

# Cascade

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

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## Two SBA Programs Help Small Business Start-ups

Small businesses are an integral part of most communities. Concern about whether small business credit needs were being met was one of the factors leading to passage of the Community Reinvestment Act. Banks which want to lend to small businesses can do so more easily by utilizing partnership programs of the U.S. Small Business Administration (SBA), which has survived attempts at elimination in recent years, and continues to offer banks guarantees on their small

business loans. SBA's 1987 guaranty authority is virtually unchanged from that of last year, and the dollar value of local SBA guaranteed loans actually rose in 1985-86 by 23 percent. SBA's 504 program has been revised with a new role for banks, while its authority for direct lending has been cut drastically.

William T. Gennetti, District Director of SBA's Philadelphia office (eastern Pennsylvania and Delaware), said

that two programs most useful to lenders are the regular guaranty program and 504 loans.

During the past three years, the leading SBA lenders in this District were: Bucks County Bank & Trust Co., Perkasie, Pa., 97 loans worth \$14.9 million; Meridian Bank, 82 loans worth \$18.97 million; Money Store Investment Corp., 86 loans worth \$14.1 million; and Mellon Bank (East), 42

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## LISC Describes Policies, Projects in Philadelphia

In just six years, the Local Initiatives Support Corporation (LISC) has



*LISC grants helped recycle this Kensington factory into an "industrial condominium."*

become a leading vehicle for corporations to support community development in low-income areas. Corporations have contributed about \$100 million to LISC, an intermediary, which uses those funds to make loans and grants to non-profit community development organizations. Formed in 1980 when the federal government was reducing its support for these organizations, it became a major private sector response to urban low-income needs.

Today, LISC is active in 27 cities and regions. It concentrates on physical improvements in lower-income areas and is largely involved in real estate-based projects. It helps community organizations develop investment sources in the private sector, increase their income and assets, and achieve business discipline in their operations.

Funds for LISC affiliates generally are raised locally and matched by LISC nationally.

Philadelphia is the only area of the Fed's Third District in which LISC is active. It was started in 1981 with the

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The theme for this issue is **SMALL BUSINESS.**

Think about it.

Who provides job training and employment for neighborhood residents?

Who provides income for rent, home ownership, and home maintenance?

Who provides wages for the purchase of goods and services right in the community?

Mostly, it is small businesses—the keystone of neighborhood stability.





## Two SBA Programs . . .

loans worth \$5.2 million. Due to the large number of small businesses, these loans are important to the economy. In Pennsylvania, for example, 89 percent of businesses employ less than 20 workers.

In the regular guaranty program, the small business applies to the bank, which analyzes the credit and forwards it to SBA for approval. If approved, the bank makes the loan and services it. SBA's guaranty generally is limited to 85 percent on loans over \$155,000; the maximum interest is New York prime plus  $2\frac{3}{4}$  percent; the maximum SBA share of a guaranty loan is \$500,000; and the maximum term is 25 years. Processing takes about 10 working days. SBA gives certified lender status (CLP) to lenders who have a history of complete loan applications and quality credits. The lender does the complete application processing with only a review by SBA. Turnaround time does not exceed three workdays. Certified Pennsylvania lenders in SBA's local district are: Bucks County Bank & Trust Co., Perkasie; Continental Bank, Philadelphia; First Eastern Bank, Wilkes-Barre; Grange National Bank of Wyoming County, Laceyville; Mellon Bank (East), Philadelphia; Meridian Bank, Reading; Money Store, Ft. Washington; Northeastern Bank of Pennsylvania, Scranton; PNB, Philadelphia; and Union National Bank, Souderton. Mellon Bank (Delaware), is also a certified lender.

A few lenders get the elite status of preferred lenders (PLP), and are authorized to determine loan eligibility and to process and approve loans. Minimum information is given to SBA, which gives turnaround time of one day. Bucks County Bank & Trust Co. and Meridian Bank are the only preferred lenders in this District. Gennetti commented that in the certified and preferred lender programs the SBA was "looking for banks to make more judgments" and "cut out a lot of paperwork."

In the 504 program, financing is provided for a job-creating project of a small business through an SBA-certified development company. A development company is a state or local economic development agency which

issues debentures for the project. At least 50 percent of the total project cost must be financed by a private lender; SBA puts up 40 percent; and 10 percent comes from the development company or small business.

The bank gets a first lien position. The interest it may charge need only be legal and reasonable. The maturity of the bank's loan is seven years if a 10-year debenture is involved, or 10 years on a 20-year debenture. The same bank normally also provides construction or interim financing. The 504 program became effective last July in an effort at privatization, with some financing provided by the private sector rather than government. In the new part of the program, the SBA sells SBA-guaranteed debentures in pools placed nationally with institutional investors such as Merrill Lynch and Citibank. There are a growing number of such investors.

SBA officials said that a small community bank could get a fresh capital source by working with SBA, and the bank could earn good profit. They cited an example in which a bank would make a \$500,000 loan, with an 80 percent SBA guarantee, at 9 percent for four years. The bank would quickly sell the guaranteed portion at  $7\frac{1}{2}$  percent, earning a \$6,000 servicing fee at  $1\frac{1}{2}$  percent, and make 9 percent on the portion it keeps, earning another \$9,000—for an effective yield of 15 percent.

Pamela E. Davis, Vice President at Meridian Bank and Manager of its small business unit, said that Meridian's SBA loans have been very successful and profitable. Commenting on the paperwork burden alleged by bankers, she said that banks usually have the information required by SBA, but that providing it on SBA's forms can be time-consuming and may lessen responsiveness to the small business client. Most of Meridian's SBA loans are booked through the preferred lender program and this streamlined process cuts approval time from weeks to days, she said. Meridian's delinquency rate on SBA loans historically has been less than the bank average. Davis had this advice for banks interested in working with SBA:

- SBA loans can be utilized for new and existing companies, in different



*William T. Gennetti is District Director, SBA, Philadelphia.*

industries, for a variety of purposes. We often utilize SBA loans to help companies during their growth phase to expand plant facilities, purchase equipment, or finance inventory acquisition. Meridian usually makes substantial direct loans to small businesses at the same time that they receive SBA loans.

- Some think that SBA loans are only for financially-troubled businesses, but Meridian's loans have gone to sound businesses with definite growth potential.

