

Communities & Banking

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This Issue

INVESTING IN THE INNER CITIES

In this issue of Communities & Banking, four experts discuss investing in the inner cities — Gail Snowden of the Bank of Boston's First Community Bank, Kim Wilson of Working Capital, David Reese of the Local Enterprise Assistance Fund, and Ro Whittington of Dudley Street Neighborhood Initiative. As always, the CRA Notes section suggests some places to turn for reinvestment strategies, technical assistance, and fair lending tools. We begin with updates on recent developments in affordable housing and community development finance.

Updates

Banks Commit to Soft Second Lending

The Massachusetts Soft Second Mortgage Program, profiled in the last issue of *Communities & Banking*, won renewed support from major banks this summer. Seven Boston banks committed a total of \$93 million to the program over the next five years. All seven agreed to actively market Soft Second loans, and to offer the program with a purchase and rehab option, so buyers can remove lead paint and make other repairs. The announcements were made at a forum hosted by the Massachusetts Affordable Housing Alliance, attended by over 300 community residents.

The Soft Second program is partially subsidized with public funds, and features the lowest monthly payments of any mortgage in the state. Borrowers are of low to moderate income; one-third have incomes of \$15,000 to \$25,000. No loans have defaulted to date.

The seven banks that renewed commitments are Shawmut, Bank of Boston, BayBank, Fleet, The Boston Company, USTrust, and Citizens. The Soft Second Program is administered by the Massachusetts Housing Partnership Fund and involves nonprofit com-

munity organizations, which recruit and counsel borrowers and negotiate rates with banks.

For more information contact Florence Hagins or Tom Callahan at the Massachusetts Affordable Housing Alliance, 617-728-9100, or Kathleen Phillips at the Massachusetts Housing Partnership Fund, 617-338-7868.

"OneSource" for Housing Finance

Two housing finance agencies in Massachusetts have teamed up to create the OneSource loan program, designed to streamline affordable-housing finance for nonprofit and for-profit developers. The program offers "one-stop shopping" for both construction and permanent financing.

The two agencies are the Massachusetts Housing Investment Corporation (MHIC), a private nonprofit corporation established by leading banks to expand affordable-housing finance, and the Massachusetts Housing Partnership Fund (MHP Fund), a quasi-public organization financed by the state's banks for the purpose of creating affordable housing. Any multifamily rental project serving low- and moderate-income families is

Continued on page 7

Communities & Banking explores viable roles for financial institutions in community economic development. The newsletter is produced by the Federal Reserve Bank of Boston's Public and Community Affairs Department.

For free subscriptions, write to Sheryl Snowden, Public and Community Affairs, Federal Reserve Bank of Boston, P.O. Box 2076, Boston, MA 02106-2076 (617-973-3097). For additional copies, contact Jim Sharpe at the same address (617-973-3459).

Views expressed are not necessarily those of the Federal Reserve Bank of Boston or the Federal Reserve System. Information about upcoming events and other organizations should be considered strictly informational, not as an endorsement of their activities.

Readers interested in having community development programs or projects described in *Communities & Banking* should contact:

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"INVESTING IN THE INNER CITIES: A Vision for Positive Change and Creative Partnerships"

Recently, the Massachusetts chapter of Businesses for Social Responsibility hosted a forum on investing in the inner cities. Kim Wilson of Working Capital talked about finding low-cost, sustainable ways to provide business credit and technical support to emerging companies. David Reese of the Local Enterprise Assistance Fund stressed the potential benefits of employee ownership, but also pointed out the hurdles. Ro Whittington of Dudley Street Neighborhood Initiative highlighted the difficulties that face depressed areas and the strategies that have helped one community make progress. And Gail Snowden of Bank of Boston's First Community Bank described low-income and urban areas as fertile markets for credit and for retail banking services.

The presenters reminded the audience that effective approaches to economic development require more than just knowledge of programs, financial resources, or technical skills. It's clear that their successes hinged in many ways on comprehensive, strategic planning — and a large dose of vision.

Kim Wilson, Working Capital

The nonprofit organization Working Capital uses peer-group lending to assist the self-employed. Kim Wilson is the organization's Metro Boston regional director.

"We formed Working Capital to help provide resources that small businesses don't often have — certainly financing, but other things as well, including certain skills, and a vision for the future of the business. And also a network of contacts, which larger, more established companies use to generate business and get capital.

