for South Shore housing. The bank's Parkside Banker program, which examined the housing problems of South Shore's most blighted areas, was the impetus to the Parkways project of City Lands.

Two of the bank's initiatives--City Lands Corporation and the Neighborhood Institute--have complemented the bank's efforts in neighborhood revitalization. City Lands' most ambitious project has been the Parkways, the largest multi-family revitalization project currently under way in the country. The project will produce 448 units of rehabilitated housing partly at market rates and partly subsidized by Section 8 rent supplements, at a cost of roughly $20 million. This project is a joint venture with First Chicago Neighborhood Development Corporation (a subsidiary of First Chicago Corporation). City Lands' activities are underwritten by a revolving credit facility owned by 55 Chicago savings and loan associations.

In addition to demonstrating a strong commitment to a specific project, most successful CDCs have targeted their efforts to a single, well-defined neighborhood, thereby increasing their visibility and the likelihood of generating additional investment for other projects. Within the context of such projects, some CDCs have adopted the strategy of pursuing small, short-term projects, which will be directly beneficial to the community members who will be directly affected by the project. By eliciting resident input, the CDC will be better able to show community residents that their interests are being served.

Finally, CDCs must have a plan and a strategy for pursuing small projects. This involves extensive dealing with all levels of government and public agencies such as the Department of Housing and Urban Development and the Federal Housing Administration, as well as local public agencies such as the city of Toledo to support the projects.

The Federal Reserve Bank of Cleveland

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activities that are closely related to banking. Included among these permissible activities is the provision enabling "C's" to engage in "C's" and the activities of its parent companies, or both, to the extent of its capital and surplus, and (3) the investments appear on the bank's books under "other assets." In addition, the Federal Reserve Bank's interpretation of the 1970 amendments highlights projects specifically targeted to low- and moderate-income areas, other projects targeted to communities otherwise permitted. The Federal Reserve Board does not delineate specific investments, but instead allows bank holding companies considerable flexibility to develop and implement their own projects.

Permissible investments include, but are not limited to, (1) construct or rehabilitate housing for low- and moderate-income groups; (2) construct or rehabilitate ancillary local commercial facilities necessary to provide products and services principally to serve low- and moderate-income neighborhoods; (3) construct or rehabilitate employment opportunities for low- and moderate-income individuals.

National banks can make direct investments in CDCs subject to the satisfaction of several conditions specified by the Comptroller of the Currency, and the activities of the bank and its subsidiaries. A CDC may either be constructed or rehabilitated, or serve real estate in a targeted area; extend credit to promote projects related to a CDC's activities; serve as an information clearinghouse between the bank and the community; provide technical assistance in the implementation of related activities; and conduct or contract for research and studies related to community development activities. A CDC may be owned wholly or jointly by two or more banks or by a bank and a community organization.

The role of the Comptroller of the Currency in specifying the activities of the Federal Reserve Board's rules may be set up either for for-profit or for-not-for-profit entities. The choice of structure for the CDC depends on the resources that the bank or the subsidiary CDC is eligible to receive and the recipients of revenue from projects. A for-profit CDC can receive fixed income; a for-profit subsidiary CDC can receive the profits of the activity, while a for-profit subsidiary CDC can receive the profits of the activity, while a not-for-profit CDC can receive the proceeds of the activity, while a not-for-profit subsidiary CDC can receive the proceeds of the activity, while a not-for-profit CDC can receive the proceeds of the activity.

One factor that may stimulate interest in CDCs is the Community Reinvestment Act of 1977 (CRA). The CRA requires that institutionsfs financial institutions to demonstrate that their deposit and credit-granting facilities serve the credit needs of the communities in which they are chartered. The CRA also requires federal regulatory agencies to encourage a financial institution to ascertain and meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound lending practices. The regulatory agencies must consider the CRA record of the institution when evaluating an application for merger, acquisition, branch office, and similar transactions. In some cases, the CRA may be viewed as an effort to strengthen the link between the activities of financial institutions and the actual needs of the community.

Through participation in a CDC, a financial institution can assume a leadership role in urban development. The South Shore Bank of Chicago, the banking subsidiary of the Illinois Neighborhood Development Corporation (INDC), another subsidiary of Chicago, a for-profit CDC formed to provide technical assistance in the planning of community development projects. When assessing an institution's record of meeting the credit needs of its community, the regulatory agencies consider the institution's record of participation in community development programs.

In addition, the Comptroller of the Currency, in interpreting Ruling 7.480, has authorized bank holding companies to participate in activities that would otherwise be prohibited.
activities that are closely related to banking. Included among these permissible activities are (1) the provision enabling "community reinvestment activities" that are not necessarily financial in character and surplus; and (2) the invest in new or existing CDCs, or to participate in activities that would otherwise be prohibited. 2

2 percent of its capital and surplus, with the aggregate investment in such projects not to exceed 5 percent of its capital and surplus; and (3) the investments on bank's books under "other assets." In addition, the Comptroller of the Currency may approve of the creation of CDCs to include a majority of community-at-large representatives on their boards of directors. Although the bank can set up as a corporation, dividends cannot be remitted to the parent bank for at least three years after the CDC's formation. A for-profit CDC approved for an investment in CDCs may acquire, own, rehabilitate, construct, or sell real estate in a targeted area; extend credit to individuals or businesses; and establish ancillary local commercial facilities that are closely related to banking.