Davis explained that Meridian has a centralized processing unit, which has seven full-time lenders supporting the bank's direct line lenders. This unit processes all SBA paperwork and develops a close working relationship with SBA personnel. A centralized unit helps insure the integrity of SBA loan guarantees and gives "a centralized focus in the bank" for SBA lending, she said.

Robert A. Price, Vice President and Manager of the community affairs division at Mellon Bank (East), said that SBA guarantees "give banks another way to complete a deal and help struggling businesses get a start." One advantage of SBA loans is that they have a longer term than many banks offer; a disadvantage is that SBA now requires higher equity investment from the small business. Price, who has been involved in small business lending for over 15 years,

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## LISC Projects . . .

support of 23 Philadelphia corporations and foundations. Since then, LISC-Philadelphia has made loans and grants totaling more than \$2 million to 26 community development organizations.

LISC-Philadelphia is unusual in that its primary focus is on commercial and industrial projects while LISC generally is housing-oriented. Its focus here reflects the original preference of LISC's local funders, and it has been broadened to include housing.

Kevin McGruder is program officer for LISC-Philadelphia. He joined LISC three years ago after receiving an M.B.A. from Columbia University. McGruder has worked for a community development corporation and city government in Cleveland. Like most LISC program officers, he works out of LISC's New York headquarters.

McGruder explained that the elements sought in LISC projects are that the applicant be a non-profit CDC with a community base and that the project involve real estate, reduce neighborhood blight, and create jobs. He added that most projects are "not easy to do and can take a long time." This is because financing tends to come from many different sources, and there are many changes in the projects from start to finish.

The largest contributors to LISC-Philadelphia are: Sun Company, \$200,000;

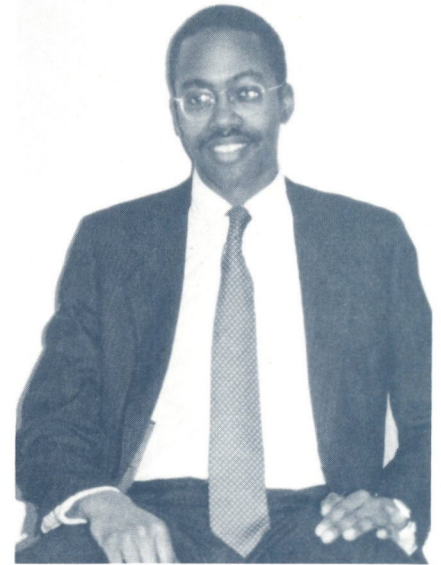
the Atlantic Richfield Foundation, \$150,500; Rohm and Haas Company, \$150,000; ARA Services, Inc., \$125,000; Bell of Pennsylvania, \$150,000; CIGNA Corporation, \$100,000; and SmithKline Beckman Corporation, \$100,000. Bank contributors are: Fidelity Bank, \$22,500; Mellon Bank, \$20,000; Philadelphia National Bank, \$17,500; PSFS, \$15,000; Provident National Bank, \$8,000; and Continental Bank, \$5,000.

McGruder identified the following as noteworthy successes resulting from LISC support:

- Southwest Germantown CDC acquired a five-building industrial complex, supervised its renovation, sold or leased floors of the buildings in an "industrial condominium" and currently manages the complex. The CDC was aided by a LISC grant of \$10,000 and loan of \$120,000, of which \$60,000 has been disbursed.

- Spring Garden Health Association started an in-house lab, creating a half-dozen jobs and generating income, after receiving a \$45,000 loan and \$30,000 grant from LISC. This group later sold property it owned, acquired a building, and rehabilitated it to serve as its offices, aided by a \$48,000 loan from LISC.

- West Philadelphia Fund for Human Development formed a partnership with a printer who was willing



*Kevin McGruder is Program Director, LISC-Philadelphia*

to relocate an expanding business into its neighborhood. The group is providing on-the-job training for eight employees of Simon Printing and Publishing Co. The Fund, as owner of Simon's building, receives rental income from the company and will share in its profits. LISC made grants totaling \$57,000 and a loan of \$100,000 for a feasibility study, interim financing and a working capital line of credit. Equipment for the business was purchased with a \$420,000 loan from Fidelity Bank.

- Allegheny West Foundation renovated two residential-commercial buildings on a key commercial strip with a \$34,000 loan from LISC. The group now is acquiring and renovating up to a dozen other residential-commercial buildings, using \$50,000 in grants from LISC. Mixed-use buildings have been particularly difficult to finance in Philadelphia.

In a newer project, the West Philadelphia Partnership and Cedar Park Neighbors Association plan to purchase and rehab a vacant firehouse into a neighborhood farmers' market. LISC has provided grants of \$16,000 for pre-development expenses.

Asked how banks could become active with LISC, McGruder said that banks could make a donation to LISC-Philadelphia and become involved in its work. Kenneth D. Hill, Vice Presi-



*Employee Herb Cannon works at a printing press at Simon Printing and Publishing Company, West Philadelphia. LISC counts this small business as one of its major*

*successes.*

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## Two SBA Programs . . .

said that a SBA guarantee will make a good loan better but will not make a bad loan good. Banks involved in SBA lending should do so with experienced lending officers, he advised. He said SBA's programs for start-ups are valuable and many local businesses "wouldn't exist or wouldn't be where they are today if it weren't for the SBA."

Price is among a group of bankers and community representatives who are exploring whether neighborhood businesses need small loans which fall below banks' general minimum loan size. The group is a task force of the Urban Affairs Partnership.

The SBA periodically has information sessions for banks, and may hold

such sessions on request. Its activities, in addition to guaranteeing loans, include licensing small business investment companies (SBICs). SBICs are privately organized, with SBA guaranteeing some of their financing, and make equity and long-term debt financing available to small firms. Meridian Bank and First Valley Bank, Allentown, are the banks in this SBA district which have SBICs. Meridian recently received an SBA license to form a second SBIC, Meridian Venture Partners, which already has raised capital of \$25 million. SBA also provides a wide array of training and counseling services for small business, largely through universities, and has programs to assist minority-owned businesses.

Bankers may find of interest a two-day conference on small business lending, to be held by the Bank

Administration Institute this fall in Atlanta. For further information contact Greg Engel at BAI, 1-800-323-8552.