"Working Capital is able to provide

these services to tiny start-ups because we let our clients do the work for us. Small groups of borrowers create their own by-laws and make all credit decisions. There's no credit approval other than the group. But we have 100 percent repayment in Boston, and 98.4 percent throughout our network, thanks really to peer pressure. That's because no one in a peer group can get a loan unless the whole group is current. So members have a huge vested interest in the success of each others' businesses and the prudence of new loans. The groups work together on business planning, using standardized materials.

"Our partnerships also help make it

possible. Community-based organizations that are active in economic development help us by recruiting and supporting borrowers. And our funding banks lend to Working Capital, at favorable rates.

"We're the very first step on the business credit ladder — our loans start at \$500 and go up to \$5,000. But we establish a Dun and Bradstreet number for each company, so they'll have a track record for loan repayment."

**David Reese,
Local Enterprise
Assistance Fund (LEAF)**

LEAF is a community development loan fund that finances democratically managed companies owned in part by their employees or by community groups. David Reese is LEAF's president and director.

"We are really in the business of helping people reinvent themselves. This fact was brought to my attention early in my tenure at LEAF, when we assisted 150 women in a small town in Maine in buying their company. The company, a manufacturer of men's suits, had declared bankruptcy and was in danger of shutting down. We helped the employees buy the controlling interest in the company and take it out of bankruptcy. As part of the deal, the employees hired the former owner as general manager. As a result of the buy-out, the employees held the majority of the seats on the company's board of directors.

"At one board meeting, one of the employees (a board member) had not completed her projects. When I asked her why, she told me that she had tried on several occasions, but the general manager kept sending her back to the production floor. When I pointed

out that the employees owned and controlled the company and that, in effect, the general manager reported to them, she seemed unfazed.

She finally said to me, 'David, you don't understand, when you aren't here, the general manager treats us the same way he has always treated us. Nothing has changed.'

**"We're the very first
step on the business
credit ladder — our
loans start at \$500."**

- Nim Willson -

"I realized that the legal act of buying the company had not changed the employees' perception of themselves. Maybe the most important thing we do is help people reinvent themselves, by changing their relationships with money and power. After 18 months, the employees replaced the general manager. Things have changed at the company. Those employees have changed a lot too."

**Ro Whittington,
Dudley Street
Neighborhood Initiative**

DSNI is a nonprofit community organization that works to revitalize one of Boston's most blighted areas, through affordable housing, small business development, and various human services. Ro Whittington is DSNI's executive director.

"My job at DSNI is to facilitate the rebuilding of an entire community — not just physical structures, but the people as well, which is ultimately more important. To appreciate what we are trying to do, you first have to know why the Roxbury/North Dorchester community is in such rough shape, and what really caused the current conditions to exist and persist.

"Through a process I call 'economic engineering,' banks and developers had invested heavily in certain communities, such as Burlington and Braintree, to accommodate the burgeoning electronics indus-

try of the 1960s and 1970s. Various areas of the inner city were redlined, and folks were told that their property was not even worth the amount for which it was insured. The situation created a mass exodus from the inner city, unparalleled disinvestment, and a great deal of arson.

"By the 1970s the Roxbury and North Dorchester neighborhoods had hit rock bottom. The 1,300 vacant lots became dumps, for anything people wanted to throw out — construction debris, vehicles stolen from all across Massachusetts, garbage, and hazardous waste. And even *people* were dumped in the neighborhoods, forced out of gentrified areas like the South End. The 'Massachusetts Miracle' touched most of the United States, yet it missed Roxbury, just a mile and a half away.

"When we started Dudley Street Neighborhood Initiative in 1984, there was talk of gentrifying Dudley Station, which worried a lot of long-term residents. DSNI has always been resident-driven, with an elected board of directors made up of residents, churches, businesses, CDCs, and community-based organizations. We strongly believe that the people themselves are the best at planning their solutions. Everyone else had a chance to try to improve things, and failed, so the people deserved a chance to try as well. We were not afraid of failure, because we had so little left to lose. So we developed our own comprehensive plan.

"On the topic of investing in the inner cities, I say that economics in America begins with owning a home. The first line on most credit

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- David Reese -

applications asks if you own one. And homes anchor people in the city — they create huge vested interests in the neighborhood. But *people* also need to be revitalized. We knew our approach had to be comprehensive, or it would fail. So again, we stressed that

"Reinvestment and redevelopment strategies have to be comprehensive to be effective."

