

CB  
CENTRAL BANKER

April 1991

News and Views  
on Community Affairs  
for the  
Eighth Federal Reserve District

## St. Louis Fed Launches Community Affairs Newsletter

Welcome to the first issue of the Community Affairs edition of *CB*, or the *Central Banker*. *CB*, a quarterly newsletter for CEOs, was launched early this year to improve communications between the Fed and financial institutions in the Eighth Federal Reserve District. *CB-Community Affairs* is a similar effort. With this newsletter, which will be mailed semi-annually, the Fed's Community Affairs Office hopes to assist financial institutions, community organizations, government units and private

foundations in developing effective community reinvestment programs.

Each issue will contain articles on economic and community development strategies as well as success stories in the Eighth Federal Reserve District states of Arkansas, Illinois, Indiana, Mississippi, Missouri, Kentucky and Tennessee. The primary focus will be on community development projects and the regulatory changes affecting commu-

nity development activities. We hope you like it!



### List of CRA Examinations Goes Public

At its December 1990 meeting, the Federal Financial Institutions Examination Council (FFIEC) endorsed the periodic release of the list of institutions that have been examined for CRA.

The Federal Reserve System is

publishing such lists in its H.2 release, "Actions of the Board, its Staff, and the Federal Reserve Banks; Applications and Reports Received." For banks in our area, the information is also listed in our district's mini H.2.

The initial list, which came out on February 8, 1991, contained all the institutions since July 1, 1990, that were examined for CRA and whose 30-business-day period for

making the evaluations public had elapsed. Thereafter, each weekly report contains only those institutions whose 30-business-day period elapsed during that week.

If you would like to be added to the mailing list to receive the mini H.2 release, please contact Anne Shenkel in our Office of Public Information at (314) 444-8444, or 800-333-0810, ext. 501.

# Southern Development Provides Example of Innovative Community Development Lending

**S**outhern Development Bancorporation (Southern) is a privately owned and capitalized bank holding company organized in 1988 to accelerate economic development among low- and moderate-income residents of rural Arkansas.

## Elk Horn Bank and Trust Company (EHB)

Southern's subsidiaries include the Elk Horn Bank and Trust Company, a commercial bank whose primary contribution to Southern's economic development mission has been the origination of "development

loans." These are commercial loans that contribute to the development of the local economy but that other financial institutions would not grant on similar terms in the normal course of business. Most of EHB's development lending has involved the extension of SBA-guaranteed term loans with fixed interest rates. The bank ended 1990 with more than \$2 million in development loans in process.

Also, since August 1989, EHB has engaged in aggressive outreach efforts to local family farm operations and has become its service area's only alternative to federal government financing. During 1990,

the bank originated over \$2 million in agricultural credits.

The Bank's development lending activities increased steadily since 1988, its first year of operation under Southern ownership. The businesses assisted range from wood products manufacturers to breeder egg poultry farms, to medical practices in rural communities started by physicians just out of medical school.

## Opportunity Lands Corporation (OLC)

OLC is Southern's for-profit real estate development subsidiary. To date OLC's most successful project has been Enterprise Center I, an incuba-

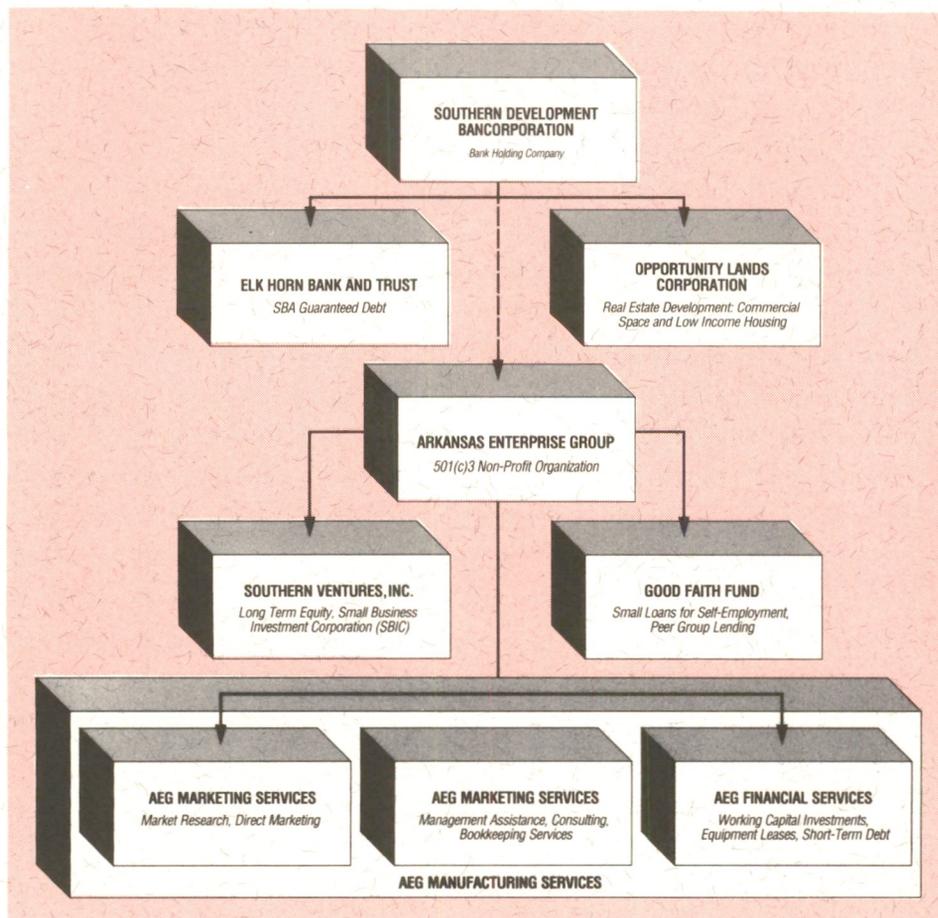
tor that provides affordable office space and some support services to small businesses. Enterprise Center I was created by renovating a vacant, 10,000-square-foot furniture store in downtown Arkadelphia, Arkansas. The Center has been so successful that at the end of 1990, OLC began developing Enterprise Center II, across the street from the original Center, and Enterprise Center III in Pine Bluff, Arkansas.