The main office of SBA's local district is in Bala-Cynwyd, near Philadelphia. The agency also has branch offices in Harrisburg, (717) 783-3840, Wilkes-Barre, (717) 826-6497 and Wilmington, (302) 573-6294. Bankers in Pennsylvania or Delaware interested in knowing more about the SBA should contact: Thomas G. Tolan, SBA, 231 St. Asaphs Road, Bala-Cynwyd, PA 19004, (215) 596-5822. For information on the 504 program, contact Daniel M. Sossaman, Economic Development Specialist, at the same address, or at (215) 596-5862. Bankers in New Jersey should contact: Vincent Scuro, Assistant District Director for Finance and Investments, SBA, 60 Park Place, 4th floor, Newark, NJ 07102, (201) 645-3584.

## LISC Projects . . .

dent of Public Affairs at Sun Refining and Marketing Company and chairman of LISC's local operating committee, noted the value of bankers' "fiduciary thinking." He said that bankers who sit on this committee "ask the right questions in analyzing and structuring loan requests." LISC funding sometimes involves deposits in area financial institutions to act as loan guarantees and/or to encourage lenders to make loans with concessionary terms

Outside of LISC, bankers might contact citywide organizations such as CDC, Inc. and the Philadelphia Council of Neighborhood Organizations and explore investing in community development projects. One helpful step which a bank can take is identifying the right person within the bank to review different types of projects. In areas where LISC does not function, banks can take charge and establish a fund for housing and other improvements.

In the future, LISC is likely to intensify its efforts in Philadelphia because of strong corporate support and the presence of many CDCs. And LISC recently formed two new subsidiaries which will create a national fund for equity investment in low-income housing projects and a secondary market for community development

loans. Both subsidiaries are based in LISC's Chicago office.

LISC's National Equity Fund essentially will operate as a network of local equity funds. Initially, equity funds will be created in six to eight cities. In each, money will be raised from local corporate investors and, through a local intermediary, invested as equity in local projects. Philadelphia is being considered for participation in this program. Presently, equity is raised on a project-by-project basis and "is an excruciating process," McGruder said. For example, a Philadelphia project that required equity investment took about five years to complete.

The attraction for investors will be the Low-Income Housing Tax Credit contained in the new tax code. In addition to investing in the fund, Philadelphia banks could be involved by lending to individual projects which are receiving equity. LISC's National Fund is modeled after the Chicago Equity Fund. Meanwhile, LISC has established the Local Initiatives Managed Assets Corporation (LIMAC) to purchase community development loans and in turn provide fresh capital for new community development loans. LIMAC would buy loans from LISC and later from other non-profit intermediaries and perhaps even banks.

After corporations, foundations are

the next largest contributors to LISC's overall operations. The Ford Foundation was one of the initial investors and has provided grants and loans totaling \$32.9 million.

In the future, LISC-Philadelphia will continue focusing on commercial non-profit development but will expand its work with community organizations rehabilitating mixed-use, commercial-residential buildings, McGruder said. LISC-Philadelphia will start a \$1 million fund-raising drive this spring. Banks interested in becoming involved in Philadelphia-LISC can call McGruder at 212-949-7660 or Hill at 215-977-3400.

## Partnership Boosts Small Business Growth

"Small businesses have led the way in developing and applying new technologies in their quest for the competitive edge. The Ben Franklin Partnership promotes research between small companies and Pennsylvania colleges and universities, to more quickly commercialize technologies and products," commented F. Roger Tellefsen, Acting Secretary, Pennsylvania Department of Commerce. A record \$108.2 million in matching funds has been pledged to the Partnership, to finance 483 projects at four Advanced Technology Centers, he added.



## Allentown NHS Helps Varied Economic Groups

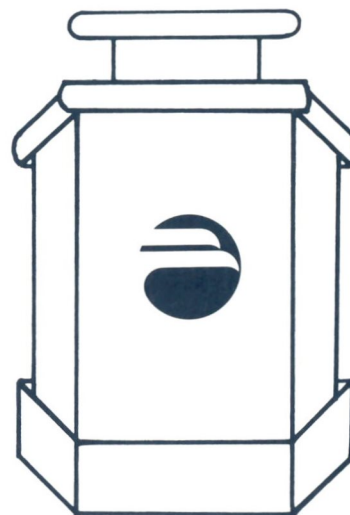
Here is a story of gentrification—expensive rehabilitation which eventually included affordable rehabilitation—thanks to a civic association and the Allentown NHS.

Adjacent to downtown Allentown, Pa. is an area of about 2000 19th century row houses known as Old Allentown. Its varied population includes elderly people on fixed incomes, moderate-income blue-collar workers, and white-collar professionals. The latter group successfully spearheaded a drive to obtain historic preservation district status. About the same time, the Old Allentown Preservation Association was formed, and asked the city to help them improve the neighborhood on behalf of all the residents. ("People with means were sinking a great deal of money in rehabilitation, living near those who couldn't even afford to repair their roofs," explained Merchants Bank's Helena Lindquist.) The city responded by suggesting the establishment of a Neighborhood Housing Services (NHS) program.

In 1981, the NHS program was launched, with goals such as increasing home ownership, reducing speculation, making home improvement affordable, and building a greater sense of community. Tradi-

tional NHS tools were used, including systematic code inspections, technical rehab assistance, revolving loan fund, market lending by local banks and thrifts, and neighborhood social events. NHS officials said their greatest challenge was to establish a clear identity and role. Once this happened, the flow of clientele and accomplishments increased. "NHS, the lenders, and the city have worked together to get reliable repair for residents and the financing to afford it. The job isn't finished; but we now have a median standard of safe housing stock. Our program is strongly linked with the city's code inspection program," Lindquist said.

The new Executive Director of Allentown NHS is a long-time NHS employee and local resident, Janice Geist. Another local, Ernest Josar, chairs the Board of Directors. Financial institutions and their representatives on the Board are: Meridian Bank, Bruce Alder; Hill Financial Savings Association, John Green; Merchants Bank, Helena Lindquist; and Atlantic Financial, Barry Rohrbach. For additional details, contact Janice Geist, Allentown NHS, 335 N. 8th Street, Allentown, PA 18102, or phone her at (215) 437-4571.



