

NEIGHBORHOOD HOUSING SERVICES OF CHICAGO  
REPORT TO THE PARTNERS LUNCHEON

Chicago, Illinois  
May 9, 1995



Thank you and good afternoon. I'm delighted to be here today for NHS' Annual Report to Partners Luncheon. This event is an anniversary of sorts for the Federal Reserve Bank of Chicago. It's been 20 years since Bob Mayo, former president of the Chicago Fed, hosted a breakfast to introduce the idea of Neighborhood Housing Services to Chicago lenders. I'm very honored now to be a part of this tradition. After two decades, the Chicago Fed views NHS as a highly effective and important organization. One that has lived up to, and even exceeded, its early promise. We welcome the opportunity to continue our involvement in the years to come.

As you probably know, the Federal Reserve has a variety of different responsibilities, and distinct roles to carry them out. Because we're responsible for the nation's monetary policy, we're an academic research center studying the regional, national and international economy in detail. We act in a sense like a private company, selling services like check processing and electronic funds transfer to financial institutions, while helping assure that our country's payment system operates effectively. We're also a government regulatory agency supervising and regulating banks in our five-state region.

As part of our bank-regulatory function, we are very involved with issues related to equal access to credit and community and economic development. Having spent more than two years earlier in my career with the U.S. Department of Housing and Urban Development, I've dealt quite a bit with issues relating to the economic development of urban areas. I have a deep, personal interest in, and commitment to, this subject. Being relatively new to the Federal Reserve System, it's exciting to be in a position once again to have an impact on community development and housing issues.

When I was at HUD in the 1970s, I actually had a chance to be involved with efforts to assist Neighborhood Housing Services, which was just getting off the ground. Interestingly, at that time we were also de-emphasizing the construction of high-rise public housing projects in favor of providing housing subsidies to individuals — an approach that seems to be getting more and more popular today.

In preparing my remarks for this occasion, it occurred to me that a lot of what NHS is involved in relates to a fundamental issue the Federal Reserve's founders confronted much earlier in this century — namely the issue of credit availability. Back then, concerns centered mainly on the needs of farmers in rural areas versus the concentration of credit in large urban centers. Today, one of our main concerns is the development of low- and moderate-income neighborhoods within urban areas.

NHS is an ideal vehicle for fostering such community development. NHS is a model for public-private partnerships, helping the financial system work fairly and effectively to provide housing loans to potential home buyers. The result is far more than bricks and mortar. It's self-sufficiency and the sense of pride provided by home ownership. That's the essence of NHS.

I mentioned public-private partnerships. Having years of experience in the public sector and the private sector, I've come to the conclusion that government alone can't shoulder the burden of assisting those in need. The money simply isn't there, and frankly I think private-market solutions tend to be more effective than government allocations.

Private-market solutions are lasting because they reflect underlying fundamentals and long-term trends. Government solutions require continuous support and subsidies in order to be permanent. We sometimes need to give private markets a nudge to make them work better, but government shouldn't be a substitute for private markets. To bring about meaningful, tangible development in under served neighborhoods, we need the commitment of all the players in the mortgage industry: bankers, realtors, secondary market professionals, insurance providers, and business people. Public-private partnerships are an ideal vehicle for making that happen.

The success of NHS depends on these partnerships. The mere presence of NHS offices in various Chicago neighborhoods has had an enormous effect here. It shows a belief in, and commitment to, neighborhoods that have long been neglected. Home ownership fostered by NHS helps create safe, viable neighborhoods through resident involvement, and has a wonderful leveraging effect, facilitating more investment and development and the jobs that will come with that development.

Let me tell you a little bit about NHS of Chicago's extraordinary track record of achievement. Some \$133 million dollars invested in eight local neighborhoods over the past 20 years. I had the opportunity to see first-hand some of NHS' contributions during a tour last Fall of the West Humboldt Park community. I remember the words of a local resident who had been extremely pessimistic about the chance that her drug- and gang-ravaged neighborhood could ever improve. But West Humboldt is now on the upswing because of NHS' efforts to provide home improvement loans and to lure more home buyers by simplifying the mortgage lending process. And so is the Austin community on the far West Side, another NHS neighborhood where NHS helped rehabilitate seven multifamily buildings in the past five years, and East Garfield Park, where NHS has rehabilitated three.

A primary reason behind NHS' success is its leadership. The commitment of the staff here in Chicago is exemplary. Bruce Gottschall and his staff possess a combined depth of experience and overall dedication to NHS and are driving forces behind the organization's accomplishments. I know that our staff at the Chicago Fed has appreciated the chance to work closely with Bruce and his staff over the years, and I assure you, we truly value this relationship.

Another reason for NHS' success is that it is multi-faceted. HS is involved in virtually every aspect of helping people become home owners. From providing advice on the home-buying process to helping low-income

homeowners secure rehab money via government funds, its Neighborhood Lending Services affiliate has developed products and services to meet the credit needs of its neighborhoods.