OLC also develops low- and moderate-income residential housing. At the end of 1990, OLC had three residential projects under way. The most ambitious involves the acquisition and rehabilitation of 20 low-income rental units in Pine Bluff. OLC acquired this seriously deteriorated, but still occupied, project from the RTC in January 1991 and plans to rehabilitate it with rural rental rehab funds from the City of Pine Bluff and financing from a local commercial bank.

## Arkansas Enterprise Group (AEG)

AEG, Southern's non-profit affiliate, provides financial and networking services, marketing training, and technical assistance to small businesses and micro-enterprises to increase the probability of success. AEG has three components:

1. **SOUTHERN VENTURES, INC. (SVI)**, a venture capital company licensed by the Small Business Administration as an SBIC, has concentrated its investment activities on providing



equity rather than secured debt to its portfolio companies. The focus has been on innovative, fast-growth companies that pay wages above the norm in the local marketplace. These firms have the potential for rapid growth and offer skill development and advancement opportunities for employees, not simply the minimum wage with no benefits or chances for improvement. SVI has invested almost \$1.7 million in 10 companies whose products and services range from bio-assay radio-chemistry testing to ceramic coating, to waste water treatment, to new techniques for petroleum refining.

**2. AEG MANUFACTURING SERVICES**—As the diagram shows, AEG Manufacturing Services provides marketing, management and financial services to new and fledgling manufacturing entrepreneurs.

*Marketing*—AEG provides market research, develops advertising campaigns, places ads in publications, takes orders on a 24-hour toll-free

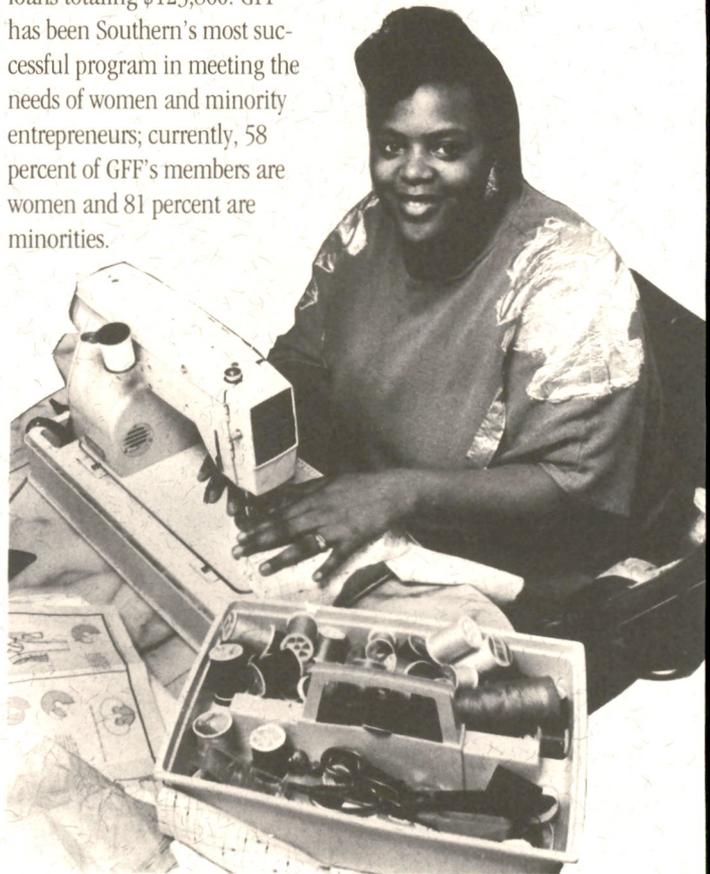
number, and ships the product from the local manufacturer.