### Need a Speaker?

Members of the Community Affairs and Public Information Departments of the Philadelphia Federal Reserve Bank may be available to talk to various audiences. They will discuss the Federal Reserve Bank's interest and involvement in community and consumer banking. Speakers and their topics are: Fred Manning, Community Affairs; Jim Dygert, Economic Education and Consumer Banking; and Phil Farley, Regulatory Compliance.

Inquiries should be sent to the particular speaker desired at the following address: Philadelphia Federal Reserve Bank, 10 Independence Mall, Philadelphia, PA 19106.

## New Bank To Address Community Development

The Philadelphia Community Bank, a new bank oriented to community development lending in the Germantown section of Philadelphia, is in the planning stages. Leading the effort to organize the bank has been John Gallery, a partner in Urban Partners, a consulting firm, and previously director of the City of Philadelphia's Office of Housing and Community Development.

The bank would be created by acquiring a branch of Germantown Savings Bank. Last year, agreement to acquire

the branch was reached, and the Ford Foundation made a \$25,000 grant for organizational development. Applications were filed recently with the Pennsylvania Department of Banking for a new bank charter and for permission to acquire the branch. Assuming approval, applications would then be filed with the Federal Reserve Bank of Philadelphia to form a bank holding company and to become a state-member bank with FDIC insurance.

The bank is modeled after South Shore Bank in Chicago, which has

earned distinction as a development bank working on low-income housing. The Philadelphia Neighborhood Development Corporation would own the new bank and would have affiliates in housing and economic development. In addition to Gallery, the bank's board of directors are: James F. Bodine, formerly managing partner of the Urban Affairs Partnership and previously president of First Pennsylvania Bank; David W. Brenner, previously City of Philadelphia Director of Commerce; Richard G. Gilmore,

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## Interview:

### Bruce Dorpalen

(CASCADE interviews Bruce Dorpalen, Director of the ACORN Housing Corporation of Pennsylvania. Don Kelly, Senior Community Affairs Specialist, Philadelphia Federal Reserve Bank, asks the questions.)

***ACORN is known for its advocacy on behalf of the poor and homeless and, more recently, its negotiations with banks under the umbrella of the CRA. You are involved with direct housing development now. How do you go about it? What kind of success have you had?***

The Philadelphia ACORN board decided to form ACORN Housing Corporation as a non-profit developer to do low-cost rehab for low- and moderate-income people. ACORN once squatted people in abandoned city-owned houses. From those campaigns, the city transferred abandoned houses to low- and moderate-income families, but many were not able to make these houses livable. They didn't have the skills or the financing. We now have a sweat equity rehab program and a loan program through agreements with Fidelity and Continental Banks in which we bring people in to get loan commitments. We have technical assistance contracts with the city to put basic systems into houses. We needed to fix up a large volume of houses in Philadelphia where tremendous abandonment exists. The way to get this done was through conventional financing, not via massive government subsidies. Our program is based partly on contractor work and partly on intensive sweat equity labor. We do housing rehabs in the range of \$15,000-\$17,000 a house, choosing houses that need only moderate rehab. We have contractors who put in basic heating, plumbing, and electric systems and our sweat equity participants work closely with them.

Sweat equity works this way: People who want to get a house go through a screening process to determine if they have a level of commitment to actually work on houses. In a program that

through a series of housing preparation meetings at the community level, and put in 40 hours of construction work before we say, "Yes, you're in line to get a house." People have now swung a hammer, done construction work, and know what sweat equity is all about. We are currently doing three houses at a time—increasing to 10 houses. People who get houses are the ones who work on the houses. In our training we learned that the process is only successful on the most cosmetic level. When we came to roofing, sheet-rocking, and window installation there was a trainer or carpenter on site to set the work pace and establish quality. At first that wasn't popular. "Yeah, you did this right, but you made a mistake and you have to do it over." What we eventually established is a high quality of rehab, structured tightly around a carpenter-trainer. Now, our people do sheet rock, spackling, and are experts at putting on roofs and installing windows. They see a dramatic difference. One day you have a boarded up house and the next day you have windows!

***How do you obtain the buildings? Are they in target neighborhoods? North Philadelphia?***

Some houses are contributed by the city. We are purchasing a few. The city is spot condemning a package of 48 houses for us, available at the end of summer. We have selected these and estimate that they are in a condition that would be moderate rehab—we don't have to gut these houses. And yes, we are working in the neighborhood west of Broad Street, between 22nd and 33rd, north of Girard and south of Diamond.

***How do you get the working capital to acquire these buildings and finance the construction before they are sold to the buyers? And how does a buyer select a house?***

We have a small loan fund for acquisition from Enterprise Foundation. We are using construction financing and a revolving credit line from the banks to do the rehab and, in some cases, to acquire houses. People choose their own houses from lists we have. We make sure our houses meet minimum standards. We inspect these houses and come up with a list of

properties that the city is spot condemning.

***So the people don't choose from a list of houses you have already acquired, but from a list of potential houses that you feel would be eligible?***

Actually, it's a mix. We do acquire houses. The three we are doing now are ones we acquired. People then came and said, "I'm interested in this house. I've earned these points in the housing group—and I've put in these hours on construction. And I have my credit report here." They show that they can do the construction work and afford the financing.

We hope to create an affordable mechanism that rehabs houses in volume. We have just completed three houses and are working on three more—but in the scheme of things, six houses aren't many, even though they are affordable to low-income people. We are qualifying people on welfare with single parent households. We are taking extended families. We may have a grandmother, her daughter, the daughter's three children, and a grandson living in a house and their payments are very, very low. They may end up paying only \$89 a month on a beautiful rehabbed three-story house in Strawberry Mansion. There is enough family income that they can afford the utility bills, which is one of the reasons that people would lose a house. So it's a program that can work, but we need to do it on a larger scale. We will establish teams with carpenter-trainers doing up to 10, 20, 30 houses at a time.

We have to pay attention to not overstaffing the projects, but providing quality training. Training means everything! If people really learn skills, we can get the houses done more quickly, and less money goes out to pay carpenters. For each house we are doing now, while there might be a \$17,000 base price, people know they can save \$3,200 if they can do specific things well. It's a project that has its own internal incentives built in. A group energy develops. People get excited and start putting in a lot of personal commitment. At that point, a person ends up not working the minimum 20 hours a week, but sometimes even taking vacation time to do the work.



