Cascade

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

Volume 1, Number 2
November 1984

In This Issue:

Spotlight on: York, Pennsylvania

To begin a series of articles on community development in small cities in Federal Reserve District Three, we went to York, Pennsylvania to explore some recent accomplishments, programs and strategies.

A city of 44,000 that experienced widespread urban decay, serious riots in the late sixties, a decrease in population (from a peak of 60,000 in 1950), job losses, and the flight of major downtown retailers, York is now bouncing back strongly. In the last twelve months alone, $28 million was invested in new business development as compared to $1.2 million for the previous twelve months. And neighborhood concerns are not being ignored. Several innovative projects are being undertaken by an influential community center.

York is experiencing a renaissance and the Philadelphia Fed decided to look into the components of the recent successes.

History

Settled in 1729 and laid out as a town in 1741, York is steeped in American history. Following British occupation of Philadelphia, from September 1777 to July 1778 York was the nation's first capital. The drafting and adoption of the Articles of Confederation occurred in York during that year.

The iron steamboat and the coal-burning locomotive were initially tested near York in the early nineteenth century but the town became known for a more unusual form of transportation - the "underground railway" which assisted runaway slaves in their flight to the north.

York County relied mainly on its agricultural community but within

Rehabbed Washington Towers (apartments/commercial) on York's main street.

the town industrialization was increasing rapidly. Confederate forces occupied York during the Civil War and the town's population was hard hit by World War I. As World War II began, York leaders developed the 15-point "York Plan" to ensure that York would remain a productive community and an effective contributor to the war effort.

The York Plan formed the basis for extensive cooperation between the region's defense contractors, other large and small manufacturers, organized labor, and government defense and war production agencies. The plan was a model that received enormous publicity. A strong work ethic and innovations were largely responsible for its success. The effects of the subsequent economic stimulation were being felt into the 1960s.

York Today

Although the York area's backbone is still agricultural production, 40% of the area's current economic activity comes from diverse manufacturing sources. Six thousand companies operate in York County. For a variety of reasons, York was spared boom-bust cycles until the 1981-82 recession left an unemployment rate of 12% today. Corporate relocations and plant closings have posed problems in the major industries. A recent survey by a York College research team of the obstacles that businesses in York face revealed that Environmental Protection Administration restrictions and other government regulations are sometimes extremely cumbersome. Transportation networks need to be further developed and capital for small business start-ups has been hard to come by.

But there is in York a community revitalization environment that is readily apparent today. The environment embodies economic growth in the downtown area, community development opportunities, aesthetic improvements and restoration of historical sites, and innovative public sector programming.

Cooperation is an important component of the story. The Mayor's Office, the Department of Economic and Community Development, the York City and York County Chambers of Commerce, the York County Industrial Development Corporation, Historic York, Inc., and key business leaders are all involved in public/private partnerships which stress innovation and are taking advantage of York's unique resources.

One of York's resources is a pre-highway era railroad corridor bordered by industrial facilities that are physically and structurally obsolete. The City of York created the Enterprise Development Area to address the potential of the corridor. Thanks in part to state funding of $250,000 plus assistance from 35 state economic development programs, an investment of $1 million by the city is producing significant returns, including a sizable portion of the $28 million in new business investment. The strategy to develop the corridor has several elements:

- Business development loans
- Infrastructure improvements
- Energy conservation loans
- Land acquisition programs for industrial expansion
- Job training programs
- Housing rehabilitation
- Accelerated processing of applications for Economic Development Programs
- Neighborhood improvements
- Continuing investigation of reducing regulatory constraints to business development

A Cruspus Attucks Association rehab project before and after.

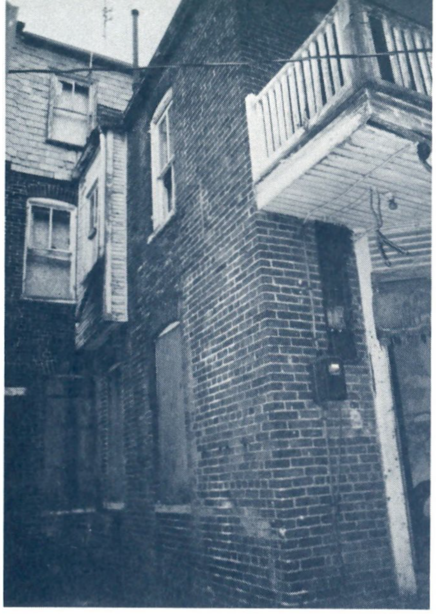
Another York resource is the large number of historic structures in the downtown area. As a result of the Economic Recovery Act of 1981, rehabilitation of these structures qualifies the developer for a 25% tax credit. Residential structures qualify for the tax credit if the building is used for business purposes. According to private developer Duncan Schmidt, "these tax credits are the main reason for the activity in downtown York."

One other incentive for rehabilitation of historic downtown structures is the Facade Easement Program. Under this plan, the city absorbs 50% of the cost (up to $10,000) of rebuilding, repairing and cleaning major facades. Many facades with prominent locations on downtown streets have qualified.

The York County Industrial Development Corporation (IDC) has an ambitious agenda for stimulating economic activity beyond the downtown area. Construction will begin soon on a small business incubator and seed money is being sought for a venture capital fund. Consultants and other technical workers are being lured through IDC programs, including a research and development project which the Ben Franklin Partnership of the State of Pennsylvania has taken an interest in.

Other strategies have been set for retention of existing businesses and attraction of new businesses. In addition to job training programs, consultation on development planning, energy conservation programs, and access to industrial development loan pools, city and county officials are stressing quality of life issues.

New recreation centers and park projects are being developed. Inner-city neighborhoods with historic houses are being touted for their advantages over the suburbs. Health care, education, day care, and other human services are being improved. Two downtown farmers' markets provide fresh produce daily. Many new restaurants are opening and the Strand-Capitol Performing



Side and rear views of Crispus Attucks project on facing page.

Arts Center contributes to a burgeoning York nightlife. There are numerous banks and small businesses thriving in the downtown area. Over 250 lawyers, accountants, and advertising/public relations consultants have offices in the city. There is also ready access to larger cities such as Baltimore, Philadelphia, and Pittsburgh.

But parts of York are still economically depressed. The Community Progress Council, the York Spanish Community Center and the Crispus Attucks Association are attempting to bring some of the new vitality of the downtown area to their neighborhoods.

Crispus Attucks has developed an interesting set of programs for its Southeast Neighborhood Revitalization Project. The strategy has four components: housing rehabilitation, repair and maintenance; employment programs (including extensive hiring for housing renovations in the neighborhood); small business development through financial and entrepreneurial skills; and neighborhood stabilization. This last component includes a Crime Watch program, information and referral services, financial counseling, neighborhood clean-up campaigns, and block beautification projects.