*Management*—AEG provides traditional management consulting and innovative cost accounting services not generally available to small manufacturers.

*Financial*—AEG's most innovative financial service is Working Capital Investments (WCI) which makes short-term investments in specific contracts, purchase orders or receivables. WCI enters into "joint ventures" with firms to provide working capital. When the firm completes production and receives payment, WCI receives its investment back, plus a pre-determined share of the profit on the specific job.

**3. GOOD FAITH FUND (GFF)**, a micro-enterprise revolving loan fund, makes very small, short-term loans for self-employment to very low income residents using peer-group support techniques. With a primary goal of poverty alleviation, GFF adapted lending programs proven effective in

Third-World locations to the rural South. Through the end of 1990, GFF had made 45 loans totaling \$123,860. GFF has been Southern's most successful program in meeting the needs of women and minority entrepreneurs; currently, 58 percent of GFF's members are women and 81 percent are minorities.



*Sherry Washington works at the sewing machine she purchased with a loan from GFF.*

## Good Evidence Elicits a Favorable CRA Verdict

**E**vidence is the distinguishing factor that persuades a jury to pronounce a defendant innocent or guilty. Likewise, evidence is vital to examiners in assessing an institution's participation in the Community Reinvestment Act (CRA).

Today CRA is a hot topic that has trickled down through the regulatory channels to money center and rural banks alike. Because of the emphasis Congress has placed on CRA, examiners are spending an increasing amount of effort in assessing an institution's compliance with this Act. Besides

examining for the technical aspects of the regulation (i.e., maintaining a CRA statement, posting the CRA notice, updating the public file, and annual Board approval), examinations now include a comprehensive examination of this area along with a public report.

Many times the bank may be contributing to various community activities, funding community development, and meeting credit needs throughout its delineated community; however, adequate documentation of such activities is not maintained, producing a me-

diocre CRA rating. Or, CRA public files may not be updated regularly, and a "mad rush" is made to complete the file during an examination.

The joint policy statement of the FFIEC issued in March 1989 states that institutions should maintain reasonable documentation of compliance with CRA. While "reasonable" may take on a different meaning depending on the size of the institution and the types of CRA activities in which it is involved, a starting point might include the following:

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## Community Affairs Today

The Community Affairs Department was born in 1981 when the Federal Reserve Board requested that each Reserve Bank appoint a Community Affairs Officer (CAO) to act as a community liaison.



**Randall Sumner, Vice President,  
Credit and Community Affairs**

The CAO coordinates the bank's educational efforts in the area of community reinvestment. These include:

- Providing information to lenders, community groups, and others about the Community Reinvestment Act and successful programs for community investment, reinvest-

ment, small business lending and economic development.

- Assisting with merger and acquisition applications by providing a communications link between the applicant and potential protestors.
- Providing information to banks and bank holding companies interested in forming Community Development Corporations (CDCs).

Our goal is to promote the development of local partnerships to address local community needs. We accomplish this by creating opportunities for bankers to meet representatives of community organizations, neighborhood groups, and government agencies at all levels.

Looking ahead, we intend to meet our goals by hosting and participating in conferences, workshops, and meetings; giving public speeches on CRA and CDCs; distributing publications; and fielding informa-

tional requests.

We welcome your comments and suggestions. Please share your community affairs programs and community development initiatives with us by contacting:

Federal Reserve Bank of  
St. Louis  
Community Affairs Office  
Attn: Glenda Wilson  
P.O. Box 442  
St. Louis, Missouri 63166  
(314) 444-8317. We may be able to highlight your accomplishments in our newsletter.

### Good Evidence Elicits a Favorable CRA Verdict

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- *Have we performed a self-assessment? Does the assessment answer where we are lending, who we are targeting in our marketing strategy, what area of the community is in most need of assistance, and what type of product could we structure to meet that need and identify a source of untapped community revenue?*
- *Do we have an officer call program that targets groups such as small business owners and real estate agents?*
- *How did we determine*

*our community delineation, and are all areas being served?*

- *What type of research have we performed to determine local credit needs?*
- *Have we documented meetings with community groups, government officials or other organizations when credit needs were discussed?*
- *How closely involved is our Board of Directors in establishing CRA policy?*
- *In what governmental lending programs are we involved?*
- *Have we made loans to non-profit organizations that*

*benefit low-income individuals or minorities in our community?*

- *What type of analysis do we perform using the Home Mortgage Disclosure Act data, and what other areas of lending do we need to examine geographically?*
  - *What local municipal securities are included in our bond portfolio?*
  - *Do we keep press articles concerning our involvement in community projects?*
- These questions may not apply to all institutions, and this list is certainly not exhaustive, since there are many other

innovative ways to meet the credit needs of the community. These questions, however, represent a few of the ways that an institution can improve its CRA documentation. Remember that documentation is essential to receive a favorable verdict.