SELECTIVE DEPOSITING BY INDIVIDUALS AND ORGANIZATIONS TO ENCOURAGE REINVESTMENT

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About the Author

Leonard S. Rubinowitz is an Associate of the Woodstock Institute. The Woodstock Institute is a non-profit organization which conducts research, training and education for the public, private, and voluntary sectors about ways to ameliorate disparities in the availability of capital and credit.

Leonard is also an Associate Professor of Law and Urban Affairs at Northwestern University. He received his B. A. Degree from the University of Wisconsin at Madison in 1965 where he majored in history, and his L.L.B. from Yale Law School three years later. Prior to his coming to Northwestern he served as Special Assistant to the Regional Administrator of HUD Region V. In his capacity as a Field Associate of the Brookings Institution since 1975, he has analyzed Housing Assistance Plans from the Chicago metropolitan area for a study that is being conducted by that institution. He is the author of Low Income Housing: Suburban Strategies (Ballinger Publishing Company, 1974), and numerous law review articles having to do with housing and urban affairs. He was part of a team that conducted research and strategy identification for the Illinois Governor's Commission on Mortgage Practices in 1974, and is the co-editor of a set of working papers used by the Commission entitled "Mortgage Lending Practices in Older Urban Neighborhoods" (Center for Urban Affairs, Northwestern University, 1975).

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Summary

This is the second of several papers which discuss strategies that can be undertaken by the voluntary sector to address the problems of disinvestment. The strategy of "greenlining"--so-called by its proponents because it seeks to use the threat of mass withdrawals from a financial institution to increase the flow of mortgage credit into a neighborhood, and, thereby, to reduce or eliminate "redlining" -- began in Chicago around 1970. In addition to discussing how the strategy has been used in several cities, the author points out that there are several conditions which must be present before individuals and organizations actually will withdraw their deposits when requested to do so by the organizers of the greenlining campaign.

Appendix A consists of a copy of an agreement between the Bank of Ravenswood and the Organization of the Northeast (O.N.E.) in Chicago, Illinois. It is typical of agreements negotiated by community groups which have used the selective depositing strategy, and it is used herein with the permission of the parties involved.

SELECTIVE DEPOSITING BY INDIVIDUALS AND ORGANIZATIONS TO ENCOURAGE REINVESTMENT

In much the same way that state and local governments can use their funds to encourage financial institutions to make loans that serve community needs, groups of individuals and private organizations can make their deposits on a selective basis. The purpose of such selective depositing is to influence lending policies by depositing funds in institutions based on their past performance in serving the community and/or on their future commitment to provide such service.

The future commitments requested may involve specified dollar amounts of mortgage and/or home improvement loans in particular geographical areas such as a small town or a city neighborhood. This is analagous to the public deposits approach, except that it involves non-governmental depositors rather than state and local governemnts. It is an incentive system in which private citizens and organizations may look at the past record of financial institutions or the future commitments which those institutions are willing to make in order to determine where to deposit their funds.

When the selective deposit approach is used by private individuals, it is often done under the auspices of community organizations. That is, the effort involves an organized undertaking rather than a series of individual initiatives. When community organizations attempt to influence lending policies through this selective deposit approach, it is sometimes referred to as "greenlining". The greenlining approach was developed in Chicago around 1970, when older residents of an inner city Italian neighboroood found that their children had been unsuccessful in obtaining mortgages in the neighborhood from local financial institutions. The initial effort of this group was to influence a bank to change its policy by withdrawing their deposits. However, they discovered that their combined assets would not seriously affect the financial situation of the institution.

