COMMUNITY LENDING OPPORTUNITIES

FOR

DROVERS BANK OF CHICAGO

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BY

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The Woodstock Institute

The Woodstock Institute is a not-for-profit organization based in Chicago. For the past twelve years, the Institute has carried out applied research and developed and implemented programs which increase private sector investment in modest-income and minority communities for the benefit of those who live there. It designs programs which bridge the gap between the needs of communities and the resources of banks, savings and loan associations, foundations and others.

The Institute provides a variety of services to community-based organizations, financial institutions, foundations and government agencies, including applied research, policy analysis, program design and evaluation.

Elspeth Revere President	Jean Pogge Vice-President

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Executive Summary

Woodstock Institute was asked by Drovers Bank to analyze lending opportunities within its service area and to identify ways that the bank could increase lending and better meet community credit needs.

The Institute analyzed lending data for all financial institutions and found Drovers' share of the market within its own service area to be extremely low, particularly in home improvement and residential mortgage lending. While Drovers' commercial lending is quite substantial, there remain opportunities for growth which would have significant impact on the community in this area as well.

This report describes specific opportunities for Drovers to expand its customer base and better meet neighborhood credit needs while staying within prudent levels of risk, costs and normal business practices. Keys to both increased market share and deeper penetration of community market levels will be: designing more competitive products, defining the eligible market more broadly, establishing partnerships with community and government agencies, willingness to make more labor-intensive loans, flexibility and aggressive marketing.

Woodstock's recommendations are designed to increase Drovers' community lending, especially retail storefront, industrial development, home improvement, and residential mortgage, and to establish a presence at the different levels of community market needs. The recommendations take into consideration community needs, neighborhood dynamics, market opportunites and the constraints of prudent banking business.

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INTRODUCTION

Purpose

Drovers Bank of Chicago contracted with Woodstock Institute to assess the credit needs of the communities within Drovers' primary service area, and to identify ways the bank could better meet those needs.

This report is designed to enable the management of the Drovers Bank to do the following things:

1. Increase its lending in its primary service area.

2. In the process, improve its Community Reinvestment Act (CRA) performance and rating.

3. Develop a positive posture and a strategy to adddress the problems associated with neighborhood change and decline in the vicinity of its office.

4. Develop greater rapport with local community organizations.

Primary Service Area

The primary service area of Drovers Bank, as defined by its CRA Statement, is from the Stevenson Expressway on the north to 59th Street on the south, and from the Chicago Western Indiana Railroad right-of-way on the east to Kedzie Avenue on the west. This approximately 12-square-mile area on the southwest side of Chicago contains a population of 170,000 people. The area is characterized by older, modest housing stock, an old industrial district with some new elements to it, and changing demographic patterns.

This report begins with an explanation of Woodstock's Concentric Circles of Market Presence which provide a frame of reference to examine different community lending markets. This is followed by a brief statistical overview of the local communities, and an analysis of specific lending areas. The analysis of lending areas will focus on community credit needs, Drovers' loan products, Drovers' performance, identification of areas of lending opportunity, and specific recommendations.

The recommendations address redesign of loan products, operations, marketing, partnership opportunities, and new program ideas. (Evaluation of the adequacy of existing personnel is not within the parameters of the report.)

