

Cascade

A newsletter from the Philadelphia Federal Reserve Bank about consumer credit and community reinvestment

Volume 1, Number 1
June 1984

Cascade is a periodic newsletter designed to facilitate the flow of information on issues of concern to bankers and their customers in Pennsylvania, Delaware, and Southern New Jersey. **Cascade** is received by community groups, consumer advocates, government agencies, and all types of financial institutions. **Cascade** takes its name from the Alexander Calder mobile — the world's largest mobile — that the Philadelphia Fed commissioned as part of the City of Philadelphia's public art program.

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To Our Readers:

The interests of the Federal Reserve Bank of Philadelphia in consumer credit and community revitalization are strong and varied. We're pleased, with this first issue of Cascade, to illustrate how these interests relate to issues that are of benefit to you.

Cascade will appear at periodic intervals to inform you of important developments in consumer banking and community reinvestment. Cascade will identify subjects which consumers feel strongly about and some interesting initiatives in retail credit. It will give special coverage to programs that exemplify public/private partnerships in urban revitalization and distinctive efforts by neighborhood organizations to enhance their communities.

This all comes in the course of the Philadelphia Fed's community outreach and consumer relations work. We hope that many of you will have the opportunity to meet our staff in one context or another. A full range of their activities is described in this issue.

We welcome your input to strengthen our consumer affairs and community reinvestment work. If you have questions or comments about consumer and community banking, one of our specialists will be pleased to talk with you.

Community Affairs Officer—Fred Manning—574-6482
Regulations Assistance Manager—Phil Farley—574-6458
Public Services and Consumer Affairs Manager—Jim Dygert—574-6112
Cascade Editor—Patrick Bond—574-6407



Sincerely,

Edward G. Boehne

Edward G. Boehne
President



Notes From Around the District

Federal Reserve District Three includes most of Pennsylvania (east of Pittsburgh), Southern New Jersey, and Delaware. We're pleased to briefly describe any community development efforts within the district, particularly where financial institutions may play a role. Contact Patrick Bond — (215) 574-6407 — with news from your area.

Bucks County Bank and Trust Finances Plant Renovation

Eastern Ceramics, in Morrisville, PA, is the beneficiary of \$2.2 million in financing from Bucks County Bank and Trust. The funds will be used to acquire, rehabilitate, and reactivate a vacant tile manufacturing plant. In the process, 120 new jobs will be created. A \$775,000 Urban Development Action Grant is also being used to get the plant restarted.

Banker Chairs Trenton NHS Fundraising Effort

The Neighborhood Housing Services of Trenton, Inc. was aided in its most recent fundraising drive by John Walther, the Chairman of the Board of New Jersey National Bank. According to Barry Black of Trenton NHS, the organization raised enough money to produce a small surplus over an operating budget of \$133,000. This came as a result of Walther's efforts to publicize Trenton NHS, his personal contacts in the business community, and New Jersey National's doubling of their NHS contribution of \$10,000.

Aetna Contributes to Kensington Revitalization

After being contacted by National Peoples Action in Chicago and by Philadelphia's Kensington Action Now (KAN) several years ago, Aetna Life and Casualty Company made a commitment of \$2,000,000 to the Kensington Area Revitalization Project (KARP). Aetna found it possible to alter their underwriting policies in Kensington as well and, as part of KAN's Insurance Program, Aetna agreed to provide an insurance

hotline, arson prevention consultation, and written adverse action notices to those residents turned down for insurance coverage. A meeting with Aetna on May 3 reconfirmed their interest in the area. According to Debbie Fischetti of KARP, the revitalization funding — partly grants but mainly financing for otherwise unbankable projects — is very important. "Two million dollars is flowing through the community now, and that's what we need."

PNB Hires Youths for Summer Community Work

A total of 76 young Philadelphians will be hired this summer by Philadelphia National Bank, and their work for the bank will have a very positive effect on some Philadelphia neighborhoods. In addition to light maintenance duties at PNB's branches, the crews of ten young adults will cooperate with Philadelphia Neighborhood Housing Services efforts to install smoke detectors in the homes of 600 senior citizens. They'll also work with the Greater Philadelphia Karate Institute, a youth development group, to con-

struct benches and other needed items at a Senior Citizen Park in West Philadelphia. PNB Vice President Tom Patterson visualized the work opportunity as an extension of the bank's Operation Prepare (begun in 1967), a program for 40 high school juniors and seniors. Besides creating much-needed summer jobs for youths, PNB is providing a valuable community service to elderly residents of Philadelphia.