Crispus Attucks' housing programs are beginning to make a dent in the neighborhood's 15% vacancy rate. A tool lending library, jobs bank, and free painting program supplement the work of seven young local employees who were hired and taught carpentry skills on the job.

The community center that the Crispus Attuck Association operates has day care facilities, gyms, a swimming pool, a library, and meeting rooms. York's 90-member Minority Business Association uses the facilities, as do other non-profit groups that do work in Southeast York.

Crispus Attucks and other public service organizations are working to build community/public/private partnerships. Local business and government leaders sit on their boards and the neighborhood groups have had some success in attracting more mortgage and home improvement lending in their areas as a result.

Local bankers have taken an interest in other loan programs in York. Recently announced was a city-sponsored $5 million loan pool for rehabilitation of downtown commercial property to complement the tax credits and funding for the historic facades. There is also a proposed "G" (for growth)-Loan Program which would serve small businesses with credit needs of less than $100,000. Urban Development Action Grant funds are being leveraged for these and other joint ventures.

Al Hydeman, Director of the York Department of Economic and Community Development and formerly State Secretary of Community Affairs, comented that in spite of all the material progress in York, the real accomplishment has been a change of perception. "York is a community that ten years ago hit the bottom . . . it's now really on the rebound."

Mid-range "infill housing" near downtown York.

Workers improving York housing through Crispus Attucks Association program.

Notes From Around The District:

Federal Reserve District Three includes most of Pennsylvania, New Jersey, and all of 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.

Community Development Groups Join Forces

Nine Philadelphia Community Development Corporations (CDCs) have recently joined together in a coalition to promote economic development in low- and moderate-income neighborhoods in the City. The Community Development Coalition, Inc. operates from a belief that successful neighborhood development occurs when CDCs have the skills and funding to package the mix of private and public resources necessary to create safe, clean, liveable neighborhoods. CDC, Inc. is located at 919 Walnut Street, 8th Floor, Philadelphia, PA 19107. The Executive Director is Jill Michaels (215-627-1713).

Philadelphia Gains New Low-Rate Mortgage Funding

The Philadelphia Redevelopment Authority has begun its "Bottom Line Mortgage Program", a plan that offers fixed-rate, 30-year mortgages for 95% of value at two points below the market rate. Families with less than $35,000 annual income whose homes cost less than $65,000 ($94,440 for a newly constructed home) may apply. Mayor Wilson Goode announced that the City had "aggressively and successfully" sought unused state mortgage bond issue authorizations from other Pennsylvania communities and was thus able to float a bond for $11.2 million. Several local lenders are participating: PNB ($5 million), Fidelity Bond and Mortgage Co ($3.7 million), Frankford Trust Co ($1 million), Meridian Mortgage Corp ($1 million), and Berean Savings Assn ($500,000.) For more information about the plan, call (215) 854-6597.

HUD Funding Awarded to Atlantic City

The U.S. Department of Housing and Urban Development recently granted $7.1 million to Atlantic City for the purpose of building low- to moderate-income housing. A 201-unit complex will be built at Massachusetts and Pacific Avenues. Atlantic City has experienced very high land values, resulting in a lack of moderately-priced housing.

New Mortgage Instrument Spurs Home Building in Pennsauken

Shared-appreciation mortgages (SAMs) have been blended with conventional financing in Pennsauken, NJ to produce an affordable loan package for a set of thirty townhouses priced at $42,000 each. Thanks to Urban Development Action Grant funding, the Township of Pennsauken can offer a loan of up to $11,000 to qualified lower-income homebuyers. Upon sale of the house, the loan plus a share of the profit is returned to the Township. For more information, contact Charles Bishop of the Pennsauken Community Development Department at (609) 665-1000 extension 40.

FNSCDC prefabricated housing during construction.

Bank-Owned Community Development Corporations

A bank holding company Community Development Corporation (CDC) is one investment vehicle which can effectively address some economic needs of low- and moderate-income neighborhoods. The purpose of a CDC is to foster community growth in urban or rural areas through investment in housing and community development projects.

A CDC can be for profit or non-profit but in most cases only the non-profits are eligible for grants from foundations and state and federal agencies. Non-profits cannot return profits to the parent holding company but they can retain earnings to reinvest in new projects.

The Federal Reserve Board has approved 24 CDCs for 20 bank holding companies since 1971, including four in 1984. The Comptroller of the Currency has approved 15 CDCs since 1978. One of the recently approved CDCs (in San Jose, California) has as its sole purpose lending to small businesses that have been repeatedly turned down by other banks.

First National State Bancorporation began operations of its CDC (FNSCDC) in January, 1983 in Atlantic City, NJ. This CDC was

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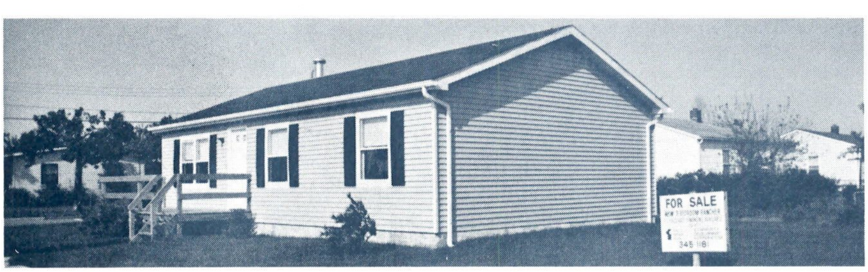


The finished product, filling moderate-priced housing needs in Atlantic City.

Community Development Credit Unions Provide Grassroots Banking, Development Financing

In low-income areas—both urban and rural— residents are rebuilding their homes, opening small businesses, and taking care of their financial needs with the help of community development credit unions.

Credit unions are generally similar to other kinds of financial institutions. Many credit unions offer no-fee savings accounts, checking accounts, money orders, food stamps and welfare services, personal (and some business) loans, mortgages and home improvement loans, some high-tech capabilities, and various insurance policies to protect life savings and loans. The interest rate earned on passbook accounts is higher and the rate charged for loans is generally lower at credit unions than at other financial institutions. Finally, the most important characteristic of a credit union is that, as a not-for-profit cooperative, the credit union's members (depositors) can play a role in the control and management of the institution.

In Pennsylvania alone, there are 1500 credit unions serving nearly two million people. Nationwide, although holding only 4-5 percent of consumer deposits, credit unions grant 14 percent of all consumer loans.