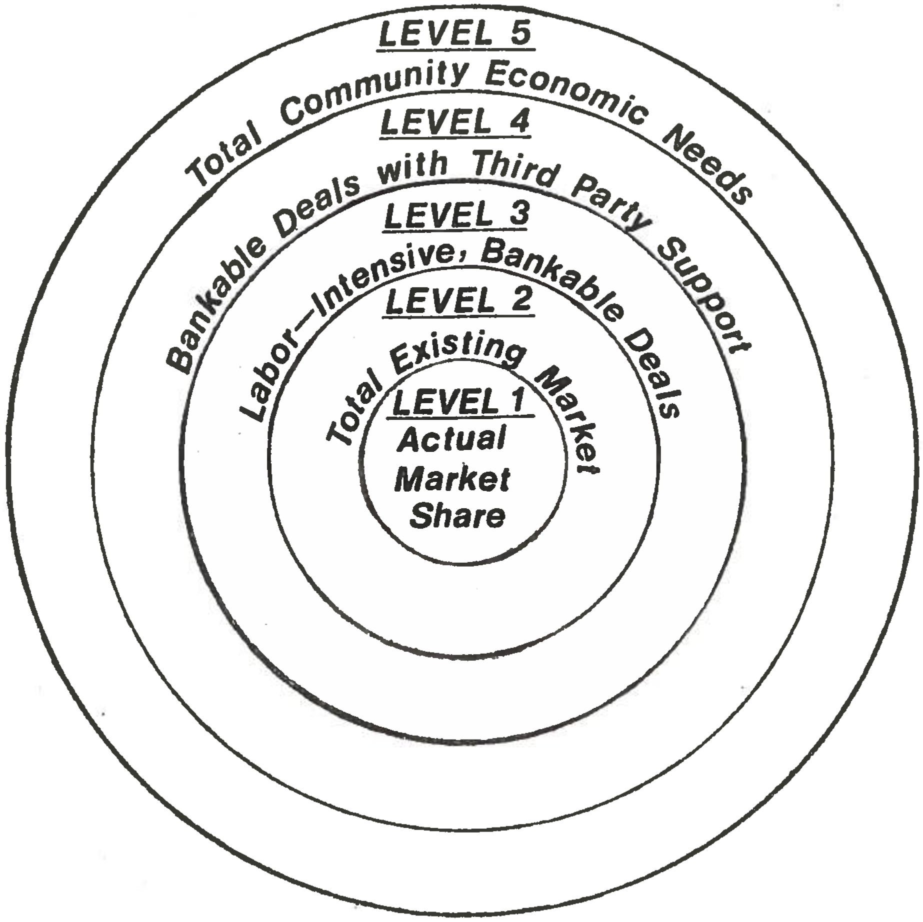
I. THE CONCENTRIC CIRCLES OF MARKET PRESENCE

Many financial institutions, especially commercial banks, have difficulty identifying a niche for "community lending" within their normal course of business. When critized by activist groups or regulators for not meeting community credit needs, bank management often feels that it is being pressured to make bad loans. On the other hand, community groups often have difficulty differentiating between social needs and bankable deals.

There are many reasons why a financial institution decides that it is desirable to stretch itself to meet more of the community's credit needs. It may wish to increase its business, to obtain regulator approval to expand, to abate activist pressure, to improve its image in the community for business purposes, or to assume a direct role in improving the neighborhood environment in order to protect its asset and customer bases. The challenge such a financial institution faces is how to upgrade its community lending activity and reputation while remaining within the parameters of sound business practices.

Woodstock Institute is a not-for-profit organization that specializes in policy analysis and program design in precisely this area. Its clients are typically financial institutions, local governments, and community organizations. A premise of the Woodstock Institute's approach is that the choice is not simply between sound business practices and charity. There are several intervening levels of community lending that can satisfy community credit needs without compromising the business interests and fiduciary responsibilities of the bank.

The following diagram of Concentric Circles helps to visualize the different levels of serving community lending needs between actual market share and the total monetary needs of a community economy. (Note: this five-level system has been devised by Woodstock Institute and is not the same as the CRA rating system used by regulators.)



Level 5 -- The Circle of Total Community Economic Needs

The large circle represents the universe of economic resources, both credit and direct assistance, that is needed by people, businesses and institutions within the service area of the Bank. Included in this large circle is the entire spectrum, from bankable deals for creditworthy borrowers to situations that are more appropriately addressed by philanthropy than by credit. Examples of the former include loans to neighborhood business, industry, homeowners, and consumer loans. An example of the latter is social security or welfare to support income.

Level 4 -- The Circle of Bankable Deals with Third Party Support

Within that large circle is a smaller circle. This circle represents that segment of the total economic needs for money that would be creditworthy were third party participants brought into the picture, providing insurance, subsidy, equity, or technical assistance. In this market zone falls marginally bankable deals that become feasible with credit enhancement mechanisms such as loan guarantees, interest rate subsidies, or equity participations. Examples include government mortgage bond loan programs, SBA commercial loans, and the FHA loan insurance programs.