Bank of Mid-Jersey Convenes Consumer Advisory Board

The Bank of Mid-Jersey in Bordentown is utilizing the knowledge of several local residents to help the bank assess its communities' credit needs. Eight community representatives meet quarterly with the bank's leading officers and lenders to review policies, observe branch procedures, and offer advice to the bank about what kind of impact they can have in their trade area. The bank also meets with local township officials and encourages their branch managers to play an active role in the communities they serve.

PA Housing Finance Agency Begins Homeowners' Emergency Mortgage Assistance

Last December, Pennsylvania Governor Dick Thornburgh signed House Bill 500 into law, thereby placing a hold on many mortgage foreclosure actions that were occurring as a consequence of the Commonwealth's economic problems. Since then, the economy has improved markedly, the ban on foreclosures was lifted (on March 24), and, as stipulated by the law, the Pennsylvania Housing Finance Agency began its program of providing emergency loans to homeowners in danger of foreclosure.

The program was designed for those Pennsylvania residents who are 60 days in arrears on conventional mortgages for one- or two-family owner-occupied dwellings. The home must be the principal residence and the homeowner must show that the financial hardship was beyond his or her control.

By late May, 1000 people had filed applications to the program, according to Phil Friday of the Housing Finance Agency. Friday believes there to be as many as 10,000 more homeowners who may be eligible for the emergency loans. The State House and Senate will soon complete the allocation of \$26 million for the program, which will essentially take over the burden of carrying the homeowner's mortgage for up to three years.

The procedure for taking advantage of the funds is as follows: 1) When a financial institution sends out its required Notice of Foreclosure (Act 91 Notice) to a homeowner, it must include information about the program and the name of a qualified consumer credit counseling agency. 2) The homeowner must meet with the agency or the bank within one

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Fed Addresses Delays on Checking Funds Availability

Early this spring, the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, and the Office of the Comptroller of the Currency issued a joint policy statement that encourages financial institutions to voluntarily review and disclose to depositors the institution's policies on delayed availability of funds. In addition, institutions are urged to consider whether delay periods can be reduced, to refrain from imposing unnecessary delays on government checks that are deposited to established accounts, and to consider giving depositors some means to request an exception to the standard hold policy.

The four agencies strongly believe that voluntary action rather than mandatory requirements represents the best solution to the delayed funds problem. However, if voluntary action appears inadequate, the agencies will consider further action.

According to the joint policy statement, the longstanding practice of delaying a customer's withdrawal of

funds that have been deposited by check has recently attracted increased interest at both the state and federal level. Delays in availability of funds have been used by financial institutions to reduce their risk of loss when deposited checks are returned unpaid. However, recent studies have revealed that only a small percentage (about one percent) of the checks that are returned unpaid have resulted in actual losses to financial institutions. Although the low frequency of losses may be directly attributed to the delayed availability policies, the agencies feel that imposing delays on all checks (especially social security or other government checks) deposited to established accounts does not appear to be justified by the risk of loss.

The policy statement asks financial institutions to review their funds availability policy and to consider such factors as the age of the account, past experience with the depositor, type of check, and location of the payor depository institution when assessing whether a given

situation presents a risk of loss that justifies a delay in availability of funds. As part of their review, institutions also should consider providing depositors with a way to request an exception to the standard hold policy. Institutions should also inform depositors of that possibility.

Philadelphia Fed Holds Consumer Affairs Conference

On June 1, a conference emphasizing bank compliance with the large body of consumer protection law was hosted by the Federal Reserve Bank of Philadelphia. Speakers included Griff Garwood, Director of the Division of Consumer and Community Affairs at the Federal Reserve Board in Washington; JoAnn Barefoot, a bank consultant from Columbus, Ohio; Victor Crans-

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GUEST COLUMN

*Phil Farley, Regulations Assistance Manager,
The Federal Reserve Bank of Philadelphia*

The number and complexity of bank regulations, particularly in the area of consumer protection, creates a problem for many lenders who find it difficult to keep up with regulatory changes and to learn enough about the regulations to comply with them readily.