## What about gentrification?

We work with the ACORN community organization on gentrification, to prevent the neighborhood from being a place where real estate agents come in and speculate. We want to avoid rebuilding a neighborhood only to see it priced out of reach of the very people we are trying to help. When gentrification happens, the property values go up. From the outside, that might look like a positive quality, but people with limited means are forced out by higher rents. Homeowners pay higher taxes and insurance rates. Retirees find their houses no longer affordable. Gentrification means that a few people may make money, but a large number of people end up losing. We are trying to prevent gentrification by rehabbing.

## Let's move on to your second program. What is it?

In our negotiations with Fidelity and Continental Banks we have established a program for getting loans into low- and moderate-income communities. We hold weekly meetings in churches throughout these neighborhoods to tell people about these loans. We help them understand the interest rate savings, what the underwriting standards are, and what they will need to do to get a loan. Next, they come to our office and have an interview with our loan advocate. We give them a credit check—for \$5—and we do an income and debt check to make sure they can afford loans. Often we do inspections of the houses they want to buy to make sure the houses are worth the money. And we put together a package for them to take into the bank. They are well-prepared for any credit problems. They have their money in place and are pre-screened. Obviously, some people have problems, but because of the innovations of our bank agreements, these loans are more accessible. I think it's important to understand what these agreements have done. They have not set up a situation where a bank is taking risks. These changes in underwriting standards give low- and moderate-income people a fair shake in the loan process. Things that worked against them were often the very things that they had no control over.



*Bruce Dorpalen is Director of ACORN Housing Corporation.*

these people would be working in marginal jobs with a high turnover and layoffs. Construction is a seasonal occupation. A domestic worker may have many employers and not have traditional reporting situations. An odd-job carpenter or auto mechanic may work part-time. If there is a way of verifying that employment, showing it to be consistent, there's no reason that the person's dollar is any worse than the dollar of somebody who has two years at the same job—a traditional bank requirement. So these agreements can show three years of an income stream and document it. If people are able to hustle up \$10,000 a year through their own ingenuity, which is very common, it's no different than having a \$10,000-a-year paid job, as long as the bank can be assured that these borrowers have the ability to earn \$10,000 annually.

*There might be a cash flow problem at certain times of the year, due to the work cycle. Is there some mechanism to handle that problem?*

You've just got to understand what it's like for poor people! When they need to find money, they find money. Through family connections. Through throwing a rent party. I see it all the time. We rehabbed a house for a remarkable woman who has never worked for any length of time. She has eight children. When she needs money she goes into the kitchen and

puts out chicken dinners, famous throughout the neighborhood. If she needs \$200 on Monday, she'll start to raise it on the previous Friday. What the bank must look at is this consistent ability, and that's why we talk about a three year income stream.

Now here's a thing that was incredibly discriminatory to a North Philadelphia neighborhood. Even the Philadelphia Mortgage Plan does this. They say that banks and private mortgage insurance companies do not write mortgages on blocks where more than 10 or 15 percent of the houses are abandoned. When you take a block of 40 houses, what's that? Four or six houses and that block is no longer getting mortgage money. If house number seven wants to sell, the homeowner is forced into a situation where he or she either gives away the house for virtually nothing, or abandons it. It's not a reflection on whether people will make their house payments if there are four or six abandoned houses on the block. Those who move into these houses show that they have a serious interest in the neighborhood. What we have worked out with the two banks is that on blocks with high abandonment, banks will loan up to 80 percent of the value of property on that block regardless of how many abandoned houses are there. Also, our program shows that people can put a stake into that house, both in cash and sweat equity, which

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## Interview . . .

can be used for a down payment. Banks traditionally like to make loans to people with established credit. But now, according to our bank agreements, people without established credit can still qualify for loans.

### ***What kind of volume have you done through your marketing and counseling program? What percent actually get mortgages?***

We have brought in close to 200 people for financial counseling. We have brought the banks around 50 of these, and are working with the others. It's not just mortgages either. It's home improvement loans, small business loans, and consumer loans. We don't have a high rejection rate—probably we've lost about six. We do have some situations where people have been rejected. We've gone to the bank and found such things as clerical errors, and confusion between what people said in an interview and what turned up on paper. The banks we work with have been receptive to suggestions, clearly reflecting their interest in working things out.

### ***How about your technical assistance program?***

This is a contract we have with the city of Philadelphia to counsel people who get abandoned houses, and to administer \$4,000 worth of materials for basic systems. The form of the rehabilitation is up to the people who come in. They select their own contractor or can choose one from our list or from the city's list. Many choose our contractors because they are reliable and inexpensive. That \$4,000—labor or materials—comes through us, along with the handling and technical assistance to the people to make sure they are not taken advantage of by contractors. We have classes on window installation, basic carpenter skills, and we help them get energy assistance. This program is not part of the structured sweat equity program.

### ***Are the skill levels of the trainees what you expected?***

Fascinating question! When the people come in, half the men say they are contractors; the women say they don't know anything about it. Usually there is first a small struggle

between men and women about who is going to do what. The men want to do all the physical tasks and expect women to do the cleaning. Sometimes there's a rebellion and the women become more assertive. Women have been excellent workers because they are more flexible; haven't learned bad work skills; don't have to unlearn what they know. Some men have worked in non-traditional construction jobs. They haven't learned the rules about how a traditional contractor would operate. Here's a story for you: Our construction supervisor drove by a work site where we were doing a roof. The roofer in charge was sitting on the doorstep smoking a cigarette. The construction supervisor said, "Why aren't you working on the roof?" He then climbed the ladder to find three women ripping off the roof, doing a beautiful job, and one was about five months pregnant. Roofing is one of the areas in which we have done better than we thought we would. However, we always have someone who is an experienced roofer up there, but the results from amateurs are excellent.

### ***I notice you have a working relationship with Enterprise Foundation. They have provided working capital . . .***

It was a loan. The most helpful element is the technical assistance. We work with Bill Duncan, their sweat equity specialist, who helps us with managerial and construction issues, and meets with us about twice a month. We also work with Charlie Dobel, of People's Homestead Group, who has done consulting for Enterprise Foundation. He is a contractor who has done extensive sweat equity rehab and he works with us on day-to-day problems.