Level 3 — The Circle of Labor-Intensive, Bankable Deals

A yet smaller circle consists of bankable deals that are out there to be made but which have been passed over because of their labor intensiveness. This category refers primarily to sound loans that are too small to be worth the bank's while. Because larger deals have the advantage of economy of scale, they are preferred over small deals. This is a question of cost, not risk. Also included in this market segment are other labor-intensive, albeit sound loans, such as rehabilitation loans, (which often are complicated by several sources of financing) and non-traditional deals that fall between the cracks of standardized loan policies but which could be made were extra effort and creativity put into structuring them. Such an example is the purchase or rehabilitation of a building containing both apartments and businesses.

Level 2 — The Circle of the Total Existing Market Being Served by All Lenders in the Target Area

This circle represents the bankable deals that are actually made by all financial institutions doing business in a community. These loans are sound, obvious and competitive. They go to the financial institution which has tailored the best product, cultivated the best reputation, and is aggressive enough to beat the competition to the punch.

Level 1 — The Circle of a Particular Lender's Market Share

This circle represents the subject institution's market share. This is that part of the traditional market of bankable deals (represented by Level 2) that a particular lending institution captures.

Within This Perspective Certain Statements are Evident:

1. Whatever the Bank is currently doing, no matter how small or limited, is serving a community need for credit. (Level 1)

2. The Bank can increase its role in meeting the community's needs for credit while remaining totally within the traditional world of banking by simply being more aggressive and succeeding in achieving a larger share of the existing market. (Level 2)

3. The Bank can serve an even greater portion of the social credit needs of the community without incurring greater risk or compromising the quality of its portfolio. It can do this by expending more time (a cost) on bankable but labor-intensive deals. (Level 3)

4. The Bank can attain a high level of corporate social responsibility without throwing money away by thoughtfully working with third parties, in order to make marginally bankable deals bankable. When done selectively and skillfully, this approach need not incur an unacceptably high level of risk nor an intolerable amount of extra work. (Level 4)

5. The Bank cannot be expected to penetrate the world of economic need beyond Level 4 as a lending institution with fiduciary responsiblility. Level 5 activity is simply a form of charity and should be recognized as such. The Bank may wish to have a role in this part of community life but the role will be one of a contributor rather than one of a lender.

II. OVERVIEW OF THE LOCAL COMMUNITY

The service area covered by Drovers Bank is made up of five core community area and two periferal ones. The core communities are New City, Bridgeport, McKinley Park, Brighton Park, and Gage Park. The service area also includes the northern tips of two adjacent communities, West Englewood and Englewood.

Population

The communities to the north and west of the service area, Bridgeport, McKinley Park, Brighton Park, and Gage Park, are predominantly white, stable and working class, with aging buildings and populations. They are also economically stable and in 1980 had median incomes which exceeded the city's median family income of $18,776.

In contrast, the community of New City, which is at the core of Drovers service area, has different characteristics. This is a working class, rapidly changing and racially diverse community with three predominant groups. The groups are white, black and Hispanic (see table on page 9). The percentage of blacks and Hispanics has increased since 1980. New City has a median family income level which falls below the city's median income (see table on page 9).

Housing

Like other areas of the city, the predominant housing stock in these areas is old. All these communities reached residential maturity in the 1920's and 1930's, and more than two-thirds of the housing was built before 1940. The communities in the first group, Brighton Park, McKinley Park, Gage Park and Bridgeport, have a mix of brick and frame houses. New City has a large stock of two-flat frame homes. While the other communities have retained most of their housing stock, New City lost 2,100 housing units between 1970 and 1980.

Owner occupancy rates in the area are low compared to other, more stable parts of the city. Again, New City stands out with the lowest rate of owner occupancy of the five communities comprising Drovers' primary service area.

The housing values of owner-occupied housing in the whole area are below the city median values for equivalent units. In 1980, the highest median value in the area was 78% of the prevailing city median. Median housing value in New City was 50% of the city, as a whole.