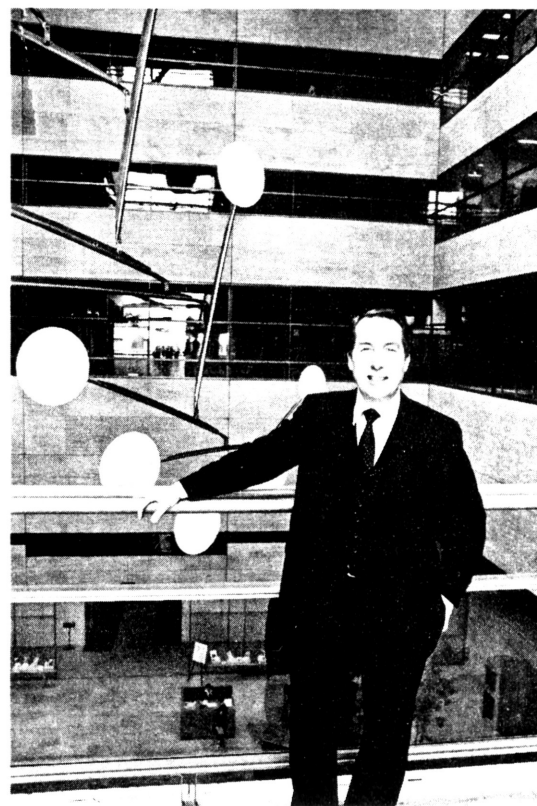
To help ease this burden, the Philadelphia Fed stands ready to provide assistance and information to those who are obligated to comply with the regulations and interpretations issued by the Federal Reserve Board and its staff.

In keeping with this objective, our Reserve Bank maintains a regulatory hotline (215-574-6458) during business hours which interested parties can call to obtain up-to-date information on any aspect of Federal Reserve regulations. In addition, from time to time the regulatory assistance

staff of this Bank conducts or participates in regulations workshops throughout the Third Federal Reserve District.

In many cases we have found the most effective way to help is through personal consultations. On-site, personal visits by our staff members offer several advantages. Our people are able to discuss particular problems or questions in greater detail and offer guidance. They can review and help develop the policies, procedures and forms needed to implement consumer protection requirements. They can even help train the personnel who have to deal with the rules every working day.

Regulatory assistance of any kind can be obtained readily by calling the above-mentioned hotline number.



Three Housing Projects Meet With Success

When other approaches fail, the job of rehabilitating the housing stock of a neighborhood often falls into the hands of grassroots self-help organizations. In three depressed areas near Philadelphia, housing rehab efforts are being spurred by community-based groups.

Chester, PA is one of the five poorest cities in the nation. A quarter of the homes are abandoned and in recent years thousands of residents have lost their jobs. Yet one small group, led by Rev. Wallace Smith, Pastor of Calvary Baptist Church, has not given up hope for its low-income neighborhood.



Rev. Wallace Smith of CCIP

Smith's group, the **Chester Community Improvement Project** (CCIP), lost its VISTA funding in 1981, but through the participation of local residents and student volunteers, is now expanding the housing rehab projects that have already made it a unique Chester resource. Abandoned homes are located, title research is conducted, the homes are purchased, and a team of workers moves in to fully rehabilitate them. Counseling is provided for the potential owners. Yet the price of the finished product remains Chester's best bargain at under \$10,000.

Staff from CCIP is currently securing mortgage agreements from local institutions. This has been one of their biggest challenges, as many lenders find it hard to believe that so much can be done for so little. While even

housing efforts have failed in Chester, CCIP is proving that a community-based approach without government restrictions and with sensible private-sector involvement can be successful.