***You bring to mind a previous CASCADE interview. Boris Lang, at Atlantic Financial, started in the construction industry and was noted for his involvement with low- and moderate-income housing construction. He came to Philadelphia as a consultant and ended up consulting to Atlantic Financial. Here's a man with an extraordinary combination of housing and finance experience. Now, my last question. Will you describe your own career development?***

When I was in college I volunteered for a Saul Alinsky community organization. It was an outrageous, aggressive program in Providence, called PACE. We were blocking the streets to get traffic lights, and going out to the suburbs after absentee landlords. It was quite an education because of the contrasts. In the community there was housing abandonment and poverty. But also, tremendous pride. I watched outsiders take advantage of those communities by soaking them for rents or abandoning properties. I made personal friendships and learned to think differently. After college I went to work for Ralph Nader in Connecticut doing legislative lobbying. Then I went to North Carolina to work for an organization called Carolina Action. We opened up a Georgia Action office in Atlanta, and the organization merged with ACORN. I spent five years in Atlanta organizing around utility rates, housing, and political issues.

Next, I came to Philadelphia where I organized with ACORN, and then we formed the Housing Corporation of Philadelphia. ACORN has been an organization based on people's dreams and hopes. We are now using the energy and ability of these people to provide decent and affordable housing.

(For additional information, contact Bruce Dorpalen, ACORN Housing Corporation, 806 N. Broad Street, Philadelphia, PA 19130, or phone him at (215) 236-1220.)

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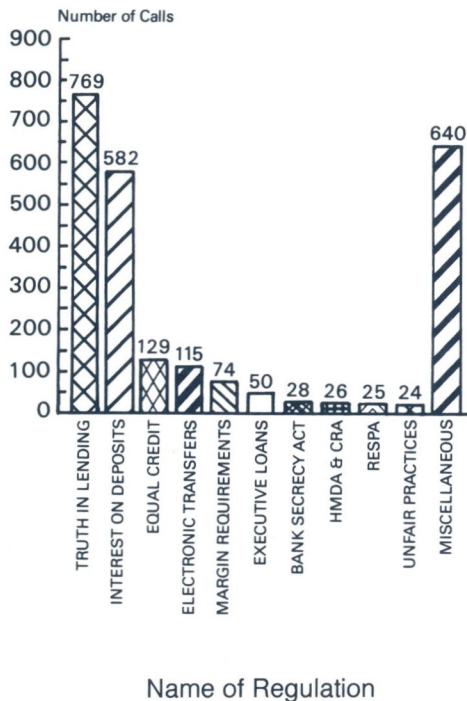
## ***PCDC Publishes A Newsletter***

"JOIN" is the name of a new newsletter, published quarterly by the Philadelphia Commercial Development Corporation. According to editor Yolanda D. Allen, the letters stand for "Joint Opportunities in Neighborhood Economic Development." Its goal is to facilitate an idea exchange between community economic development corporations and their prospective support groups, such as developers, financial institutions, and government agencies. To be on the mailing list, contact the editor at PCDC, 714 Market Street, Suite 433, Philadelphia, PA or phone (215) 238-7653.



## Topics of Regulation Assistance Calls

March, 1986 through February, 1987  
(2462 Calls Handled during this Period)



The miscellaneous category includes NOW Account Eligibility, Fair Credit Reporting, and the Rule of 78s.

The Regulation Hotline rings a great deal, as the above chart indicates. Callers are most often financial institution compliance officers. Regulations Assistance Manager, Phil Farley, and Senior Analyst, Barry Cutler, manage the Hotline, (215) 574-6458, which is open for calls during business hours, Monday through Friday.



## CDC Opens a Dunkin' Donuts

Small businesses are sometimes born in interesting ways:

"Why don't we ever have donuts with our coffee in this office?" grumbled Joseph Fox to his associates at West Oak Lane CDC in northwest Philadelphia.

"Too far to walk to get them," was the reply.

Light bulb!

Now the neighborhood has a convenient and profitable Dunkin' Donuts. The franchise is owned by West Oak Lane Investment Corporation which is wholly owned by the CDC—the first such ownership arrangement in the city.

Of course, lots of research and funding came first. Today, Jan Rubin, Executive Director, and Fox, Business Developer, are proud of their CDC's first venture in "making a business." The store sells more donuts than any other Dunkin' Donuts in Philadelphia—"all the newest donuts, such as buttermilk and whole wheat, and

we have tables and chairs in addition to supplant disappearing city, state, and federal funds," Fox explained.

"We spearheaded the store's opening to supplant disappearing city, state, and federal funds," Fox explained. "We will pump a good part of the profits into housing rehabilitation, particularly rental units. And we're already looking into two more sites for satellite franchises."

A variety of funding sources made the franchise happen. CIGNA made a \$410,000 commercial loan for property, building, and equipment. Provident National Bank offered a \$310,000 line of credit to construct the building. LISC supplied a \$10,000 recoverable grant, while a low interest loan of \$25,000 came from the Leviticus Fund (a consortium of Roman Catholic religious orders), and a \$55,200 grant from the U.S. Department of Health and Human Services. For additional details, contact the West Oak Lane CDC, 6259 Limekiln Pike, Philadelphia, PA 19141, or phone (215) 224-0880.

## Lehigh Valley Bank Describes Priorities

Economic development and community affairs are major priorities for Lehigh Valley Bank, according to Nicholas G. Kordopatis, Group Executive. The bank describes these priorities to customers and employees in several brochures and newsletters.

"Financial Interest," a customer newsletter, has a community news section. In a recent issue, an article described the recently opened community center, a gift from the bank to the local area. Located at 52 West Broad Street, Bethlehem, the center

is available to community organizations who need space for "meetings, audio/visual presentations, and mixers." It is named the D. Patrick M. Robinson Center in honor of Lehigh Valley Bank's Chairman of the Board, who has a long history of community involvement activities.

A "Community Giving" brochure explains contributions guidelines, including request, review, and evaluation procedures. "Volunteers & Community Service" is an employee publication describing policies and

practices for volunteer activities. "By fueling spirit and drive in our employees, our own 'heroes' can be created both on the job and in the community," the pamphlet states. Close to one-half of the bank's workforce volunteers for community events.

For additional information, or copies of the publications, contact: Gary Kimball, Director of Communications, Lehigh Valley Bank, P.O. Box 2068, Lehigh Valley, PA 18001, or phone (215) 861-1790.