Community Organizations

In the area immediately surrounding Drovers Bank, there are three main community organizations and a good number of social sevice organizations. The primary community organizations are the Back of the Yards Neighborhood Council, United Neighborhood Organization (which has a predominantly Hispanic membership) and Organization of New City (whose membership is predominantly black). The Back of the Yards Council devotes considerable effort to economic development and job retention, centered around the City of Chicago's efforts to revitalize the old stockyards industrial park. There is a great deal of concern and activity in New City devoted to the problems associated with racial change, complicated further by the presence of the three groups: whites, Hispanics, and blacks.

Following is a table highlighting selective 1980 census data on population and housing characteristics of the communities within Drovers' primary service area.

Beginning on page 10, lending opportunities are analyzed in these areas: commercial, home improvement, and residential mortgage.

COMPARATIVE STATISTICS OF THE COMMUNITIES IN DROVERS BANK SERVICE AREA (BASED ON 1980 CENSUS DATA)

	Brighton Park	McKinley Park	Gage Park	Bridge-Port	New City	Chicago
POPULATION						
PERSONS	30,770	13,248	24,445	30,923	55,860	3,005,072
WHITE	91.7%	92.4%	93.0%	88.7%	57.5%	43.2%
OTHER	8.2%	7.6%	6.3%	11.2%	20.6%	17.2%
BLACK	0.1%	-----	0.7%	0.1%	21.9%	39.5%
HISPANIC*	14.8%	16.1%	11.0%	21.3%	35.7%	14. %
MEDIAN INCOME	$20,508	$19,989	$21,866	$18,999	$15,427	$18,776
HOUSING						
HOUSING UNITS	12,766	5,232	9,603	12,281	18,603	1,173,758
SINGLE FAMILY	21.4%	26.5%	46.7%	19.8%	18.1%	24.7%
OWNER OCCUPIED	46.5%	45.4%	60.3%	36.2%	35.2%	63.8%
MEDIAN VALUE	$34,300	$27,900	$37,100	$29,500	$23,600	$47,200

* Hispanic people are identified as "White", "Black", or "Other", and are included in those population groups' statistics accordingly. The "Hispanic" statistics above are broken out of the "White", "Black", and "Other" categories.

III. COMMERCIAL AND REAL ESTATE LENDING (FOR COMMERCIAL AND INDUSTRIAL PROPERTY)

The Needs in the Community

Retail Storefront Lending: There is widespread agreement in the New City/Back of the Yards community that the local retail strips have to be monitored and nurtured to prevent decline and to improve the appearance of the neighborhood. However, the high percentage of absentee ownership of storefront property is both a cause of deterioration and an impediment to investment and loan demand. The role of Drovers in this situation should be to take a leadership role in local community organization and chamber of commerce efforts aimed at creating a market that does not now exist. This is the market of store owners who want to purchase the buildings they are renting and to invest in improvements in those buildings. (This strategy parallels a residential program discussed later that encourages tenants to purchase their buildings.)

Ultimately, this will entail making small, labor-intensive loans, and perhaps making SBA financing available as well.

Because of the unsophisticated level of many local store owners, an essential part of this effort will be the counseling, training and technical assistance provided by local agencies such as the Back of the Yards Council, the Organization of New City, United Neighborhood Organization, the local chamber of commerce and the City Department of Economic Development. Drovers Bank should take the initiative in establishing referral and working relationships with these agencies.

Industrial Development Lending: Job creation is much needed in the Drovers' market area. The development of jobs for local residents has a multitude of benefits for the bank itself, including a stronger saving base, greater investment in residential properties, and stimulation of the local economy. There is evidently a need for commercial and industrial loans in the $20,000-$100,000 range that the big, downtown banks do not address. Although the cost/benefits of doing those deals are not encouraging because of their size, there is a need for them locally, and a need that, when fulfilled, will return benefits to Drovers in other ways. The Back of the Yards Council's economic development arm, seeking to attract new industries to the area, offers an opportunity for Drovers to work in partnership with a community group in this field.