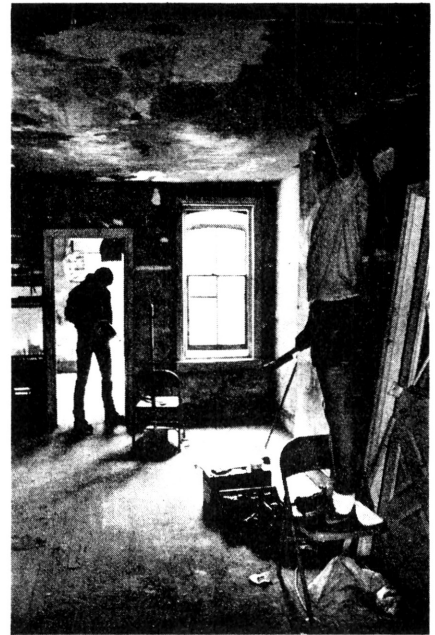
In Bristol Township, Bucks County, PA, **Better Homes, Incorporated** (BHI) is using some government funds and some foundation grants to help finance an active housing development plan. Since its inception in 1975, BHI has worked to bring decent housing to the blighted Kingswood neighborhood. BHI's rehabilitated homes sell for an average of \$25,000; the average family income of the recipients is \$17,000.

BHI was aided with funding from the Pennsylvania Department of Community Affairs, the Neighborhood Self Help Development Program, Bristol Township, United Presbyterian Church, and the William Penn Foundation. But it was for its public/private partnership qualities in housing finance that BHI was awarded a Certificate of National Merit by the U.S. Department of Housing and Urban Development in 1982.

As BHI President Joe Watts tells it, "It is our job to take abandoned dilapidated houses and make them into good homes, and it is our job to help lower income families become capable homeowners. First Federal S&L provided the first mortgages. They believed in us before we had proven ourselves. Pete Farmer, Ed Grubbs, and Bill Bailey of Trevoze Federal S&L have helped us with below-market mortgages when mortgage money was scarce and high interest mortgages could have killed our program." The fact that only one foreclosure has occurred on a BHI



BHI before and after.



Volunteers at work on a CCIP project.

home in the last decade indicates the quality of Watts' credit counseling staff.

Also among the nation's five poorest cities is Camden, New Jersey. The South Broadway Revitalization Project—under the auspices of **Jaycee Housing Counseling, Inc.**—in the Fillmore neighborhood received original construction financing from the City of Camden's Community Development Block Grant funds. But Frank DiVenanzo, the Executive Director of the Project, was able to raise another \$420,000 in grants and loans from the private sector to rehabilitate a three block strip.

While the South Broadway Revitalization Project already has 28 Section 8 (subsidized housing) apartment units and 14 rehabbed homes to its credit, it was also for the small business assistance it was able to provide in Camden that it received a



HUD Certificate of National Merit. DiVenanzo described the organization's main problem as the low appraisals they're getting on the housing, but with continued successes in revitalizing the South Broadway area, he hopes more funds for mortgages and small business loans will become available.

CCIP contact: Salem Shuchman
215-876-8663

BHI contact: Joe Watts 215-785-0649

Camden Jaycees contact: Frank DiVenanzo 609-541-1000



In Camden, a house on South Broadway before . . .



and after rehabilitation.

The Philadelphia Fed— Our Role in Consumer Banking and Community Reinvestment

Through functions in six different areas, staffers at the Federal Reserve Bank of Philadelphia are contributing to strengthening local economies and ensuring fair consumer banking practices.

The **Community Affairs Unit**, part of the Philadelphia Fed's Department of Supervision and Regulation, visits bankers, community groups, business persons, government officials, and other civic leaders in Federal Reserve District Three. Over time, we hope to acquire a better perspective on the credit needs of communities and to publicize how some financial institutions are using innovative strategies to help meet these needs.

Cascade will highlight examples of useful community revitalization programs and *Financing Alternatives*, a resource directory currently in production, will list specific government programs that can help financial institutions become more involved.

Elsewhere in the Philadelphia Fed, **economists** in the urban/regional studies section of our Economic Research Department are often called on for advice on economic development matters. Their reports can be found in the bi-monthly publication, *Business Review*.