## Council Hears Three Community Leaders

It was a "Philadelphia First"—the first time three prominent community leaders had appeared on the same panel to address a group of bankers.

Speakers were Father Joseph Kakalec, Regional Council of Neighborhood Organizations; Bruce Dorpalen, ACORN Housing Corporation; and Jill Michaels, CDC, Inc. The occasion was the recent meeting of the Philadelphia Community Affairs Officers Council, sponsored by the Philadelphia Fed.

Father Kakalec led the presentation by reviewing past areas of difficulties and misunderstandings between the members, much of which has given way to a "greater flexibility of bankers today." He had special praise for such "models of cooperation" as the Montgomery County Mortgage Plan, the Delaware County Housing Partnership, the Philadelphia Mortgage Plan, and emerging policies in the

Basic Banking sphere.

Dorpalen detailed accomplishments of the ACORN Housing Corporation in sweat equity/rehab programs in North Philadelphia. (For in-depth information on this, see the Dorpalen interview in this issue of CASCADE.)

Michaels described CDC, Inc. as a "grassroots coalition of 24 community-based CDCs" which stresses "sound research, not intuition" regarding local housing and development issues. She cited CDC training programs for community groups in such areas as financial management and housing rehab, held in cooperation with the Philadelphia Commercial Development Corporation.

Meeting attendees were: Boris Lang, Carol Mendicino, Atlantic Financial; Thomas I. Savage, Jr., Beneficial Savings Bank; Ray Desiderio, Guy D'Onofrio, William Fink, Continental

Bank; Kevin McAllister, Dolores Lewis, Equibank; Paul Levine, Richard O'Donnell, Fidelcor; Michael K. Haskins, First Pennsylvania Bank; Robert Price, William Smith, Mellon Bank (East); Glenn Yeager, Blake Heffner, Joseph J. Flynn, Bonnie Plunkett, Meridian Bank; Elaine Black, Philadelphia Department of Commerce; Thomas Patterson, PNB; Debra Amper, Sara Moran, Provident Bank; and Crisante Ianni, William Penn Bank.

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## Camden Development Topic for CAO Council

The first meeting of the Camden-Trenton Council of Community Affairs Officers, sponsored by the Philadelphia Fed, met April 15 in Camden. Presenters from municipal and state government, and the business and educational community discussed Camden's economic and social conditions.

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## New Bank . . .

Senior Vice President and Chief Finance Officer of Philadelphia Electric, and formerly Executive Vice President of Girard Bank; and Jane Shull, Director of the Institute for the Study of Civic Values.

Gallery explained that the filed applications call for capitalization of \$2.5 million. The Philadelphia Community Bank also would acquire customer deposits of \$5 million or more from the Germantown Savings Bank, bringing the funding base to at least \$7.5 million.

"We view the bank as a normal commercial bank, providing checking accounts, home mortgage loans, and so forth," Gallery said. "It will be a profit-making institution. We plan to be aggressive in community development lending, but prudent about the way in which we make loans." The bank initially will concentrate on Germantown, though it will do some lending citywide, for example, for rental housing and small business

loans under \$50,000. Explaining how the Philadelphia Community Bank came about, Gallery said that he became intrigued by South Shore Bank, and met with Ron Grzywinski, Chairman of its holding company. He originally looked for someone else to apply that model here, and, after no one took the lead, decided to try himself. He described the neighborhood of the proposed bank as stable, black, low- and moderate-income, with some deterioration in housing and the commercial strip. Positive features are high home ownership and the presence of several institutions, including Germantown Hospital and LaSalle University. The branch is on the corner of Cheltenham Avenue and Wister Street in east Germantown.

The new bank will seek socially-motivated investments from both individuals and institutions. Later on, the bank may seek investors to buy certificates of deposit below market rates and then use those funds to make low-income economic development and housing loans.

South Shore Bank has been serving

as consultant to the new bank, Gallery said, adding that he hoped it would continue to be involved. He also noted that Germantown Savings Bank has been "very cooperative" toward the new venture. Urban Partners secures public financing for development projects and analyzes their financial and economic feasibility. It is a consultant to developers of the Lit Brothers Building in downtown Philadelphia and heads a team exploring use of air-rights adjacent to 30th Street Station. Partners in the firm, with Gallery, are Peter Lapham and James Hartling.

CASCADE now reaches more than 1500 community groups and financial institutions. If you would like to tell us about your interesting community development program or community affairs initiative, or order extra copies, write to: CASCADE, Community and Consumer Affairs Department, The Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106.



## Bankers Learn about Preservation Benefits

Historic preservation is an economic development tool, particularly in downtown revitalization, according to Grace Gary, Executive Director of the Preservation Fund of Pennsylvania.

To discuss this impact with bankers, the Fund sponsored a May 1 workshop in York, Pa. called "Historic Preservation: Every Banker's Business." Other sponsors were the Pennsylvania Bankers Association, Hamilton Bank, and the National Trust for Historic Preservation.

The meeting was opened by Louis J. Appell, Jr., President, Susquehanna Broadcasting Company and member, Board of Directors, Preservation Fund of Pennsylvania, and by Thomas B. Shriver, Executive Vice President, Pennsylvania Bankers Association. The first presenter was Fred Manning, Assistant Vice President and Community Affairs Officer, Federal Reserve Bank of Philadelphia, whose topic was "Banking on Preser-

vation for Community Development." Kurt D. Zwikl, Director of Community and Public Affairs, Merchants Bank, Allentown, and Nicholas G. Kordopatis, Group Executive, Economic Development and Community Affairs, Lehigh Valley Bank, Bethlehem, jointly presented their talk, "Affordable Housing Programs."

Wilson McElhinny, Chairman, Hamilton Bank, introduced the keynoter, Anice B. Read, Director, Texas Main Street Project, who described her activities. David Taylor, Borough Secretary, Brookville, spoke on "Downtown Revitalization"; and John Schmidt, President and Chief Executive Officer, York Bank and Trust, discussed "Local Investment in Preservation". "Corporate Rehabilitation Projects" were explained by David M. Knight, Senior Vice President, Real Estate Management Department Manager, Mellon Bank, West. Robert McLean III, Senior Vice President and Development Director, Cushman and Wakefield, and mem-

ber of the Board of Directors of the Preservation Fund, gave closing remarks.