The Commercial and Real Estate Loan Products Offered by Drovers For Commercial and Industrial Property

Drovers Bank offers a variety of commercial loan products including: normal line of credit (both secured and unsecured), secured equipment lending (fixed asset financing), international letters of credit for local customers, Illinois Development Finance Authority loans and asset-based financing (via Main Bank).

Drovers aims for the middle market in its commercial lending (over $100,000). The lending policy has some geographic proclivity, but will go anywhere there is a good deal.

Commercial or industrial real estate loans are also made, generally as ancillary to commercial loans or as ancillary to customer relationships. Features include 30% down payment, 20 year amortization with a 3-year balloon and two points loan fee. While a customer relationship is generally required, this rule is not applied in the immediate neighborhood of the Bank. Drovers will consider such loans for mixed use buildings.

Statistical Analysis of Drovers Commercial and Commercial Real Estate Lending for Commercial and Industrial Property

According to the City of Chicago Depository Bid Form submitted to the City by Drovers Bank on September 30, 1983, Drovers had outstanding a total of 773 commercial and commercial real estate loans totalling $91,863,000. Of these, 39 loans totalling $2,659,000 were within Drovers primary service area. Thus, 5% of Drovers commercial loans were in its primary service area.

By September 30, 1984, the portfolio of total outstanding commercial loans rose to 851 (totalling $98,433,000), and the number within the primary service area rose to 88 (10% of the total) for a sum of $7,634,000.

(Note: The above figures represent total outstanding portfolio. No figures were provided regarding the amount of loans made <u>during</u> each of those years. Nor is there any aggregate data available for all lenders indicating market share.)

The following specific recommendations are designed to enable Drovers Bank to increase its penetration into the different community market levels within its primary service area.

To Attain a Greater Presence in Market Level 2 in Commercial and Real Estate Lending For Commercial and Industrial Property (Level 2 = Total Existing Market by All Lenders)

<u>Recommendations</u>

1) Extend balloon term from 3 years to 10 years.

2) Accept inventory and fixtures as collateral.

To Attain a Greater Presence in Market Level 3 in Commercial and Real Estate Lending and Industrial Property (Level 3 = Labor-Intensive, Bankable Deals)

<u>Recommendations</u>

1) Make small loans to small retail commercial and industrial businesses in the primary service area ($20,000-$100,000 loan range).

2) Establish referral relationships with local community groups including Back of the Yards Council, the Organization of New City and United Neighborhood Organization.

To Attain a Greater Penetration of Market Level 4 in Commercial and Real Estate Lending For Commercial and Industrial Property (Level 4 = Marginally Bankable with Third Party Support)

Recommendations

1) Make a dollar commitment to the Chicago Lenders Commitment Program of the Chicago Association of Neighborhood Development Organizations (CANDO) of which Back of the Yards Council is a member.

2) Establish a close working and referral relationship with the Back of the Yards Council, with CANDO and with the Chicago Department of Economic Development.

3) Establish a highly focused and targeted loan program through which retail shop owners could obtain financing to purchase the buildings they are located in. Work in conjunction with the local chamber of commerce, Back of the Yards Council, Organization of New City and United Neighborhood Organization.

4) Do SBA loans utilizing the loan packaging services of commercial development organizations, such as Back-of-the-Yards Council, CANDO, or the South Shore Bank.

5) Make loans to clients in tandem with the City of Chicago Micro Loan Program (50% city financing at 3-5%, $5,000-$12,000), and the City of Chicago Business Development Loan Program (60% city financing for larger deals).

IV. HOME IMPROVEMENT LOANS

The Need in the Community

The housing stock in Drovers' primary service area is old and generally of modest construction. Such housing requires regular attention and periodic improvements. Many sections of the area show visible shabbiness and lack of necessary investment. There appears to be several factors contributing to the condition.

1. An aging population on modest or fixed income.
2. Anticipation of racial change and the necessity of moving away.
3. Absentee ownerships.
4. In migration of poorer people.

The community representatives interviewed recognized this problem as well as its undesirable consequences, particularly a tendency towards disinvestment by the residents themselves. There is therefore a need for home improvement credit which is competitive, aggressively marketed, and packaged very closely with educational services, motivational marketing and interest subsidies, whenever possible.