- Ro Whittington -

community people be at the helm. To make the playing field level, we gave an equal number of board seats to African Americans, Latinos, Cape Verdeans, and white Americans. And we translated our meetings into several languages, using headsets like the United Nations. Then we got started!

"Today, I would say that the inner city is the only business opportunity that's left. Roxbury is an economic generator for the city of Boston. Supermarkets, banks, and shopping malls are taking note. But we still can't access capital. In my opinion the 'bank elevator,' though it has come down, is stuck on the fifth floor. The community is on the first floor, and a lot of us can't meet the criteria. We need something to grow into, and a different set of performance standards and expectations. After all, trees always grow up from their roots, not from their middle or their top. It's all about tiny steps, and working with what is emerging as it grows.

"The U.S. General Accounting Office just left Dudley Street, after studying us as a model for bottom-up revitalization. Again, reinvestment and redevelopment strategies have to be *comprehensive* to be effective. And that means that we should all be sitting at the table when plans are made to try to improve things."

Gail Snowden, Bank of Boston's First Community Bank

A "bank within a bank," First Community Bank encompasses a focused marketing and retail strategy for serving predominantly minority, low- and moderate-income neighborhoods. Gail Snowden is president of First Community Bank.

"Ro and the others talked about paradigm shifts, transformation, and empowerment. First Community Bank is, to some extent, about those things too. We played by the rules, to show that we know what we're doing. After four years, we're number one in customer service at the Bank of Boston, and we've topped several sales campaigns.

"I believe you have to start a conversation like this acknowledging the past — the reality of red-lining. Moving forward, we approached the Community Reinvestment Act as a business opportunity. We believe that meeting credit needs in low-income area pays off with calculated returns. For example, when a bank gets a request for a proposal to establish a credit line these days, from a city treasurer, McDonalds, or Ben and Jerry's, the bank is asked to identify its community activities. That's just one facet of the real business returns that are part of investing in the community.

"Back in 1989, a Boston Fed study showed that predominantly white neighborhoods in Boston had four times the banking facilities that predominantly minority ones had.¹ Bank of Boston's branch managers

thought that we were going to sell their branches. But we saw those branches as strategic advantages, and today we serve 42 percent of New England's minority households. Our mission is to be the bank of choice within the inner cities.

"So we do rigorous market analysis — 'micro-segmentation' — where we study an area's demographics, infrastructure, local organizations, churches, and developers. We try to provide 'one stop' credit shopping (up to \$5 million) rather than sending clients to a variety of Bank of Boston units. But we can't do it alone — it certainly takes partnerships with organizations such as Working Capital.

"The Bank's investment is paying off, and the community is getting more loans. Boston into Codman Square, after we helped finance the renovation of the Lithgow Building and relocated our branch there. Besides our retail-banking successes, a hundred businesses have gotten loan commitments totalling over \$20 million.

"The Bank's investment is paying off, and the community is getting more loans."

- Gail Snowden -

"Obviously, investing in the inner cities *can* work." CB

¹ "Geographic Patterns of Mortgage Lending in Boston, 1982-1987," by Katharine L. Bradbury, Karl E. Case, and Constance R. Dunham. In the Federal Reserve Bank of Boston's *New England Economic Review*, September/October 1989.

Businesses for Social Responsibility is a national membership organization with a network of local chapters. For more information, call 202-842-5400.

Upcoming Events

"Paper or Plastic?"

The Federal Reserve Bank of Boston's 1994 National Consumers' Week conference, designed to help consumer professionals understand the laws related to paper and plastic methods of payment.

- Boston, Massachusetts:
October 5
- Springfield, Massachusetts:
November 16

For more information call Susan Rodburg at 617-973-3450.

"Paper or Plastic?"

1994
National
Consumers Week
Conferences
Federal Reserve Bank of Boston

This year's conferences will be held at the Federal Reserve Bank on Wednesday, October 5, 1994 and in Springfield, MA, on Wednesday, November 16, 1994.

Remember to mark your calendars.
Registration materials will be sent to you.