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The decision to form a CDC implies strong commitment on the part of a financial institu-tion to participate in a community's revitalization. Nevertheless, the success of any individual project depends overwhelmingly on the financial arrangements that can be made to assume an active role in transforming development ideas into viable projects. One example of a financial institution's assuming a leadership role in urban redevelopment is the South Shore Bank of Chicago, the banking subsidiary of the Illinois Neigh-borhood Development Corporation (INDC). INDC's other subsidiaries are City Lands Corporation, a for-profit CDC formed to revitalize and rehabilitate real estate; and Ridgeview, a not-for-profit CDC formed to revitalize and recapitalization. When assessing an institution's record of meeting the credit needs of its local community, the regulatory agency considers whether the institution is realizing "substantial return" on the investment in community development programs.

Through participation in a CDC, a financial institution can assume a more active role in initiating community development pro-jects. As outlined earlier, a CDC enables a bank to initiate a variety of projects and to raise venture capital for these projects. In addition, the bank is allowed to use its bank holding company to own or rehabilitate real property, an activity otherwise prohibited. Thus, a bank holding company may participate in activities that would otherwise be prohibited.

**CDC Investment Activities**

Although the investment activities of CDCs are diverse, some characteristics have emerged as common to successful CDCs. These include the willingness to assume a leadership/initi-ator role; (2) targeting of projects to specific, low- and moderate-income neighborhoods; (3) support of residents in the community; and (4) lever-aging of funds. The following examples illustrate the importance of these factors to a CDC's success.

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activities that are closely related to banking. Included among these permissible activities is the provision enabling "...incentives to any project does not exceed the nation's social problems. Although the Federal Reserve System's policy of encouraging bank holding companies "to take a considerable role in seconding projects for low- and moderate-income individuals. A for-profit CDC, on the other hand, can attract private investment (as well as government grants) and can distribute its profits in the form of dividends. In addition, a for-profit CDC can receive Small Business Administration (SBA) loans, while a non-profit CDC cannot. A for-profit CDC also can pool the profits and losses of its subsidiaries to reduce its overall tax liability. To maximize profits at its disposal, a for-profit CDC can form a not-for-profit arm to take advantage of foundation grants and charitable donations. Box 1 illustrates the projects that the companies have been authorized to form CDCs since 1970. The Board of Governors of the Federal Reserve System has approved eleven applications by bank holding companies to form CDC subsidiaries (see box). The Comptroller of the Currency has approved six applications by national banks for the formation of CDCs since 1974. One factor that may stimulate interest in CDCs is the Community Reinvestment Act of 1977 (CRA). The CRA requires financial institutions to demonstrate that their deposit- and credit-granting facilities support the credit needs of the communities in which they are chartered. The CRA also authorizes federal regulatory agencies to encourage a financial institution to ascertain and meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound lending practices. The regulatory agencies must consider the CRA record of the institution when evaluating an application for merger, acquisition, branch office, or trust department. The CRA may be viewed as an effort to strengthen the link between the institutions of financial institutions and the communities they serve, and to channel more resources to low- and moderate-income communities. When assessing an institution's record of meeting the credit needs of its local community, the regulatory agencies "...consider the institution's participation in community development programs. Through participation in a CDC, a financial institution can assume a more active role in initiating community development projects. As outlined earlier, a CDC enables a bank to initiate a variety of projects and to raise venture capital for these projects. In addition, the CRA also allows the bank holding company to own or rehabilitate real property, an activity otherwise prohibited. The CRA also permits the bank holding company to participate in activities that would otherwise be prohibited.

CDC Investment Activities

Although the investment activities of CDCs are not limited to matters that are closely related to banking, several characteristics have emerged as common to successful CDCs. These include the commitment of a parent bank holding company to own or rehabilitate real property, an activity otherwise prohibited. The CRA also permits the bank holding company to participate in activities that would otherwise be prohibited.
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Two of the bank’s subsidiaries—City Lands Corporation and the Neighborhood Institute—have complemented the bank’s efforts in neighborhood revitalization. City Lands’ most ambitious project has been the Parkways, the largest multi-family rehabilitation project currently under way in the country. The project will produce 446 units of rehabilitated housing partly at market rates and partly subsidized by Section 8 rent supplements, at a cost of roughly $20 million. This project is a joint venture with First Chicago Neighborhood Development Corporation (formerly the North Lawndale Corporation) and RESCORP (a real estate services company owned by 55 Chicago savings and loan associations).