For information on preservation projects and future workshops, contact the Preservation Fund of Pennsylvania, 2470 Kissel Hill Road, Lancaster, PA 17601, or phone (717) 569-2243.

## Offer Conference For Small Businesses

Improving communication between the City of Philadelphia and the small business community is a goal of the 1987 Mayor's Small Business Conference, slated for May 27 at Twelve Caesars, 4200 City Line Avenue, Philadelphia. The day-long event will include workshops in business services, taxes, finance, international trade, computers and insurance, and the fee is \$35. For details, phone the Philadelphia Department of Commerce, (215) 686-9620.

## What's in a Name?

When a reader asked "Why is your publication called CASCADE?" we decided to explain our title.

CASCADE is named for "White Cascade."

And what, you may ask, is that? A detergent? A waterfall?

Now you're getting close.

"White Cascade" is a mobile resembling a cascade of white drops of water—only the "drops" are flat aluminum discs. So large that they would make Frisbees for giants, the discs range in size from 3 feet to 12 feet in diameter and are joined to stainless steel rods, the longest of which is 36 feet; the shortest, 9 feet. "White Cascade" hangs from the ceiling of the Philadelphia Federal Reserve Bank's Eastburn Court, and weighs about ten tons. It is the largest mobile in the world. Installed in 1976, the mobile was designed by world-famous sculptor Alexander Calder. It is a special symbol or emblem of the Philadelphia Fed.

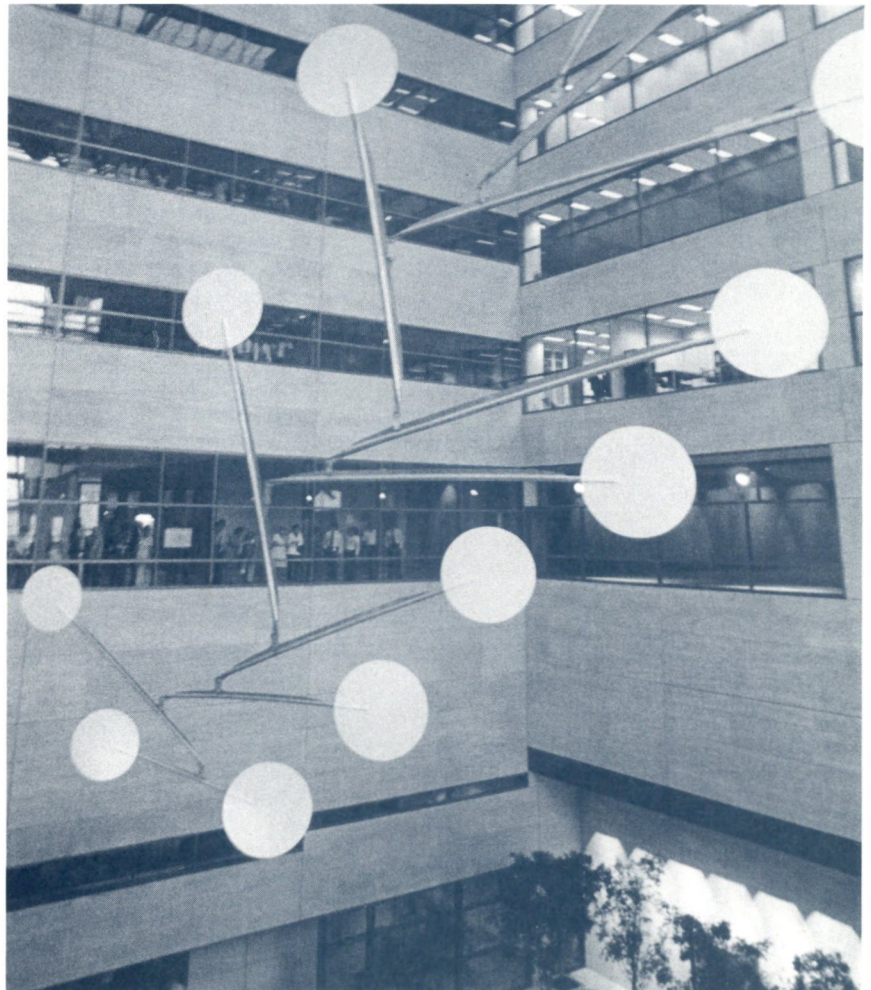


Photo by Edward J. Bonner





### *Equibank, Residents Celebrate Bank Opening*

Kids, parents, balloons, and smiles marked the recent opening of Equibank's East Falls Community Office, Ridge and Midvale Avenues, Philadelphia. The opening signaled the end of a long campaign by residents to obtain a bank. The area lost its only bank over 50 years ago during the depression. "We are pleased to be in an area that is taking aggressive steps toward economic revitalization," said Claire Gargalli, Equibank President. She is pictured above (right) with Susan Tyler, branch office manager.

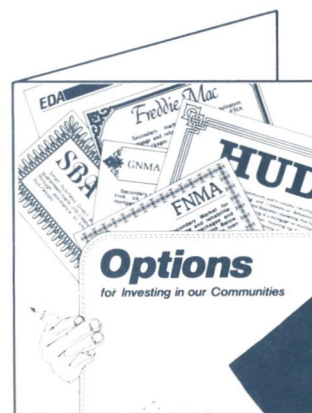
### Publications



The guide assists compliance officers and internal audit personnel in assuring compliance with consumer-related federal banking regulations and statutes. It outlines the purpose and coverage of each regulation, and describes the Federal Reserve System's enforcement guidelines and compliance examination procedures. Financial institutions can obtain one free copy upon request; additional copies are \$5 each.



This guide provides a topical reference to the Federal Reserve Board regulations and to selected federal legislation affecting banks in commercial transactions. It is intended for use by bank officers or lending authorities with compliance responsibilities. Financial institutions can obtain one free copy upon request; additional copies are \$5 each.



Options is a directory of government and private partnerships in community revitalization, covering housing, small business and economic development. It describes federal, state and city initiatives in Pennsylvania, Delaware, and southern New Jersey. Financial institutions and non-profit organizations can obtain one free copy upon request; additional copies are \$10 each.

To order any of these publications, contact: Betty Carol Floyd, Department of Community Affairs and Regulations Assistance, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia PA 19106. (215) 574-6458.