The **Regulations Assistance Staff** in the Department of Supervision and Regulation interprets and explains the fifteen consumer protection laws, including the Truth in Lending Act



Community Affairs Officer Fred Manning.

and the Equal Credit Opportunity Act. Every month, two hundred inquiries are received by the staff. They also conduct seminars and workshops with bank compliance officers and have published *A Guide to the Consumer Banking Regulations of the Federal Reserve System*. This book aids bankers in understanding detailed provisions of the laws.

A group of **consumer affairs examiners**, also in the Department of Supervision and Regulation, regularly goes to banks to verify compliance.

If a customer has a particular problem with a bank, he or she can receive
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Reserve Bank staffers with responsibilities in Consumer and Community Affairs.

INTERVIEW

Eversley Vaughan, President
Philadelphia Council of Neighborhood Organizations (PCNO)



Vaughan, left, with PCNO members.

As President of PCNO, a coalition of 140 community groups in the City of Philadelphia, Eversley Vaughan has taken a lead role in the reinvestment movement. A founding member of East Mt. Airy Neighbors and of PCNO, Vaughan has received numerous public service awards. Last month, PCNO was recognized by the Urban Bankers Association for its distinguished contributions to community involvement in Philadelphia.

PCNO has in the past utilized a formal protest mechanism available to the public through the Community Reinvestment Act (CRA). When a financial institution files an application with its Federal regulator to merge with or acquire another institution, to open a new branch, or to change its charter, its record of meeting its community's credit needs is carefully analyzed. Community groups have submitted CRA protests on applications when they feel the credit needs have not been met, often, as Vaughan points out, to allow the groups some leverage in negotiating with banks. The regulators, including the Philadelphia Fed, serve as intermediary if a protest arises.

PCNO's Annual Convention in October, 1983 produced the following resolutions on banking issues:

- To continue to monitor and negotiate with banks regarding reinvestment efforts in our neighborhoods using CRA and other available tools

to get binding written agreements.

- To work with area banks in developing a below market-rate small business pool for new and expanding businesses.
- To continue to advocate for the acceptance of certain branch closing criteria.
- To continue to encourage community credit unions and assist them in getting the financial and technical assistance they need.
- To begin to do community outreach to educate neighborhoods about the importance of banking institutions and their operations as well as how to monitor their actions.
- To continue to support and promote the Philadelphia Mortgage Plan, the Philadelphia Rehabilitation Plan and the Action Loan Program through advocating the affirmative marketing of these programs at all area financial institutions.

Recently, Community Affairs Representatives Michael Collins and Patrick Bond spoke with Vaughan at PCNO's Girard Avenue headquarters.

CASCADE: *PCNO was organized in the mid-seventies. When did the group first become interested in banking issues?*

VAUGHAN: In May, 1981 when a large bank downsized their branch at 22nd and Indiana. That was our first battle.

The last round started with another bank's branch closing in Germantown. What really ticked us off was that they closed their branch and there was a domino effect, and we're just beginning to come out of that.

CASCADE: *How has your strategy for dealing with the banks changed since 1980?*

VAUGHAN: The Community Reinvestment Act was very new when we took on the first bank. We used demonstration tactics a lot more.

Our new strategy (negotiating formal agreements with banks) evolved because we found we could use CRA more effectively, thanks to a new State banking law. That law opened up greater opportunities for banks to merge and so more applications became subject to CRA approval by the regulators.

CASCADE: *The Community Resource Center helped you put the initial CRA protest together.*

VAUGHAN: They still are helping us research. We depend on the Resource Center but we have volunteers on our Banking and Reinvestment Task Force who help with community credit unions and business strips.

CASCADE: *What kind of things do you do for community development credit unions?*

VAUGHAN: We built them into our agreements with the banks. We got one bank to give a \$5,000 grant to two credit unions plus they agreed to include credit unions in their teller-trainee courses.

And we passed legislation in City Council last year allowing city funds to be deposited in community credit unions.

CASCADE: *What are some other results of the negotiated agreements?*

VAUGHAN: Well, with just one of the three banks we've talked to, we've seen a ten-fold increase in their Philadelphia Mortgage Plan lending and they're now the second or third top Philadelphia Rehabilitation Plan Lender. They've improved their in-house training. And, instead of working on just two commercial strips, which was in the agreement, they're doing three: 28th and Girard, Point Breeze and Germantown.

