tempe, AZ
Economic Development Planning.
Sponsor: Council for Urban Economic Development.
Contact: (202) 223-4735;
e-mail: mail@urbandevelopment.com or visit http://cued.org/.

January 31-February 4
San Diego, CA
National Association of RC&Ds Annual Meeting.
Contact: (202) 547-6223.

February 1-5
Atlanta, GA
Neighborhood Reinvestment Training for Community Developers.
Sponsor: Neighborhood Reinvestment Training Institute.
Note: This conference will be repeated February 1-5 in Atlanta, GA; March 27-31, Philadelphia, PA; June 28-July 2, Chicago, IL; August 30-September 3, New Orleans, LA; November 15-19, Oakland, CA.
Contact: (800) 438-5547 or (202) 376-2642; email: nrti@nw.org or visit http://www.nw.org.

February 21-23
Philadelphia, PA
Economic Development Administration (EDA) Philadelphia Regional Meeting.
Contact: (215) 625-2900.

February 26-March 3
Washington, DC
National Association of Counties Legislative Conference.
Contact: (202) 393-6226.

March 7-9
Washington, DC
Economic Development Summit.
Sponsor: Council for Urban Economic Development.
Contact: (202) 223-4735;
e-mail: mail@urbandevelopment.com or visit http://cued.org/.

March 8-9
Arlington, VA
Business Access to Capital and Credit.
Sponsor: The Federal Reserve System.
Contact: (202) 452-3378 or (214) 922-5377.

March 8-10
Washington, DC
National Association of Housing and Redevelopment Officials Legislative Conference.
Contact: (202) 289-3500.

March 13-18
Washington, DC
Appalachian Regional Commission (ARC) ARC/DDAA Washington Conference.
Contact: (202) 884-7799.

April 10-12
Washington, DC
28th Annual Neighborhoods Conference.
Sponsor: National People's Action.
Contact: (312) 243-3038.

July 11-14
Chicago, IL
Council for Urban Economic Development Annual Conference.
Sponsor: Council for Urban Economic Development.
Contact: (202) 223-4735;
e-mail: mail@urbandevelopment.com or visit http://cued.org/.