And NHS succeeds because it is dynamic and changes as neighborhood needs change. The Marshall Square/Douglas Park community on the West Side is a good example. Prior to 1983, Marshall Square/Douglas Park was blighted. Some seventy abandoned buildings, both single- and multi-family homes, were scattered among vacant lots and other poorly-maintained properties. But there were many families with roots in that neighborhood who believed in the community and wanted to stay there. NHS recognized this and as part of a comprehensive development strategy for the neighborhood, the organization began to buy these abandoned single-family homes one by one. NHS then helped qualified buyers secure a mortgage and financing for rehab work.

NHS also decided at that time to target certain blocks in Marshall Square/Douglas Park and to focus on making rehabilitation loans to owners of deteriorated properties. NHS also worked hard to build new housing on previously vacant land. This, in turn, inspired existing homeowners to improve their own properties. Pretty soon, both the state and the city got into the act, investing millions of dollars in capital improvements for this once-forgotten community. Now that NHS completed its mission of helping restore the neighborhood's housing stock, it is now helping local community groups tackle the social problems that still plague the area.

It's examples like these, and there are many others, that make me proud that the Federal Reserve System has long supported NHS. Lawrence Lindsey, a member of the Board of Governors and currently chairman of the Neighborhood Reinvestment Corporation, routinely speaks of NHS' accomplishments and tours NHS neighborhoods during his travels. Last Fall, Governor Lindsey and I visited an NHS neighborhood in Des Moines that was still recovering from the flood that ravaged the city in 1993.

We were impressed by the ongoing cooperation between NHS, the City of Des Moines, and local lenders who all worked together to repair, and in many cases replace, housing for the city's low- to moderate-income residents, people who literally lost everything that they had.

While we have been discussing the merits of NHS, some of you may be wondering about the future of lender support for organizations such as NHS under the new Community Reinvestment Act regulations. Under these new rules, banking regulators will give favorable consideration to lenders in their CRA evaluations for loans, investments, and services that are community development in nature. Community development under the final rule includes activities that revitalize or stabilize neighborhoods, or provide affordable housing and services to low- and moderate income individuals. These activities are consistent with the types of services performed by organizations such as NHS. While CRA has worked well to encourage lender involvement in NHS, it is important to recognize that NHS' success in obtaining and continuing to receive support from other private sources is not dependent on CRA. I believe that this collective support is reflective of NHS' track record and impact on neighborhoods around Chicago.

We at the Federal Reserve will continue to encourage lender involvement in community development activities. We believe organizations such as NHS play a key role in the neighborhood stabilization process. We are also committed to working together with lenders and others to find additional voluntary solutions to help revitalize our neighborhoods. Your support of Neighborhood Housing Services of Chicago is critical now, more than any other time in its history. Why is that? Well, the most salient reason is that the term "affordable housing" is fast becoming an oxymoron in Chicago. Land and construction costs continue to escalate. Some recent studies show that Chicago-area real estate is the highest in the Midwest. As we know from expe-

rience, much of the new development and “rehabbing” done in Chicago is geared toward middle- and upper-income people who want to live close to the Loop or the lakefront, people who can afford to pay for the high-priced housing options that are available in these neighborhoods. This often has the effect of driving up land costs in the more modest neighborhoods nearby. High land costs make the development of low-income housing less viable for developers, even in spite of tax credits and other incentives.

A second important trend is recent movement by the Chicago Housing Authority toward reducing the number of high-rise public housing buildings in Chicago. I strongly support these efforts to alleviate the overcrowding and other social ills resulting from the concentration of thousands of low-income people in these buildings. People living in these vertical slums will be much better off if they are given funds directly to help them find suitable housing in better neighborhoods more convenient to work and school. However, this new policy will place additional burdens on organizations like NHS. They will be called upon to help find safe, decent housing for families being relocated. Although NHS has done this for years, the cost of acquisition, rehab, and relocation will be enormous.

We all have a stake in community development and there are many ways to make it work. Years ago, many community development projects and initiatives were financed primarily with federal funds and, to a much lesser degree, by the private sector. As I said before, federal funds are drying up, and that’s a trend likely to continue.

Government cannot and should not carry the burden alone. Private sector involvement, indeed leadership, is essential. Government provides the framework in which development can take place, but the private sector and organizations like NHS really have to be the foundation for growth, the force that prompts development and, more importantly, sustains it.

NHS of Chicago has come a long way since Bob Mayo hosted that first breakfast 20 years ago, but we still have a long way to go. In some ways, the challenges are more formidable than they have been in the past, but NHS has proven to be a resilient, productive organization that changes the lives of the people it touches. It’s an organization that not only builds houses, but also self-sufficiency and self-respect for the inhabitants of those dwellings.

At the Chicago Fed, we’re proud to be a member of the NHS crew. I encourage all of you to stay on board. We’re delighted to have had the opportunity to support the Chicago NHS and all of its efforts over the past twenty years. We look forward to working together for many more years to come.

Thank you.