CASCADE: *So small businesses are becoming a major concern of PCNO?*

VAUGHAN: Oh, yes. We're working now on raising a million dollars for a Small Business Capital Note. The Commerce Department just committed a quarter million. We're going to ask Greater Philadelphia First Corporation for a quarter million and

we're hoping the eight big banks will chip in two or three hundred thousand. The last quarter million we hope to get from foundations.

We've worked with Philadelphia Citywide Development Corporation and we're shepherding eleven CDCs (Community Development Corporations) to the banks we have agreements with.

And we're getting interested in business incubators.

CASCADE: *How do you feel about the branch closings issue now?*

VAUGHAN: We're saying, "Let us know in time so we can work out things with people in the neighborhood." You see, the banks that got out first had it easy. Now the others are a little more cautious about closing a branch.

We're also aware of increasing automation being used to replace these tellers. We've been saying to

the banks, "Put it on hold until we can work out some kind of full-service activity."

CASCADE: *And last year, you pushed a bill in City Council to give more lead time before a branch closing.*

VAUGHAN: Yes, but that was tabled because of voluntary arrangements to the same effect. But we were told that they'll pull it out again for a vote if we need it.

CASCADE: *And your other lobbying in City Council?*

VAUGHAN: We're more interested now in linked deposits (i.e., linking the city's funds that are deposited at a bank to that bank's Community Reinvestment Act performance).

Also, on these new development projects in Center City, if one percent has to go to art, then at least that much should go to the community. It happens in other cities.

Emergency Mortgage Assistance

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month of receipt of the notice. 3) An application is then filed with the Housing Finance Agency. The Agency has two months to act on the application. If it's approved, the Agency will "cure" the delinquency and cover the monthly mortgage payments. 4) The homeowner works out a system of repaying to the Agency what is in effect an interest-free loan. Repayment usually will begin after the original mortgage is paid off entirely. Interest of 9% per year on the outstanding debt to the Agency will be charged when the payments have started.

Homeowners can find out more about the program by dialing the Housing Finance Agency's toll-free hotline: 1-800-342-2397.

Philadelphia Fed Holds Consumer Affairs Conference

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ton, the Director of Compliance at New Jersey's largest bank, First National State Bank; Professor Jean Kinsey, a consumer economist at the University of Minnesota; Raoul Edwards, the Editor of *United States Banker*; Steven Smith of the Criminal Investigation Division of the U.S. Treasury Department; and Peter Kinzler, the Minority counsel for the U.S. Senate Committee on Banking,

Housing, and Urban Affairs.

In the next issue of *Cascade*, excerpts from the Conference will be printed and some of the more stimulating issues will be followed up on.

Look also for stories on Fannie Mae programs, reverse equity mortgages, and community development credit unions in the next *Cascade*. If you have news or information to pass on to Federal Reserve District Three bankers, government redevelopment officials, or consumer and

community groups, please write to us:

Editor
Cascade
The Federal Reserve Bank
of Philadelphia
Ten Independence Mall
Philadelphia, PA 19106

The material in *Cascade* should not necessarily be interpreted as the official policy or endorsement of the Federal Reserve Bank of Philadelphia.

The Philadelphia Fed Our Role in Consumer Banking and Community Reinvestment

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help from our **consumer complaint specialists**, part of our Public Services and Consumer Affairs Department. Around forty complaints are handled each month.

A variety of pamphlets addressing consumer banking issues has been published by Public Services and is available upon request. A complete listing will be offered in the

next *Cascade*.

The **economic education staff**, also in Public Services, conducts a number of activities aimed at broadening the public's awareness and understanding of economic issues. Programs are being undertaken to teach basic economic principles in local elementary and secondary schools. The staff's newsletter, *Money Matters*, contributes to these goals.

This year, staff from the six areas will convene two major public conferences on consumer banking and community reinvestment, hold dozens of seminars and workshops on the subjects, and make hundreds of personal contacts with individuals and groups. Through *Cascade* and our other publications, we'll try to keep the public well-informed about banking and redevelopment issues of interest to us all.



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