Many credit unions were formed in the late sixties to specifically address community development needs, but the loss of staff support funding from the federal government in the mid-seventies resulted in some serious financial crises. Consequently, mergers and a few outright failures reduced the number of credit unions active in community development. However, a second wave of community development credit unions (CDCUs) emerged in the late seventies.

There are now approximately 400 CDCUs across the country. Unlike other credit unions that rely on a specific kind of constituent, CDCUs have charters which specify geographic areas in which they can operate. Within a given neighborhood, only one CDCU is allowed to solicit members.

Philadelphia currently has eleven CDCUs operating mainly in low-income areas of the City. The largest of these is the West Philadelphia Federal Credit Union at 50th St and Baltimore Avenue with 2000 members and assets of $1.9 million. West Philadelphia FCU got started four years ago when a local savings and loan association closed a branch but allowed community organizers and pastors from four local churches to set up a table to take deposits for the new venture. The group has since had success in providing innovative financing to borrowers who might not have qualified for loans.

West Philadelphia FCU is the leading local lender, on a proportional basis, in the Action Loan Program, a city-run home improvement loan plan that offers loans with very low interest rates to low-income homeowners. The credit union has also financed small business development in West Philadelphia. Gil Gilmore, the credit union's manager, stated that mortgage borrowers are rarely delinquent on payments and that the credit union has had to make only two foreclosures.

Asked if credit unions have problems complying with the complex consumer protection regulations, Mr. Gilmore suggested that the regulations are beneficial in that they provide a standardized way of processing loans. Although West Philadelphia FCU has three paid staff members, most CDCU staffers are volunteers and lack accounting and banking sophistication.

According to Jane Shull, Director of the Institute for the Study of Civic Values in Philadelphia, a background in business is not essential to having a healthy CDCU. "Starting and managing a credit union takes commitment and effort, but it is not beyond the abilities of ordinary people." Ms. Shull has written a booklet entitled "Starter Kit for Community-Based Federal Credit Unions". Besides a core group of organizers, a community pledge sheet signed by eight hundred potential depositors should form the basis for a solvent credit union.

There are various nationwide organizations that support CDCUs. In Philadelphia, the major CDCU advocate is the Institute for the Study of Civic Values. For more information about Philadelphia's growing community credit union movement, contact May Betts at the Institute, 1218 Chestnut Street, Suite 1003, Philadelphia, PA 19107 (215) 922-8960.

GUEST COLUMN Clifford Rosenthal, Executive Director National Federation of Community Development Credit Unions

A New Kind of Partnership

A few years back, a polite refusal was the best any neighborhood group could expect if it was naive enough to request a bank's help for a community credit union.

The passage of the Community Reinvestment Act in 1977 began to alter this dialogue. Several years ago, after neighborhood groups in the distressed city of East St. Louis, Illinois documented the scarcity of credit provided to local residents, they were able to persuade several banks to make substantial deposits at low or no interest in their newly-organized community development credit union (CDCU).

More recently, some bankers have, on their own initiative, taken a fresh look at community credit unions as potential partners in solving the dilemma of trimming operational costs through branch closings, while complying with the letter and spirit of CRA.

Some months ago, we received a call from an officer of a major money-center bank. The bank, she explained, was thinking of closing a number of branches, including some in minority and low-income neighborhoods. She had heard about community credit unions and wondered if there was a way that these entities—perhaps with the bank's help— could somehow "fill the void" which would be left by the bank's departure. Seed capital, donation of bank facilities and equip-

(Continued on page 15).

Home Equity Conversions Provide Alternative For Elderly Homeowners

"Home Equity Conversion" is emerging as a new loan instrument to help older people to convert the value of their homes into disposable income while allowing them continued residency in their homes.

Many older people on fixed incomes find themselves "house rich and cash poor" with their home as their only valuable asset. The increasing costs of home maintenance and repair, utility bills, and property taxes drain their already limited funds leaving them very little disposable income. In the past, their only option had been to sell their home and move out.

There are several home equity conversion plans now available in various areas of the country. The most common of these is the Reverse Mortgage. This instrument is a long-term shared appreciation loan given to the homeowner in the form of monthly payments for a fixed number of years. When the loan becomes due as a result of death of the owner or sale of the house, the appreciation is split between the financial institution and the homeowner or heirs. The balance of the loan is paid upon settlement of the estate.

Under the Sale-Leaseback plan, an investor purchases the home from an elderly homeowner, then leases it back to the seller at a fixed monthly rent. The seller receives a down payment, a monthly mortgage payment which is greater than the rent he or she must pay, and is allowed lifetime residency in the home. The investor in turn receives a monthly rent payment while also increasing the share of equity in the house. Upon death of the owner or sale of the house, the investor takes full ownership of the property.

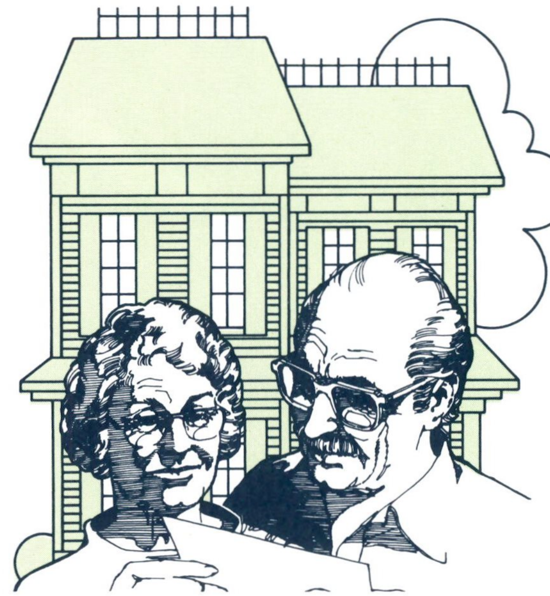
Split Equity plans involve the partial sale of the home to a public or private investor. In exchange for immediate rehabilitation, lifetime maintenance, and lifetime monthly payments, the homeowner agrees to relinquish title of the property upon death. This plan does not include a death benefit. As soon as the homeowner dies, the entire property belongs to the investor, leaving nothing to the homeowner's heirs.

A Deferred Payment Loan allows elderly homeowners to draw on equity for use in home improvement. Payment of principal and interest are deferred until the homeowner leaves the home. The owner takes a loan for a stated amount and uses the money to maintain and repair their house, thus preventing property depreciation. When the owner dies, or decides to sell, the loan is repaid with proceeds from the sale of the house, or upon settlement of the estate.

A program which would indirectly supplement the income of elderly homeowners is Property Tax Deferral. This program allows the owner to defer payment of local property taxes until he or she leaves the home. In effect, the homeowner is taking a loan which is secured by the equity of the home. The tax deferral loan comes due when the homeowner dies or sells the home.A lien is placed on the home by the municipality until that time. Ten states charge interest fees of 6 to 10 percent on the tax deferral.