Community organizers have concluded that in order to influence the lending policies of a financial institution, a careful analysis of the amount of money necessary to affect the institution must be undertaken:

> The (community) organization must gain control over the institution's liquid assets for some limited time period. About 17% of the assets of the average savings and loan association are liquid, in any given year (4.25% for any quarter). If a high percentage of the pledges of savers in the target institutions can actually be implemented over a quarter, then the amount of pledges need not be terriby high. For example, in a one hundred million dollar institution, 5% of the total institutional assets represent five million dollars in pledges from about 1,250 pledges (the average account in the Chicago area is about $4,000).[1]

Thus, the greenlining campaign consists of encouraging individual or organizational depositors to pledge to withdraw their savings from a given institution and place their savings in an institution that has made loans available in the area and/

or is willing to make future commitments to serve the community. The financial institutions that are responsive to the community's needs are thus "greenlined" with depositors' savings. In turn, these institutions agree to reinvest in the neighborhoods by making mortgages and home improvement loans available in their depositors' community.

As in the case of public deposits, the private selective deposit approach requires measuring or assessing the financial institution's past performance or future commitments. For example, evaluation of the institution's future commitments would involve: 1) defining the specific geographic area for which improved service is desired; 2) determining the amount of mortgage loan and home improvement loan funds that are needed to finance home sales and rehabilitation in the neighborhood or community; and 3) determining the appropriate division of responsibility among financial institutions which serve the defined area.

After the initial "greenlining" effort in 1970 in Chicago, there were campaigns initiated throughout the city. By 1975, pledges had been accumulated of $105 million in deposits. In return, several local lending institutions agreed to make specified amounts of mortgage money available within defined jurisdictions.[2]

Similar efforts have been undertaken in other cities. In Milwaukee, in 1972, the West Side Action Council sought agreements from local financial institutions to reinvest in that area of the city. The Council obtained 1.25 million dollars in greenlining pledges which were offered to savings and loan institutions willing to agree to the following: 1) not to "redline" any part of the west side; 2) to make mortgages available there on the same terms as in the newer parts of the city; 3) to give high priority to home and business improvement loans; and (4) to give priority to loans for owner-occupied structures over those to absentee landlords. Several local financial institutions made verbal commitments to reinvest in the neighborhood on this basis. In addition, the institutions agreed to make public all of their lending information, by zip code.[3]

Subsequently, a community organization in the east Flatbush section of Brooklyn, New York organized an effort to influence the lending practices of the Flatbush Federal Savings and Loan Association. The organization's members collected pledges from individual depositors stating that they would withdraw their funds if the Savings and Loan Association would not commit itself to reinvest their funds in the area.

After several months of negotiations between the community group and the management of the lending institution, the group indicated that it would withdraw deposits. Those who had made pledges were asked to act on those pledges and $100,000 were withdrawn from the institution. At that point, the association agreed to make mortgage money available in the community, and to lower the down payments from 30% to 25%. The community group then agreed to wait three months before evaluating the association's reinvestment practices. At the same time, a full-scale advertising campaign was initiated in order to inform the public that mortgage money was once again available in the neighborhood.[4]

Those who have been involved in greenlining campaigns conclude that pledgees are likely to withdraw their funds, if requested to do so, when the following occurs: 1) the depositors are informed that there are relatively convenient alternative financial institutions in which to deposit their funds; 2) depositors are informed that procedures for withdrawal of funds are simple and inexpensive; 3) savers are not asked to remove their savings so rapidly that they lose interest; 4) the effort concentrates on a few institutions and follows up on all pledges in these institutions through mail and personal contact.[5]

A pattern emerges from these efforts by private individuals and organizations to use a selective deposit approach. These groups have become concerned about the practices of financial institutions in the neighborhoods, and have sought agreements with the financial institutions to reinvest in the neighborhoods. If such agreements are not immediately forthcoming, the groups begin to collect pledge cards which state that the individual depositors will withdraw their funds if the bank or savings and loan association does not agree to reinvest in the neighborhood. If further negotiations fail to bring about agreement between the community groups and the institution's management, depositors are asked to withdraw their funds. The community groups seek a specific commitment in terms of dollars and general location for reinvestment by the financial institution.[6] The organizations may also seek to have the institution make its deposit and loan data available. This permits the public to monitor the institution's practices to see if they are in conformity with its reinvestment commitments.