The Drovers Home Improvement Loan Product

Drovers Bank offers consumer loans for home improvement purposes, up to $3,000 unsecured. It also offers home improvement loans that are collateralized from $3,000 to $6,000. Loans over $2,500 require a loan fee of 2 points, and may be amortized for a term up to 10 years. However, there is a 3-year balloon feature. Total loan-to-value when a home improvement loan is given must not exceed 50%. Both customer relationship and owner occupancy are required.

Statistical Analysis of Drovers Home Improvement Lending Performance

According to its Home Mortgage Disclosure Reports, Drovers Bank made only one home improvement loan (for $8,000) within its primary service area

(PSA) during 1983. Drovers made a total of two home improvement loans totalling $19,000 that year.

In contrast, the existing market in 1983 for home improvement loans in Drovers's PSA, as indicated by the loans actually made by all lenders, was 505 loans totalling $2,984,000 (an average of $5,900 per loan)*. Drovers' market share was therefore less than 1%. The percent of the home improvement loans actually made by Drovers that went to its PSA was 50% (one out of two).

In 1984, Drovers increased its home improvement lending to 21 loans totalling $49,000, 10 of which (totalling $24,000) went to its PSA (average loan of $2,400). No aggregate data for all lending institutions is yet available for 1984, so no firm market share can be determined. However, if other lenders continued lending at their 1983 levels, Drovers' share of the home improvement market would be approximately 2%.

Identification of Areas of Home Improvement Lending Opportunities

Increased home improvement lending would be both good for the community and in Drovers own interest as it would enhance building condition and real estate values in the neighborhoods surrounding its office. Lending data indicates that a significant market already exists of which Drovers could capture a larger share. A latent market for home improvements could be activated through aggressive marketing, educational services, referral relationships with neighborhood organizations, and utilization of opportunities to offer below-market interest rates.

The following recommendations would enable Drovers' to increase its home improvement lending in its service area. The Concentric Circles frame of reference will be utilized so that the sets of recommendations can serve to direct Drovers into penetration of the different community lending market levels.

* This measurement of market is conservatively estimated. There could be market demand that was not met by any lender in 1983.

To Achieve a Greater Penetration of Market Level 2 in Home Improvement Lending (Level 2 = Total Existing Market of All Lenders)

Recommendations

1. Raise maximum loan amount from $6,000 to at least $10,000.

2. Lower the equity requirement from 50% to 30%.

3. Make loans available to non-customers within the primary service area.

4. Advertise and market this specific product (i.e., include home improvement loan brochures in the lobby).

To Achieve a Greater Penetration of Market Level 3 in Home Improvement Lending (Level 3 = Labor-Intensive Market)

Recommendations

1. Conduct home improvement seminars, co-sponsored with community organizations.

   and/or

   Designate a loan officer as a home improvement counselor available to the public.

   and/or

   Develop a partnership program with local community groups in which the community group provides home improvement counseling and technical assistance to home owners and introduces them to the bank for a loan.

To Achieve a Greater Penetration of Market Level 4 in Home Improvement Lending (Level 4 = Bankable with Third Party Support)

Recommendations

1. Utilize FHA Title I Home Improvement Insurance Program.

2. Participate in City of Chicago Home Improvement Loan Program, when in effect.

3. Form a below-market, Linked Deposit Home Improvement Loan Program, using below-market state deposits. Do so in partnership with local community groups and the State of Illinois.

To Achieve a Greater Penetration of Market Level 5 in Home Improvement Lending (Level 5 = Reaching the Unbankable Who Are In Need of Money)

Recommendations

1. Contribute to a high-risk revolving loan fund that would be administered by a community housing agency similar to a Neighborhood Housing Services. (None exists in Drovers PSA, but could be established by Drovers, together with local community groups.)

V. RESIDENTIAL MORTGAGE LENDING IN 1- TO 4-UNIT BUILDINGS

The Need in the Community

An aging population combined with an in migration of minority groups, many of whom have sufficient income to afford average homes in the area, have created an active demand for mortgage financing.