For private investors, involvement in programs such as these is now a matter of positioning in the market. The population is aging and the demand for goods and services targeted to the older population is increasing. Because of the growing number of older people with mortgage-free homes, many lending institutions are now moving to establish their position in the home equity conversion market.

The benefits to lenders include the positive publicity that comes with offering a unique, innovative product in addition to earning interest and fees. Investment in home equity conversion is considered a safer investment than a first-time mortgage loan because the lender does not have to speculate and rely on what



the borrower's earnings might be in the future. The amount of the loan is agreed upon by the lender and the borrower depending on the condition and value of the property and the loan is secured by the value of the home.

One of the Reverse Mortgage programs now in operation is the Prudential Bache-backed Individual Retirement Mortgage Account (IRMA) offered by American Homestead Mortgage Corporation in Mount Laurel, NJ. IRMA is available to residents between the ages of 62 and 99 in New Jersey and five Pennsylvania counties. The borrowers receive monthly payments as long as they live in their home. The amount of the monthly advances under IRMA is determined by the age of the borrower, the interest rate, the value of the home and the appreciation share to the lender. No payment on the loan is due until the end of the term unless the borrower dies or moves from the home. To date, there have been about 100 transactions.

The Home Equity Living Plan (HELP) is a split equity program offered to elderly homeowners in Buffalo, NY. The Plan was established in 1981 with Community Development Block Grant funds from the U.S. Department of Housing and Community Development. The HELP program combines home equity conversion with home repair and maintenance.

Participants are offered immediate property rehabilitation, a lifetime maintenance contract, lifetime monthly payments and, if the homeowner has enough equity, an initial lump sum payment. So far, there are about 60 participants in the program.

Tax Deferral programs now exist in 17 states and have affected between 10,000 and 15,000 individuals. Deferred payment loans are in existence throughout the country.

Home equity conversion plans are not without limitations. Programs such as Reverse Mortgages and Sale Leasebacks are not of much benefit to elderly homeowners whose property values are too low to allow them the benefit of a substantial monthly payment for an extended period of time. If there is not sufficient equity to be converted, home equity conversion is not worthwhile. Neither a borrower nor an investor wishes to become involved in a situation where they may be faced with equity depletion and possible eviction.

Work is currently being done on a reverse mortgage insurance program. Guarantees could significantly broaden the market for reverse mortgages. A reverse mortgage with a guarantee would offer more protection to both the borrower and the lender than the term instrument loan. A guaranteed loan would not be as expensive as shared appreciation, so the use of reverse mortgages could become more widespread.

Investment of public funds in home equity conversion research and development is currently being debated. Many agencies are hesitant to become involved in these programs because of the lack of information on the subject.

We asked some experts for their opinions on reverse equity mortgages and involvement by the public sector in this new consumer banking instrument:

DON KLIGERMAN, Housing Director of Philadelphia Corporation for Aging:

"I think it's a fine idea for private lending institutions and for people with middle to upper income. However use of public funds should be targeted to those most in need. Home Equity Conversion plans are likely to assist older people with other resources."

MAGGIE KUHN, Founder of Gray Panthers; Philadelphia:

"I think it's a very nice option that could help a number of people whose only asset is their house. Cooperative planning between the public and private sectors could make the option available to a wider variety of income groups. I think that it should be further explored and developed so that sufficient information is made available to the public."

JOHN MADORE, Housing Association of Delaware Valley; Philadelphia:

"We don't recommend it as a program for use by the public sector in Philadelphia because of the low values of elderly people's homes here. However, it can be beneficial for the private sector in areas where the home values and property appreciations are higher."

ROBERT STILLWELL, Vice President, Boiling Springs (PA) Savings and Loan:

"It's a very useful instrument to have in a mortgage portfolio to help a segment of the population that is often overlooked. It helps older people enjoy an asset that they've worked hard all of their lives to preserve."

KEN SCHOLEN, Director, National Center for Home Equity Conversion; Madison, WI:

"Home Equity Conversion has been developing slowly but surely over the past five years. The recent involvement of Prudential Bache has been a major step in the development of the market and is the cause of much of the recent success and publicity of reverse mortgage plans. Development of the private sector interest will make all the difference in this field."

JAMES BURKE, President, American Homestead Mortgage Corporation; Mt. Laurel, NJ:

"The Reverse Mortgage is the most significant social program for the elderly that's come into existence since Social Security and Medicare. The time has come for older people to be given the opportunity to liquify their assets which would otherwise have no value for them."

Bank-Owned Community Development Corporations

(Continued from page 4).

created to revitalize commercial and residential areas of Atlantic City. FNSCDC offers below-market rate mortgages to moderate income buyers who wish to live in Atlantic City.

Through its local banking affiliate, FNSCDC originates, funds and sells mortgages to the New Jersey Housing and Mortgage Finance Agency. As well as providing financing for homebuyers, FNSCDC buys vacant lots in moderate income neighborhoods and assembles new pre-manufactured housing units. FNSCDC also provides affordable housing by buying, rehabilitating and selling vacant one and two-family houses in neighborhoods of the city where preservation is still possible.

Other activities of FNSCDC include credit counseling for first-time homebuyers and development of an innovative and affordable townhouse design.

In the area of commercial development, FNSCDC is researching the possibility of a small business incubator. The project's feasibility depends on the demand for such space and the willingness of investors to become involved with such a project.

While FNSCDC considers itself a for-profit corporation, all profits will be reinvested in future projects.

For more information about bank-owned CDCs, consult the new publication *Community Development Corporations and the Federal Reserve,* which can be obtained by calling Patrick Bond at (215) 574-6043. This publication was distributed to CEOs and Community Affairs Officers of District Three bank holding companies recently. Also available are lists and descriptions of successful CDCs around the country. For more information on First National State Community Development Corporation, contact William R. Reeves, Executive Director, at (609) 345-1181.

Philadelphia Fed Hosts Consumer and Community Banking Conferences

Consumer Affairs, June 1

The days when complex consumer laws came "cascading" from Congress may be gone but bankers should not underestimate the chances of seeing more consumer protection regulations in the future.

This was one of the chief messages to come from the June 1st Consumer Affairs Conference sponsored by the Federal Reserve Bank of Philadelphia at the Holiday Inn, 4th and Arch Streets, Philadelphia. The session focused on the current status and future direction of consumerism in the financial services industry.

Many of the speakers noted that, ironically, in an overall era of deregulation, recent regulatory reforms themselves may prompt future consumer legislation.