Whether greenlining is an effective strategy for changing the lending patterns of financial institutions is open to debate. Some lenders contend that it is more of an harassing tactic than one which is designed to bring about good faith negotiations between dissatisfied customers and management. Leaders of community groups that have used the strategy -- such as Robert Creamer, formerly director of the Citizen Action Program in Chicago, Illinois -- maintain that greenlining works.[7] One thing is clear, however, and that is the fact that as the problem of disinvestment has become more widely discussed, and the complex interrelationship of various actors (in addition to financial institutions) in the mortgage lending process better understood, community groups that once relied almost solely on the greening strategy have shifted their focus from simply demanding that more mortgage money be made available, to debating with lenders about the terms of mortgage lending.

Financial institutions do compete vigorously to attract consumer deposits as evidenced by the barrage of advertising for special accounts, premiums, etc. Given this competition, it is reasonable to assume that the managements of all but the largest or the most isolated financial institutions will have some concerns about any organized campaign to persuade individual and organizational depositors to move their accounts. In spite of this fact, however, unless individual and organizational greenlining efforts are combined with other strategies -- such as selective depositing of public funds and/or regulatory reform of appraisal and underwriting standards -- the strategy may not achieve the desired goal of increasing the flow of mortgage credit to communities that perceive themselves as having a disinvestment problem.

Footnotes

[1] Creamer, Robert. "Organizing Money," from anthology prepared by the Woodstock Institute, Chicago, Illinois for Governor Walker's (D.-Ill.) conference entitled "From Redlining to Reinvestment: Using State Regulatory Authority and Capital Investment Expenditures to Leverage Private Capital and Credit," September 1-2, 1976 (Chicago, Illinois), pp. 16.1-16.5.

[2] *Ibid*.

[3] Schieber, Ted. "C.A.P. Charges Loop Banks Ignore Neighborhoods," Chicago *Tribune*, February 6, 1975, p. 1 (Section Two).

[4] "The Greening of East Flatbush," *Village Voice*, May 2, 1977.

[5] "Organizing Money."

[6] Werner, Frances; Frey, William and Madway, David M. "Redlining and Disinvestment: Causes, Consequences, and Proposed Remedies." *The Clearinghouse Review*, October 1976, Vol. 10, No. 7.

[7] Creamer, Robert. During panel discussion at conference entitled "Banking for Non-Bankers: The Public Interest and Development Banking," June 5-10, 1977 in Chicago, Illinois. (Sponsored by Woodstock Institute, South Shore National Bank, National Public Interest Research Group, and National Conference on Alternative State and Local Public Policies).

<u>APPENDIX A</u>

This is an understanding between the Organization of the North East, hereinafter referred to as ONE, and the Bank of Ravenswood, hereinafter referred to as the Bank, both of Chicago, Illinois, for the purpose of implementing policies of reciprocal positive support between the bank and the surrounding community residents, businesses, and institutions, as follows:

1. THE COMMUNITY AND THE BANK SERVICE AREA

   ONE's community is Edgewater and Uptown.

   The Bank's service areas are:

   a. Primary Service Area representing 81.5% of total deposits, comprised of postal zip codes 60613, 60614, 60618, 60625, 60626, 60640, 60645, 60657, 60659, 60660.

   b. Secondary Service Area representing 7.7% of total deposits, comprising the rest of the North Side of Chicago.

   As ONE and the Bank continue to interact on policies of reciprocal support, the community in question will be those of Uptown and Edgewater that fall within the Bank's service area.