However, there is concern on the part of some community leaders that more readily available mortgage money would be misused by real estate operators who profit from panic peddling based on racial fears.

Nevertheless, two characteristics of the community housing stock suggest a need for selective mortgage credit that would have broad support in the community. The buildings in Drovers' primary service area have relatively high rates of absentee ownership and vacancy. The extreme situation is in New City, the community immediately surrounding the Drovers office. In 1980, New City had an absentee ownership rate of 65% and a vacancy rate of 8.6%.

Absentee ownership is undesirable because of its correlation with poorly-managed buildings and transient populations. Consequently, there is a need for a mortgage loan program, packaged closely with marketing and counseling services, to encourage owner occupancy. While this is especially needed in the New City/Back of the Yards area, it would be beneficial in the adjacent neighborhoods as well.

The Residential Mortgage Products Currently Offered by Drovers Bank

Drovers Bank offers a fixed rate mortgage at a competitive rate, amortized over a term of up to 20 years with a 3-year balloon. The down payment requirement is 25%. The housing payment to income ratio applied is 28%, and the debt to income ratio is 30%. Owner occupancy is required. An existing customer relationship is required outside the primary service area, but not for properties inside the area. Loans for existing customers will be considered in any location.

In addition, Drovers participates in the Cook County Mortgage Bond Program when in effect.

Drovers Bank is planning to offer First Boston's "Shelter Net" menu of up to 25 different mortgage selections.

Statistical Analysis of Drovers' 1- to 4-Unit Residential Mortgage Lending

According to its Home Mortgage Disclosure Act reports, Drovers made a total of 12 mortgage loans on 1- to 4-unit residential properties in 1983, totalling $480,000. Of these, only four loans totalling $124,000 went to its primary service area. All lenders combined made 666 such loans within Drovers' primary service area totalling $22,306,000. Approximately 10% of this amount was FHA or VA. The remaining 90% were conventional. Drovers' market share was less than 1%.

One-third of the mortgage loans Drovers made went into its primary service area (4 out of 12).

In 1984, Drovers made a total of 32 mortgage loans totalling $1,728,000. Of these, only eight loans ($170,000) went into its primary service area. Thus, 25% of its loans, but only 11% of its residential loan dollars, went into its primary service area. No aggregate data is available for all lenders so a precise market share for 1984 cannot be determined. Lending volume did significantly increase all over from 1983 to 1984. It is estimated that Drovers' market share within its primary service area in 1984 was between 1 and 2%.

Identification of Areas of Residential Mortgage Lending Opportunity for Drovers Bank Within its Primary Service Area

This is a sensitive area because of the concern both white and Hispanic residents have about panic peddling and racial change. However, all parties agree that occupant ownership is more desirable than absentee ownership and recognize that one of the reasons buildings are often poorly maintained in the area is because of the high rate of absentee ownership.

A helpful approach by Drovers would be to encourage home ownership among current neighborhood residents. A highly targeted mortgage loan program for tenants of absentee-owned properties would address several needs at once. The program could be enhanced through below-market rate financing via the State Treasurer's Specific Opportunity Program. In addition, a wider market could be encouraged towards responsible home ownership, while at the same time increasing savings at Drovers, by virtue of a Home Buyers Club sponsored by the Bank.

The high volume of residential mortgage lending taking place in Drovers' primary service area by other lenders indicates strong demand and an opportunity for Drovers to increase its market share.

The following specific recommendations are designed to enable Drovers Bank to increase its presence in the different community market levels within its service area.

To Achieve a Greater Presence in Market Level 2 in Residential Mortgage Lending (Level 2 = Total Existing Marketing of All Lenders)

Recommendations

1) Lower down payment levels to 20% and to 10% with private mortgage insurance.

2) Replace 3-year balloon mortgage with capped adjustable rate mortgage (ARM).

3) Raise debt-to-income underwriting ratio from 30% to 33%.

4) Offer a variety of mortgages including fixed rate, and ARMS of different adjustment periods.

5) Make loans available to both customers and non-customers for properties within the primary service area.