These reforms have focused on reducing product and price restrictions and introducing increased competition. Though not targeted directly at consumers, they might be characterized as proconsumer insofar as they lead to increased convenience and options for consumers. But the very proliferation of new accounts, terms and conditions, it was noted, could spark renewed interest in "truth-in-savings" legislation. Other issues which were mentioned as possible targets for rulemaking are long holds on funds deposited by check, new and increasing bank fees, market segmentation, and branch office closings.

On this point, Fred Manning of the Philadelphia Fed said, "The best way I know to avoid problems with your public is to be sure that your customer policies—and especially your pricings—are as fair and clearly-understood as possible."

330 representatives from Third District banks, thrift institutions, consumer protection organizations, and regulatory agencies heard talks by nationally-known experts on consumer banking.

The program got underway with a discussion of "Consumerism and the Federal Reserve" by Griffith L. Garwood, Director of the Division of Consumer and Community Affairs at the Board of Governors. It closed with a luncheon and remarks by Peter Kinzler, Minority Counsel for the Senate Committee on Banking, Housing, and Urban Affairs, who assessed the "Legislative Outlook for Consumerism".

In a talk by JoAnn Barefoot (President, J.S. Barefoot & Associates, Columbus, OH), a number of case studies of consumer compliance pitfalls and problems were examined. Victor A. Cranston (Vice President, First National State Bank, Newark, NJ) followed with a discussion of how to run a successful compliance program. Dr. Jean Kinsey (Professor, University of Minnesota) then outlined some economic benefits to society from what are perceived as burdensome consumer protection regulations. For example, the Truth in Lending Act, through its role in disclosing the true cost of credit, has alleviated market inefficiencies caused by imperfect information.

Raoul Edwards (Editor, *United States Banker)* served notice about the growing concern and sophistication of consumers as they witness deregulation trends. Steven Smith (Senior Agent, U.S. Treasury Department) explained the successful "Operation Greenback" program to detect laundered money earned through illegal activities. Third District bankers were reminded of the importance of the Bank Secrecy Act, which requires documentation on all cash deposit transactions greater than $10,000.

Community Affairs, October 11

The City Line Marriott Hotel was the site of a major conference on community affairs on October 11th, hosted by the Philadelphia Reserve Bank. The conference, like its June predecessor, was the largest of its kind ever held in the Federal Reserve System.

Over three hundred guests heard talks that both informed and inspired. A theme that was prevalent throughout the conference was the success that innovations in public/private partnerships have produced for community revitalization work.

National Urban League President John Jacob's opening speech on "The State of Our Town and Cities Today" pointed out the many structural problems that still remain in America's urban areas. Furthermore, he said when reinvestment occurs and takes the form of gentrification important social questions arise: "What happens to the displaced families? What housing is available to the poor who are dispossessed?" Mr. Jacob hoped that banks can play "an important role in improving urban housing".

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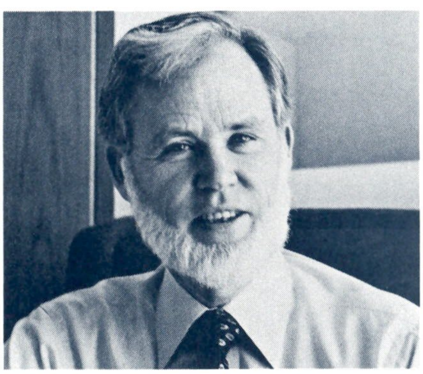
Anita Miller, currently Chairman of the Board of the recently-organized AmeriFederal Savings Bank (Lawrence Township, NJ), provided an upbeat description of the revitalization of one of America's poorest communities. Ms. Miller has chaired the Federal Home Loan Bank Board and served as Senior Program Officer for the Ford Foundation, Director of a New York Neighborhood Housing Services affiliate, Advisor to The Federal National Mortgage Association Director of an insurance company, and most recently, head of a Local Initiatives Support Corporation effort to turn around a thirteen acre section of the South Bronx. She explained how the New York City government, foundations, charitable institutions, and many organizations from the private sector performed what was thought to be an impossible undertaking: transforming blighted apartment buildings into a new neighborhood with ninety single family homes with back yards and white picket fences. This was the same area in the South Bronx where Presidents Carter and Reagan identified the necessity for large-scale private sector involvement some years ago. This goal now seems within reach.



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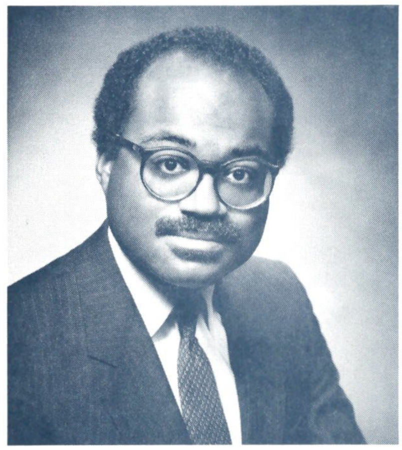
William Whiteside, the Executive Director of the Neighborhood Reinvestment Corporation (Washington, D.C.) listed a number of innovations in Neighborhood Housing Services (NHS) Programs around the country. The Neighborhood Reinvestment Corporation is a public, nonprofit organization that provides organizing, training and financial support to the NHS programs. Its current Chairman is Federal Reserve Board Governor J. Charles Partee.October 8-12 was proclaimed by Congress to be National Neighborhood Housing Services week, in honor of two billion dollars of community reinvestment brought about by NHS affiliates in 136 cities and towns. The next CASCADE will feature some of Mr. Whiteside's remarks and will focus on efforts of NHS programs in Philadelphia, Trenton, Allentown, Scranton, and Reading.



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Raymond McClendon, Vice President of the Federal National Mortgage Association, (Washington, D.C) explained the secondary mortgage market and some special Fannie Mae products. These are mentioned elsewhere in this issue.

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Washington, DC 20036
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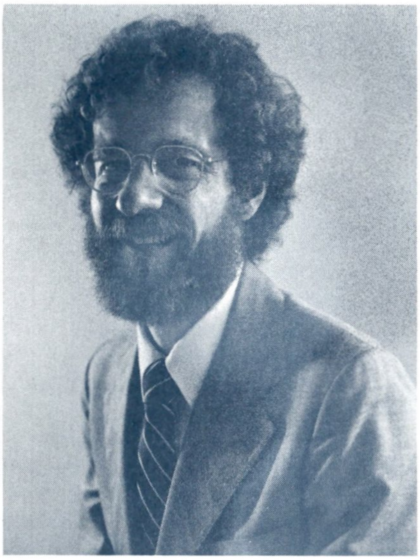
Mary Means, Vice President of the National Trust for Historic Preservation, (also headquartered in Washington) screened a recently produced video (with an introduction by President Reagan) that describes the National Main Street program's successes. Many of the most effective Main Street commercial development and facade reparation projects have occurred in Pennsylvania. Bloomsburg, PA was singled out for its strategy and for the individuals (including conference attendees Beth Proper, Main Street Coordinator; Ed Edwards, Director of the Chamber of Commerce; and J. Jan Girton of United Penn Bank) who made it all possible. Ms. Means commented that the Main Street approach can also be successful in neighborhoods in large cities.