FEDERAL RESERVE BANK OF BOSTON
in cooperation with the
MASSACHUSETTS CONSUMERS'
COALITION

THE FEDERAL RESERVE BANK OF BOSTON AND
THE FEDERAL DEPOSIT INSURANCE CORPORATION
PRESENT:

COMMUNITY BEYOND COMPLIANCE TO REINVESTMENT STRATEGIC PLANNING ACT:

*A Half-day Seminar for Bank Board Members
and Chief Executive Officers*

MARK YOUR CALENDAR:

- Wednesday, October 19
Burlington, Vermont
- Tuesday, November 8
Portsmouth, New Hampshire
- Tuesday, November 22
Rocky Hill, Connecticut
- Tuesday, December 6
Boston, Massachusetts

Registration materials will be mailed in September.
Call Paul Williams at 617-973-3227 or Joel Werkema at
617-973-3390 for more information.

*The Community Reinvestment Act:
Beyond Compliance to Strategic
Planning*, a seminar for chief executive officers and directors of financial institutions.

Sponsored by the Federal Reserve Bank of Boston and the Federal Deposit Insurance Corporation.

- Burlington, Vermont:
October 19
- Portsmouth, New Hampshire:
November 8
- Rocky Hill, Connecticut:
November 22
- Boston, Massachusetts:
December 6

More details will be mailed to all
Communities & Banking subscribers.

CRA NOTES

More Information on Fair Lending, Reinvestment Strategies, and Economic Development

FAIR LENDING

A revised edition of *A Guide to HMDA Reporting: Getting It Right!* was recently issued by the Federal Financial Institutions Examination Council (FFIEC). The new edition contains the revised MSA, state, and county codes that took effect January 1, 1994. For a copy, contact Tina Featherstone at FFIEC's Division of Consumer and Community Affairs, 202-452-3667.

The National Community Reinvestment Coalition has published "Mortgage Lending, Race, and Lender Employment," a working paper by Gregory D. Squires, Sunwoong Kim, and Peter Minarik. After studying lending by Milwaukee banks and thrifts, the authors suggest that a statistical relationship exists between the proportion of black employees at an institution and the likelihood of a black applicant being approved. For a copy, contact NCRC at 1875 Connecticut Avenue, N.W., Suite 1010, Washington, D.C. 20009. 202-986-7898.

A new video, *The Facts on Borrowing Money*, has been produced by Fleet Bank. Part of Fleet's INCITY Consumer Credit Education Project, the video covers loan applications, credit reports, and improving bad credit. A workbook is also available, and both are available in Spanish. To preview the video, contact Ron Walker at 617-346-1803 or Neal McBride at 413-787-8762.

1994 Community Land Trust Con-

ference, sponsored by the Institute for Community Economics. The conference will focus on three areas of concern to community land trusts: public policy, housing production, and community organizing. November 3-5, in Hartford, CT. For more information call Julie Orvis at 413-746-8660.

SMALL BUSINESS

A one-page guide to Boston-area technical and financial support programs for small and minority businesses has been prepared by the American Jewish Committee's Black-Jewish Economic Roundtable. Also available is a partial listing of key federal programs that provide grants and loans for business development and technical assistance, prepared by the Economic Development Assistance Consortium. For a packet containing copies of both, contact Joel Werkema at the Federal Reserve, 617-973-3390.

AFFORDABLE HOUSING

How to Use the RTC's Affordable Housing Disposition Program to Benefit Your Public Agency or Nonprofit and the listing of *Multi-family Properties for Sale Under the Direct Sales Program* are available for free from the RTC. Contact Greg Orsalea, Resolution Trust Corporation, 801 17th Street NW, Room 611, Washington, D.C. 20434. 202-416-2823.

A guide to local housing-needs assessment has been produced by

HUD. *National Analysis of Housing Affordability, Adequacy, and Availability: A Framework for Local Housing Strategies* demonstrates housing-needs assessment, assists with preparation of Comprehensive Housing Affordability Strategies (CHAS), and outlines a process for diagnosing the underlying causes of market imbalances. Call HUD USER at 1-800-245-2691. \$4.

Also from HUDUSER, *U.S. Housing Market Conditions, First Quarter 1994*. 1-800-245-2691. \$4.

Five Successful Community Lending Strategies: Models for Replication by Banks or Bank Consortia, produced by the National Community Reinvestment Association and funded by Freddie Mac. The report outlines successful community lending strategies for home mortgages in underserved communities. It is designed to provide financial institutions, public officials, and community-based organizations with information necessary for replicating these successful programs. For a copy, call NCRC at 202-986-7898.