6) Increase advertising and marketing (include brochures in lobby).

7) Establish existing resident referral relationship with the three local civic groups (Back of the Yards Council, United Neighborhood Organization and Organization of New City).

8) Have loan officer go outside the bank to cultivate relationship with local realtors.

To Achieve a Greater Presence in Community Market Level 3 in Residential Mortgage Lending (Level 3 = The Labor-Intensive Market)

Recommendations

1. Establish a Home Buyers Club in which prospective home buyers would save towards the down payment on their own home and receive the mortgage from Drovers. This should be limited to buildings within the primary service area.

2. Conduct public, educational seminars for first-time home buyers sponsored jointly with a local community organization.

and/or

Designate a loan officer as a home buyer's counselor.

and/or

Develop a partnership program with local community groups in which the community group provides housing counseling to prospective buyers and introduces them to the bank. A target market segment that would especially address community problems would be tenants of absentee-owned buildings.

3. Establish a rehabilitation loan policy and train and assign a loan officer in this specialty. These are single loans for the combination

purposes of purchase and rehabilitation or of refinancing and rehabilitation. The loan amount is based upon the as-completed appraised value.

To Achieve Greater Penetration of Community Market Level 4 of Residential Mortgage Lending (Level 4 = Bankable Deals with Third Party Support)

Recommendations

1. Establish a "Linked Deposit Mortgage Loan Program." This would utilize below market state deposit funds to offset a below-market interest rate for mortgages. The programs should be in partnership with local community organizations and follow the model successfully developed by Woodstock Institute for Pioneer Bank in West Town. In Drovers' situation, the program should be highly targeted to tenants desiring to purchase their building from absentee owners.

2. Participate in city, county and state mortgage bond programs.

VI. SUMMARY AND CONCLUSIONS

Opportunities to Address Community Credit Needs Exist Within the Parameters of Sound Business Practices

As described in this report, community credit needs, market needs, market opportunity and good business overlap in at least four areas: retail storefront lending and industrial development lending, home improvement lending and mortgage lending for current residents. With the exception of commercial and industrial lending, Drovers' market share to date in these areas has been minimal. However, substantial opportunities exist in all of these areas through development of more competitive products, a strong marketing strategy and innovative cost-cutting partnerships.

Marketing is Half the Battle

As Drovers Bank experienced with past community lending efforts, the mere offering of a product is not sufficient to assure its use. Whether it is home improvement lending, mortgage lending, commercial lending or consumer lending, a competitive environment requires a competitive product, aggressiveness, initiative and expenditure of advertising dollars. Marketing and advertising is especially important when the targeted market is latent and needs to be motivated and educated as is the case with some of the recommendations made in this report.

Drovers Bank is positioned even farther behind the starting line in the areas of home improvement, mortgage and even consumer lending because it has a public image as a commercial bank.

Marketing both its products and itself will be a key ingredient in Drovers' effort to improve its community lending. The public has to be convinced Drovers really wants to make the loans it needs. Drovers can accomplish this by modifying its products, welcoming referrals by community groups, eliminating customer relationship requirements, loosening its unnecessarily strict down payment and term requirements, establishing lending quotients and goals in departments that are not accustomed to aggressively seeking out the market, advertising specific products (including the simple technique of product brochures in the bank lobby) and establishing the partnerships necessary to penetrate new market levels of community lending.

Partnerships Help to Reach New Markets

Community organizations and government agencies have become increasingly sophisticated in bridging the gaps between traditional, bankable deals and non-traditional, labor-intensive or marginally bankable deals. They are capable of making it easy and safe for a bank to penetrate new markets in the community. A financial institution that is serious about increasing its community lending, improving its CRA rating and improving the quality of life of its neighborhood, has to become flexible and learn how to work in partnership with non-banking partners.

In conclusion, it is highly recommended that Drovers' increase lending within its community. To do so, it has an array of options available which will enable it to not only compete more effectively for a greater share of the existing market, but also to expand beyond it. Increased lending will serve to expand Drovers' customer base, increase its profitable business, and significantly contribute to the economic well-being of the community in which it is located and of which it is a part.