William C. Noris
Chairman and Chief Executive Officer
Control Data Corporation
8100 34th Avenue, South
Minneapolis, MN 55415
(612) 853-8100

The luncheon speech was given by William C. Norris, Founder, Chairman and CEO of Control Data Corporation. Mr. Norris described the philosophy of job creation, skills training, and educational opportunity that Control Data's City Venture corporation relies on. Important achievements have been realized in many cities around the country, including Philadelphia, where Norris participated in the grand opening of the West Parkside Business and Technology Center later that day. (The next CASCADE will explore the role of this and other small business incubators in community revitalization.)

INTERVIEW

Henry J. Sommer, Esq.
Philadelphia Community Legal Services



A lawyer with Community Legal Services, Inc., in Kensington (a declining section of Northeast Philadelphia), Henry Sommer has carved out a reputation as one of the leading consumer bankruptcy specialists in the country.

Mr. Sommer has argued major cases at the state and federal levels, including fifteen class action suits, some of which have reached the Supreme Courts of the United States and Pennsylvania. He graduated from Harvard College magna cum laude and Harvard Law School cum laude, and has written *Consumer Bankruptcy Law and Practice* (National Consumer Law Center, 1982) and a large number of articles for legal publications.

Among his many other activities, Mr. Sommer sits on the Federal Reserve Board's Consumer Advisory Council.

In mid-September, Patrick Bond of the Philadelphia Fed spoke with Mr. Sommer at the Kensington Avenue office of Philadelphia Community Legal Services.

CASCADE: *Your work with Legal Services clients and your participation on the Fed's Consumer Advisory Council allow you to see both the small and large consumer credit pictures. Could you describe first the work you do here in Philadelphia?*

SOMMER: We cover all of Northeast Philadelphia, but most of our clients come from Kensington and Frankford. I mainly work on foreclosure cases and bankruptcies. The typical case involves a fixed-rate thirty year mortgage. Because of unemployment or other loss of income, many homeowners are forced into default. We try to arrange forebearance with the lender and when we can't we examine the loan documents and often have to counterclaim.

CASCADE: *On what grounds?*

SOMMER: Mainly Truth-in-Lending Act violations in the credit contract. We've found most credit agreements, especially with unregulated mortgage service companies, have some violations. The penalty is usually $1000 plus attorney's fees, which goes a long way to helping a consumer save their house or car from foreclosure or repossession.

CASCADE: *Have you used the Pennsylvania Act 91 Homeowners' Emergency Mortgage Assistance Program (described in June 1984* CASCADE)?

SOMMER: Now I've been working a lot with the State Program. My first client who applied on May 2 just got aid a few days ago. I've probably done about 25 applications. I worked with the Philadelphia Unemployment Project which was one of the principal groups pushing to get Act 91 passed last year.

CASCADE: *How about defaults caused by payment shocks on the new adjustable rate mortgages?*

SOMMER: I haven't seen ARM defaults in Philadelphia yet, though some will probably appear soon. They didn't become popular here so fast. I'm not sure the defaults will be coming in just because of payment shock though. The problems that result in a mortgage foreclosure are more severe.

The Federal Reserve's Consumer Advisory Council

In addition to staff in the Division of Consumer Affairs, the Board of Governors of the Federal Reserve System has other experts to consult when formulating consumer banking policy: the thirty-member Consumer Advisory Council.

The Consumer Advisory Council is composed of individuals from all over the country. Its membership, by law, represents both financial industry and consumer/community interests. Members each serve for three years, with their terms staggered so that approximately ten new members are brought in every year.

Currently, three bank officials, one retired banker, and one industrial banker are among the Council's members. Additional financial services representation consists of officials from a credit union, a savings and loan association, finance companies, and a travel/entertainment card company, as well as retailers and an industry attorney. Consumer/community interests are represented by legal aid attorneys, state government officials, community/housing specialists, a small business expert, and a consumer education specialist. The Council also has members from academia, including Professor Jean A. Crockett of the Wharton School of the University of Pennsylvania. Henry Sommer, Esq. is the other District Three representative.

The Council meets three times a year for a day and a half and the sessions are open to the public. Topics of discussion at Council

CASCADE: *Has the foreclosure situation changed in recent years with the increase in interest rates?*

SOMMER: Definitely. When I first started here ten years ago, we hardly ever saw any mortgage foreclosures. About four or five years ago they really shot up until 1983 when Judge Bradley declared a moratorium.

CASCADE: *Do you expect the trends to continue?*

SOMMER: Yes, we find there's a six month lag between unemployment increasing and foreclosures, I think.

CASCADE: *How successful have you been at helping people save their homes?*

SOMMER: I've just about never lost a house. That's out of a few hundred cases since I've been here. I was fortunate that Act 91 came along, though!

CASCADE: *You've been able in each case to meet with the lender and work out the problems . . .*

SOMMER: Or the Court cases we bring when we counterclaim can take years, because of the backlog. In the meantime, most people who have houses have time to get back on their feet. Especially if the creditor is reasonable and gives forebearance.

Some creditors will try to put in so many complicated clauses. So it's in their self-interest to wait and get what they can. If not, people can file Chapter 7 (where a couple can exempt $15,000 equity in their residence from being liquidated) or Chapter 13 (the mortgage default is cured and payments are stretched out) bankruptcies.

Some creditors are better than others. We have problems with some mortgage service companies. Number one, they don't have any interest in community involvement. Number two, they're unregulated. Number three, the loans they make are basically government-insured so they have very little incentive to help the person stay in the home; they just want to collect the insurance.

CASCADE: *And the banking community?*

SOMMER: The major banks are basically pretty good, except for a few who sell their bad paper to speculators. One of these speculators owns 1000 houses in the City. At one point he was doing forty sheriff sales a month. Or, if the borrower attempted to pay up to his companies, all kinds of phony charges were added.

CASCADE: *How about your work on the Consumer Advisory Council?*

SOMMER: I'm on one committee on the Truth-in-Lending Act and the Electronic Funds Transfer Act. And I'm also on Jean Crockett's (Finance Professor at the Wharton School of the University of Pennsylvania) committee on adjustable rate mortgages.