2. REINVESTMENT POLICIES

   In recognition of the need for availability of credit to community businesses, residents, and institutions to assure long-term vitality of the community, the following policies of reinvestment will be implemented:

   a. Lending priorities to be followed in establishing creditworthiness of applicants, other factors being equal, are as numbered below:

   (1) Depositors in Primary Service Area

   (2) Depositors in Secondary Service Area

   (3) Other depositors

   (4) Private investors in Primary Service Area

(5) Applicants from Primary Service Area without prior history as investors or depositors

(6) Private investors in Secondary Service Area

(7) Shareholders who are not depositors in either service area

(8) Applicants from Secondary Service Area without prior history as investors or depositors

(9) Other private investors

(10) Other applicants without prior history as investors or depositors

b. The Bank pledges that in regard to Uptown and Edgewater applicants, the criteria for establishing creditworthiness shall not include the applicant's address, sex, marital status, religion or ethnic origin as negative factors.

c. Records will be kept for a reasonable length of time on all loan applications, whether accepted or denied, and will include notations indicating the person's name and address, amount and purpose of the loan request, and if denied, the reason therefore, along with date of acceptance or denial and the name of the loan officer responsible for processing the application.

d. No applicant will be denied a loan without being told why, and a letter of denial will be furnished to applicant upon request so that he may use the declination to qualify for credit through government or other support programs.

e. The Bank will devote staff time and extra effort toward assisting applicants from Service Areas in Uptown and Edgewater to qualify for loans. Any applicant from those Service Areas not immediately qualifying for a loan will be referred for interview by the loan officer designated Community Development Officer.

f. In recognition that there should be correlation between origin of deposits in the Community and the Bank's obligation to foster reinvestment, the Bank has established or will establish the following average Loan-Deposit ratio goals:

65% overall within one year
65% overall within two years

55% in the Primary Service Area within one year
55% in the Primary Service Area within two years
55% in the Secondary Service Area within one year
55% in the Secondary Service Area within two years

g. The Bank will actively encourage and promote applications for loans from the Community and publicize its Community Development services.

3. UTILIZATION OF GOVERNMENT GUARANTEED LOAN PROGRAMS

In recognition that Federal, State and other governmental agencies offer programs to guarantee certain loans, not to assist financial institutions to maximize profits but to reduce the risk factor in reinvestment programs, the Bank will utilize those programs for qualifying Service Area applicaths from Uptown and Edgewater, to the extent that funds are available under Loan-Deposit ratios.

4. ACCOUNTABILITY

The Bank will furnish to ONE within 60 days after date of this understanding and each six months thereafter a report on geographic origins of deposits and of loan recipients. In addition, when it is mutually agreed that certain community areas require extraordinary attention and efforts to achieve or maintain economic stability, the Bank will make a reasonable attempt to furnish aggregate data on the number, type and total volume of loans in those areas.

5. PUBLIC MONIES

In consideration of the Bank's commitment and responsiveness to the Community, ONE pledges to seek widespread public support, and support of elected and appointed government officials, that public monies designated for construction or operating budgets of projects or programs in our Community be placed on deposit in the Bank and other local responsive financial institutions, for the longest feasible periods and under the most favorable terms obtainable.

6. FOSTERING COMMUNITY SUPPORT

ONE will designate the Bank as a "Community-Responsive Financial Institution" and will promote support of the Bank by direct contact with block clubs, neighborhood councils, religious groups and institutions, as well as the general public of the Community. In return for the Bank's commitment in this understanding, ONE will actively encourage businesses, institutions, and individuals to form relationships with the Bank as depositors and investors. ONE conducts a regular campaign of public information, and the facts about the Bank's adoption and implementation of policies that are in the Community interest will be communicated through public announcements, press releases, and printed materials.

The Bank is also invited to advise ONE from time to time of its position on public issues, and when the Bank's concerns on regulatory or legislative matters are deemed synonymous with the interests of the Community, ONE will so inform the public and community organizations and elected and appointed representatives and officials.

7. DURATION AND RENEWAL OF THIS UNDERSTANDING

In recognition that the Bank may develop special capabilities or that changes in regulatory requirements may be cause for review of this understanding, and in recognition that Community needs may change, representatives of the Bank and ONE will meet regularly in the first week of October, January, April and July to amend this understanding if necessary. In addition, the Bank or ONE may request conferences at any time. This understanding is to remain in effect for a period of one year and is deemed automatically renewed unless ONE or the Bank gives written notice of a desire to negotiate a new understanding 60 days prior to the expiration of this understanding.