CONFERENCES

Toward Common Goals: The Spirit of New England Community Partnerships, sponsored by the Federal Home Loan Bank of Boston. The event is billed as a practical conference on affordable housing and community economic development for New England lenders and community developers. September 29-30, Sheraton Boston. For more information, contact Shanna

Greg, conference consultant, at 802-860-1748.

Sponsored by the National Trust for Historic Preservation, the 48th annual preservation conference will focus on *Preservation, Economics, and Community Rebirth*. Scheduled for October 26-30 at the Boston Park Plaza Hotel, conference topics include downtown revitalization, housing, and how preservation can boost a community's bottom line. For more information, call 1-800-944-6847.

Fall Multifamily Finance Meeting, sponsored by the National Housing and Rehabilitation Association and the Tax Credit Advisor. November 7-8 at the Marriott Long Wharf, Boston, MA. Call 202-328-9171.

The Housing Assistance Council's national rural housing conference, "Realizing the Dream: Affordable Housing," Washington, D.C., December 5-7. Three major topics will be addressed: financing affordable housing, building the capacity of community-based organizations, and addressing the needs of special populations. Call 202-842-8600.

ECONOMIC DEVELOPMENT

"Technology Life Cycles and State Economic Development Strategies," by Patricia M. Flynn. In the May/June 1994 issue of the Federal Reserve Bank of Boston's *New England Economic Review*. For a copy, contact the Research Library at 617-973-3397.

Interwoven Destinies: Cities and the Nation. Edited by Henry G. Cisneros. Available in book stores, or from W.W. Norton & Company, 1-800-233-4830.

Communities & Banking

Continued from page 1

eligible. Loans can involve new construction, acquisition and rehab, or refinancing and rehab.

For more information, contact MHIC's Loan Department at 617-338-6886, or the MHP Fund at 617-338-7868.

HUD, Fannie, and Freddie to Share Risk

The U.S. Department of Housing and Urban Development (HUD) has signed risk-sharing agreements with Fannie Mae and Freddie Mac. HUD agreed to reinsure a large block of eligible loans purchased by the two secondary-market agencies and share 50 percent of any losses. Fannie Mae has committed to purchasing 7,500 units and Freddie Mac to 5,000.

Loans for new construction, rehab, acquisition, and refinancing are eligible, with affordability stipulations patterned on the low-income housing tax credit program. Nicolas Retsinas, Assistant Secretary for Housing and FHA Commissioner, has called the 12,500 units a "down payment" on a broader future program.

HMDA Reporting Changes Proposed

The Federal Reserve Board has proposed moving up the reporting deadline for HMDA data from March 1 to February 1. The proposal was prompted by statutory amendments requiring that reports for individual lenders be made available by July 1 and aggregate tables at central depositories by September 1. The proposal would also require the submission of HMDA data in machine-readable format, to enhance accuracy.

SBA Streamlines Loan Guarantees

To speed up the small-business credit process for lenders as well as borrow-

ers, the Small Business Administration (SBA) has announced the Low Documentation Loan Program (LowDoc). The program emphasizes character lending, focusing on credit history and experience. Low Doc promises a rapid response from the SBA, usually in two or three days. Before LowDoc, loan-guarantee approval took up to 14 business days. And the new SBA application shrinks to two pages from eight.

LowDoc allows loans of \$100,000 or less, and the SBA can guarantee up to 90 percent of the loan amount. While all loans are to be adequately secured, loans generally are not declined if inadequate collateral is the only unfavorable factor.

To locate the nearest SBA office, call 1-800-8-ASK-SBA.

Home Loan Bank Boosts Community Partnerships

A new program from the Federal Home Loan Bank of Boston, "Grants for New England Partnerships," assists nonprofit organizations that work in partnership with financial institutions on affordable housing and community development. The Federal Home Loan Bank (FHLB) makes cash awards to nonprofit organizations, on behalf of the financial institution. The institution must be an FHLB member that uses the Community Investment Program, which involves borrowing below-market FHLB funds for affordable housing and community development lending. The FHLB awards the grants directly to the nonprofit organization identified by the member institution, which is encouraged to match the grant.

For more information, contact the Home Loan Bank's Housing and Community Investment Department at 617-330-9892. ☐

Updates compiled by Pamela Torto and Joel Werkema

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