CASCADE: *What are the main macro issues you're concerned with on the CAC?*

SOMMER: Well, on the ARMs, I think realtors should give out a prescribed brochure at the very first contact. I think the teasers (low rates that rise after an initial period) are on their way out.

And high service charges are forcing most of my clients out of banks because they don't have the minimum balance.

As far as the Fed goes, we're disappointed at the reluctance to use testers to enforce the Equal Credit Opportunity Act. ECOA is going to be looked at by the CAC this year. There's also a big move to develop new data to look at discrimination.

(Mr. Sommer can be contacted by phone at 215-427-4850 or in writing at Philadelphia Community Legal Services, 3156 Kensington Avenue, Philadelphia, PA 19134.)

meetings the last two years have included the Federal Reserve System's implementation of the Community Reinvestment Act (CRA) and the Equal Credit Opportunity Act, consolidation of the federal bank regulatory agencies, the economic effects of credit card usage, and bank policies on delayed availability of funds, service charges, and mortgage foreclosures.

The Council has several standing committees dealing with legislation, economic impact analysis, and the Council's ongoing role in advising the Board of Governors. There are other committees that have addressed CRA enforcement, Individual Retirement Account advertising, and other consumer and community issues.

The current Chairman of the Council is Willard Ogburn, the Deputy Director of the National Consumer Law Center in Boston. The Vice Chairman is Timothy Marrinan, AVP and Legal Counsel for First Bank System, Inc., in Minneapolis.

This article was excerpted from a Summer 1984 ABA Bank Compliance *article of the same name by Ann Marie Bray, Secretary of the Council. For more information on the Council's work, Ms. Bray can be reached by phone at 202-452-3000 or in writing care of the Division of Consumer and Community Affairs, Board of Governors of the Federal Reserve System, Washington, DC 20551.*

GUEST COLUMN
Jim Dygert, Public Services and Consumer Affairs Manager, The Federal Reserve Bank of Philadelphia

The employees of the Philadelphia Fed's Consumer Affairs Department are available all day long to listen to consumers with financial problems. They investigate and act to resolve complaints against State-chartered banks which are members of the Federal Reserve System and forward to appropriate enforcement agencies any complaints that involve other businesses or creditors.

In 1983, the Philadelphia Fed handled over 16% (410) of all the complaints received by the Federal Reserve System. Most were received by telephone, a few by mail, and a handful in person. We also received in 1983 over 1000 inquiries concerning consumer credit laws, regulations, and banking practices.

When we get a complaint, we analyze what's wrong and try to fix it. Sometimes a call to the right person in a bank does the trick, but other times we have to involve our Supervision and Regulation Department and our Legal Department. In responding to both complaints and inquiries, staff members provide consumers with specific explanations of laws and regulations, and with helpful printed material (see page 11 for listing).

The Consumer Affairs Department classifies complaints according to bank functions: loans, deposits, electronic fund transfers, trust services, and other. Over half the complaints handled in 1983 concerned the lending function. Of these, some dealt with credit denial and others were concerned with disclosure of credit costs. Of all the complaints received in 1983 about regulated banking practices, the most numerous involved interest on deposits and general practices concerning deposit accounts. And a survey of complaint activity over the past nine months shows that complaints about unauthorized use of access (debit) cards are increasing.

Our Consumer Affairs Department also receives complaints concerning unregulated banking practices. They include complaints about credit denial based on credit history, disputed deposits, excessive time to clear checks, and charges and procedures relatd to insufficient funds. If we are unsuccessful in resolving a complaint about an unregulated practice, then the consumer must consider bringing the matter before the appropriate court of law.

The Federal Reserve's consumer responsibilities began back in 1968 with the passage of the Consumer Credit Protection Act. The Philadelphia Fed's consumer activities are monitored by the Federal Reserve Board in Washington, D.C. The personal nature of every complaint is treated as confidential.

Many of these complaints continue to have impact long after they are resolved. Congressional committees, when considering new banking or consumer legislation, will frequently review all the complaints which fall under a specific topic, such as fees banks charge for services.

The Philadelphia Fed's Consumer Affairs Department handles complaints from nine to five on business days. The telephone number is (215) 574-6116.

Philadelphia Fed Publications on Consumer and Community Banking Issues

Joining a large selection of consumer affairs publications produced at the Federal Reserve Bank of Philadelphia will be *Options for Investing in Our Communities,* a new catalogue of community reinvestment programs. Another publication, *A Guide to Consumer Banking Regulations,* is also available for use by bankers and interested consumers.

Options is a directory of selected government and private financing alternatives. It includes programs for community revitalization in the areas of housing, small business, and economic development. In addition to HUD, SBA, and secondary market programs, the directory features information on reinvestment initiatives such as the National Main Street Center, the Local Initiatives Support Corporation, and the Financial Advisory Service. Also included is a list of community development periodicals. Bonita Jones of the Community Affairs staff compiled basic information and wrote the text for the directory. The first copy of *Options* will be provided free of charge. Each additional copy ordered by an individual or organization has a production cost of $10.

The *Guide* is designed to assist compliance officers and internal audit personnel at banks in assur-

Bonita G. Jones of Fed's Community Affairs staff.

Philadelphia Federal Reserve Bank Announcements

- The Philadelphia Fed's Regulations Assistance unit - part of the Consumer Affairs function - held several workshops and participated in panel discussions this year. On November 15, Barry Cutler and Connie Noll addressed the topic "Truth-in-Lending Act Compliance" at the Pennsylvania Savings Association Insurance Corporation annual meeting.

- In the twelve months ending September 15, 1984, Community Affairs staff members made outreach visits to 118 organizations and individuals. Hundreds more contacts were made on the telephone.

- The next *Cascade* will include stories on the Philadelphia Mortgage Plan, small business incubators, Neighborhood Housing Services, "The Rule of 78's", selected government programs, and community development in Johnstown, PA. To put your organization's name on our mailing list, simply write to:

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

(Continued on page 15)

Fannie Mae's Programs Aid Reinvestment Efforts

The secondary mortgage market is helping to replenish the supply of mortgage money in many areas that badly need credit for housing. Financial institutions, have found that involvement in the secondary market can be profitable. Income can be generated through loan origination fees, servicing fees and through the spread between the origination yield and the investor's required yield. Banks can also profit from cross-selling services and from having a greater variety of loans.

The Federal National Mortgage Association, otherwise known as Fannie Mae, is the largest participant in the secondary mortgage market. WIth an $80 billion dollar mortgage portfolio, Fannie Mae is the fourth largest corporation in the country. Fannie Mae relies on its local lender base for its mortgages and is attempting to establish a strong national network of approved lenders. Several programs have been developed by Fannie Mae to enable financial institutions to turn over housing and community development loans and supply more credit to their community.