In addition to demonstrating a strong commitment to a specific project, most successful CDCs have targeted their efforts to a single, well-defined neighborhood, thereby increasing their visibility and the likelihood of generating additional investment for other projects. Within the context of a single project, some CDCs have adopted the strategy of pursuing small, short-term projects, where others have chosen the route of large-scale land development. Generally, small projects entail less risk than large-scale, long-range developments, and the failure of a small project is less catastrophic than the loss of a large project. The effectiveness of its development efforts depends on acceptance and cooperation by community residents who must live with the consequences of any project. By eliciting resident input, the CDC will be better able to show community residents that their interests are being served.

Finally, CDCs must take advantage of the variety of funding sources available for development projects and package their projects to attract private as well as public funding. While private-sector commitment is often necessary to make large-scale land acquisitions and land development possible, CDCs have, participated as junior partners in the projects of hundreds of community development corporations across the nation. In this capacity they face the same problems confronting any private effort to rejuvenate older, urban areas. Specifically, to make real estate development projects economically feasible, large government subsidies have been used to attract private investments. The pervasive role that federal funding has played in CDC projects raises the issue of their viability if such funding for urban development is severely reduced. Should this occur, financial viability will be faced with an even greater challenge to devise creative approaches to solving urban redevelopment problems. To be successful in this new financial environment, CDCs and other elements of an institution’s urban program should be integrated into an institution’s long-term objectives.

One notable example of the broad-based approach is the Pyramidwest Development Corporation (formerly the North Lawndale Development Corporation). First Chicago Bank of Illinois is located in the North Lawndale community on Chicago’s west side. Pyramidwest was a CDC that became a bank holding company by acquiring the Community Bank of Lawndale. Its two other subsidiaries are Pyramidwest Health Care, Inc. Although the founders of Pyramidwest recognized the risk inherent in a large-scale project strategy, they undertook this approach to have a measurable impact on the community and to demonstrate its commitment to that end. Because land development projects are more complex and require more time for completion, the CDC often foregoes the rewards provided by small project development approaches to solving urban redevelopment problems. In addition, large-scale land acquisition involves extensive dealing with all levels of government and political officials.

Another factor critical to a CDC’s success is the financial institution’s ability to elicit the participation of community residents. This does not mean that CDCs must depend on community residents, but that they must earn community residents’ trust. By showing community residents that their interests are being served.

Over the past 20 years, considerable attention has focused on community development and revitalization, largely in response to the economic problems of our nation’s older, industrialized cities. Although urban revitalization and reinvestment traditionally have come under the purview of federal agencies such as the Department of Housing and Urban Development and the Economic Development Administration, there is a growing trend toward encouraging greater private-sector involvement in such efforts. In particular, legislation such as the Community Reinvestment Act of 1977 places affirmative responsibility on financial institutions to undertake the promotion of community development. The stagnation and decline of many large urban areas have prompted financial institutions to search for methods to attract these unfavored areas. To be successful, efforts to revitalize urban areas must rely on the initiative, creativity, and capital investments of the private sector. Financial institutions, who have, a vested interest in the economic viability of their communities—a fact that has sharpened their interest in community development projects.

This Economic Commentary examines one vehicle that enables financial institutions to participate in and stimulate the economic revitalization of their local communities—the community development corporation. A community development corporation (CDC) is a legally organized organization that undertakes the promotion of community development and works to attract private-sector involvement in such efforts. CDCs are risk-oriented, and their investments are usually riskier than the ordinary loans of commercial banks. CDCs have the potential to enhance the role played by local financial institutions in public-private partnerships. In this capacity they face the same problems confronting any private effort to rejuvenate older, urban areas. Specifically, to make real estate development projects economically feasible, large government subsidies have been used to attract private investments. The pervasive role that federal funding has played in CDC projects raises the issue of their viability if such funding for urban development is severely reduced. Should this occur, financial viability will be faced with an even greater challenge to devise creative approaches to solving urban redevelopment problems. To be successful in this new financial environment, CDCs and other institutions of an urban program should be integrated into an institution’s long-term objectives.

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Commentary

By Judy Z. Menich

Economic Commentary

May 18, 1981

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This Economic Commentary examines one vehicle that enables financial institutions to participate in and stimulate the economic revitalization of their local communities—the community development corporation. A community development corporation (CDC) is a legally organized unincorporated or incorporated organization engaged in undertaking projects and activities that are intended to meet the economic, physical, and/or social needs of a community. This entity, in large part, is motivated by the desire to meet the needs and interests of the community and by the potential for economic development. The CDCs have the potential to enhance the role played by local financial institutions in the support of revitalization efforts. In this capacity they face the same problems confronting any private effort to rejuvenate older, urban areas. Specifically, to make re- development projects economically feasible, large government subsidies have been used to attract private investments. The pervasive role that federal funding has played in CDC projects raises the issue of their viability if such funding for urban development is severely reduced. Should this occur, financial institutions would be faced with an even greater challenge to devise creative approaches to solving urban redevelopment problems. To be successful in this new financial environment, CDCs and other elements of an institution's urban program should be integrated into an institution's long-term objectives.

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