One Fannie Mae program is called Tax-Exempt Financing PLUS. Fannie Mae offers AAA-rated credit support in the form of mortgage-backed securities. Insurance is provided for tax-exempt mortgage revenue bonds used to finance single family or multifamily residences which meet Fannie Mae's underwriting standards. The tax-exempt status on the bonds allows buyers to accept a lower rate of return. The loan originator can pass this lower bond rate over as low interest on the loans funded by the bonds. The mortgage rates offered with tax-exempt financing have recently ranged from 9.75 to 11.75%. The terms of the bond range from 12 to 15 years. Jim Oser of Fannie Mae's Northeast Regional Office commented that they've already done a dozen tax-exempt programs for $500 to $600 million.

The Rehabilitation Plan offered by Fannie Mae is another innovative program. The program provides long-term mortgage funds for the purchase and refinancing of one to four family homes needing rehabilitation. Fannie Mae will purchase from its approved lenders conventional first mortgages in their "as is" condition. The mortgage is then offered in a package including financing for both the property acquisition and the rehabilitation work. The amount of the loan is based on the estimate of the "as completed" value. Since all costs are covered by the loan before rehabilitation there is no need for short term interim financing. Fannie Mae requires the funds to be escrowed and has standardized the documentation for processing the loans.

(Continued on page 14).

ing compliance with consumer-related Federal Banking Regulations and Statutes. The manual is one of the few resources that both outlines the purpose and coverage of each regulation and describes enforcement guidelines and compliance examination procedures. One copy will be provided free upon request. Each additional copy has a production cost of $5.00.

Orders for either of the two publications should be made through the Department of Public Services, The Federal Reserve Bank of Philadelphia, Ten Independence Mall, Philadelphia, PA 19105. Checks should be made out to the Department of Public Services.

Also available to interested parties are the following free consumer pamphlets.

How to Establish and Use Credit
Your Credit Rating
The Rule of 78's or What May Happen When You Pay Off a Loan Early
The Fair Debt Collection Practices Act
Electronic Fund Transfer (Regulation E)
Options for Savers
Charting Mortgages
IRA & KEOGH - New Opportunities for Retirement Income
Buying Treasury Securities
How the New Equal Credit Opportunity Act Affects You
The Equal Credit Opportunity Act and . . . Women
The Equal Credit Opportunity Act and . . . Age
The Equal Credit Opportunity Act and . . . Doctors, Lawyers, and Small Retailers
The Equal Credit Opportunity Act and . . . Equal Rights in Housing
Truth in Lending Simplified
Truth in Leasing
Fair Credit Billing
If You Use a Credit Card
Consumer Handbook to Credit Protection Laws
Alice in Debitland

Philadelphia Fed Officers Involved in Community Service

Officers at the Federal Reserve Bank of Philadelphia are making strong contributions to our community, helping forge improvements in education, health care, minority concerns, culture, communications, charitable giving, economic development, and urban planning.

Edward G. Boehne, President

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Pennsylvania Hospital
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United Way of Southeastern Pennsylvania
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Fellowship Commission
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Mayor's Economic Roundtable
Greater Philadelphia First Corporation
  Economic Advisory Council
Greater Philadelphia Chamber of Commerce
  Technology Council
Delaware Valley Venture Capital Network

Terence O'Brien, Vice President

American Cancer Society - Philadelphia Chapter
  Board of Directors
  Marketing Committee

Lawrence C. Murdoch, Jr., Vice President

Area Council on Economic Education
  Director

Fannie Mae's Programs Aid Reinvestment Efforts

(Continued from page 13).

Two Third District bankers recently appraised the Fannie Mae Rehabilitation Plan. According to Sandra Rink of Lenape State Bank (Woodbury, NJ), "The rehabilitation program is excellent. We love it. We found that urban areas require this type of financing, allowing us to develop this underutilized market. The Rehabilitation Plan serves a vital need in the community and is beneficial to buyers and sellers as well as lenders."

Thomas Fewer of Atlantic Financial (Philadelphia) told us that "Fannie Mae's rehab program is one of the best kept secrets around. It's a great program and more banks need to get involved. It provides for both the purchase and the rehabilitation in one settlement. The program is structured properly so the loans are easy to handle and originate."

Another program offered by Fannie Mae is the Municipal Tri-Party Plan. Fannie Mae works with local government agencies and primary lenders to leverage city housing funds, resulting in subsidized rates for low-income borrowers. This public-private combination of funds substantially reduces the interest rate paid by the home buyer and maximizes the impact of limited federal funds. The city's contribution, usually CDBG or UDAG funding, earns little or no interest, while Fannie Mae and the local lender receive a market rate. The blended rate usually comes in at least 3% below the market.

At the Philadelphia Fed's recent Community Affairs Conference, Fannie Mae Vice President Ray McClendon described these product offerings as "meaningful, viable and profitable investment opportunities."

For more information on the Fannie Mae programs, contact Jim Oser, Community Developer, Federal National Mortgage Association, 510 Walnut Street, Philadelphia, PA 19105. Mr. Oser's telephone number is (215) 574-8587.

GUEST COLUMN
Clifford Rosenthal,
Executive Director
National Federation of Community Development Credit Unions

(Continued from page 5).

ment, loaned staff, access to training programs, loan participations . . . these were a few of *her* suggestions for possible assistance. Over the next few months, representatives of her bank will be exploring these possibilities in more detail with neighborhood groups interested in organizing CDCUs.

Some partnerships between banks and CDCUs have developed without the impetus of the CRA. The Dade-Model Cities Federal Credit Union in Miami was recently the recipient of below-market deposits from a state-chartered minority bank from which the credit union had previously purchased certificates of deposit. This good-will gesture may be followed by an expanded business relationship, including loan participations by the two institutions.

Over the next twelve months, we expect bank/credit union partnerships to multiply and become more comprehensive. The ingredients for success seem to be present. CDCUs are committed to low-income markets, low-balance depositors and personal service—none of which appear attractive to banks' strategic planners. For banks, support for community development credit unions may prove a small, and socially very beneficial, cost of "steamlining" and reorienting their businesses.

The financial institutions of Philadelphia have already broken ground by providing financial and technical support to local CDCUs. If these initiatives are fully developed, Philadelphia can become a model for the rest of the nation.

(Mr. Rosenthal can be contacted by phone at 212-513-7191 or in writing at the National Federation of Community Development Credit Unions (NFCDCU), 29 John Street, Suite 903, New York, NY 10038.)

Philadelphia Federal Reserve Bank Announcements

(Continued from page 13).

- For more information about our activities in consumer and community affairs, contact Fred Manning at (215) 574-6482.

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.