FROM SWORDS TO PLOWSHARES:

A Case Study of The CRA Agreement Between Beverly Bank and The Chicago Roseland Coalition for Community Control

By

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THE WOODSTOCK INSTITUTE

The Woodstock Institute is a not-for-profit organization based in Chicago. For the past nineteen 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.

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PREFACE

The problems of our inner cities are nothing new to most Americans. Our country is constantly struggling, however, to find effective solutions for these problems. Thus, it is certainly good news when a program comes along that "helps lower-income Americans own their own homes but does not breed welfare dependency, does not expand bureaucracies or budget deficits and does not hurt business or the economy." This program, as described by U.S. News and World Report, is the Community Reinvestment Act (CRA). Through CRA, banks and savings and loans are given the responsibility of meeting the credit needs of all those who live in their community. People with lower incomes can find ways to expand their economic horizons without depending on government assistance.

This case study shows the Community Reinvestment Act at work in a particular community. Through CRA, a community group was able to secure additional lending from a local bank to revitalize its community. This publication is a companion piece to **Making CRA Work for You: A Guide to Community Organizations**, published in 1991 by Woodstock Institute. While that manual provides specific information on CRA and step-by-step instructions for utilizing it, this report shows the actual efforts of a community group in securing a reinvestment agreement. While this case shows that dedication and some technical knowledge is needed to effectively utilize the CRA, almost every group can use CRA to bridge the gap between communities and credit.

We hope this report will also be useful for bankers. This agreement is a true success story for the bank as well as the community group. After all, both share in the same community. This report shows how one bank acted to extend credit to where it was needed, and was rewarded in the process. More generally, this report is of interest to all those who are concerned about the plight of our urban areas. So much of what is filtered through the media focuses on the problems of these areas. The agreement detailed in these pages, while only a beginning, has provided opportunity to many who otherwise would not have had it.

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I. STARTING THE PROCESS

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Credit is the lifeblood of any community. Without it, existing businesses cannot expand, new businesses cannot find capital, new homeowners cannot buy houses, and current homeowners cannot renovate their housing. When the supply of credit dries up, the community's economic health begins to slowly deteriorate. Failing businesses are no longer replaced, and old homes and vacant lots are left to gather trash and graffiti.

During the mid-1980s, the Chicago neighborhood of Roseland was a picture of a credit-starved community. The most visible symptom was the large number of abandoned houses that dotted Roseland's landscape, over 600 by some estimates. Vacant shopping centers were another indication, as were the currency exchanges with their red and yellow signs on many street corners. Between 1980 and 1983, the community of Roseland received an average of $1,058 in lending per housing unit. The average for the City of Chicago was $2,179 per lending unit, double the figure for Roseland. Yet the 1980 census reports that Roseland's average income was $20,188; the City's average was only $18,770. Obviously, the lending patterns throughout the city were not consistent with the income patterns of the various neighborhoods. Lakeview, a white North Side neighborhood, had an average income of $20,716, just slightly above Roseland's. From 1980 to 1983, however, it garnered an average of $3,727 in lending per housing unit.

The Economic Collapse of Roseland

The story of Roseland's economic downfall begins in the mid-1970s. In the early 1970s, Roseland was a prospering, primarily white community of single-family homes and nearby opportunities for industrial jobs. Like many neighborhoods in Chicago, however, Roseland underwent rapid racial change in the 1970s, until it was almost 95 percent black by 1980. This change was incited by unscrupulous realtors who played on white fears and black hopes. The pattern went like this: realtors would prod white homeowners into selling their homes using fear of a black influx into their neighborhood. The realty company would buy the homes, the whites would move into the suburbs, and the realtors would then sell the homes to blacks for a higher price using government-backed FHA loans. FHA loans have more flexible underwriting standards than conventional loans, and thus are affordable for many who cannot meet conventional standards or do not have a large down payment. Some mortgage companies, however, would secure loans for those who could not even meet government standards by falsifying information on the loan applications.

Had these loans worked, Roseland would likely have remained a prospering, if lower income, community. However, many of the new residents soon found that they could not afford to meet their payments. After the first missed payment, many mortgage companies would then move quickly into foreclosure proceedings. If the company foreclosed on a government-backed loan, the Department of Housing and

Urban Development would be forced to pay off the loan to the company and then would assume ownership of the house. In this way, hundreds of single-family houses were foreclosed on and then abandoned. Major plant closings, such as the three nearby steel mills that closed shop in the mid-70s, meant a loss of jobs for Roseland residents, resulting in even more foreclosures.

The loss of jobs and abandoned housing had a snowball effect on the area's economic climate. The once-thriving commercial strip, which included a Sears, a J.C. Penney, and a large auto-supply shop, became riddled with vacant lots. Crime began to rise. And banks and savings and loans stopped lending in Roseland. This removal of credit, known as "redlining", occurs when banks deem an area too risky to lend in, and they systematically deny loans to residents and potential investors in the community. The name comes from the red line that one bank drew on a map around areas in which it refused to lend. The banks' prophecy about an area is usually self-fulfilling; by denying credit to a neighborhood, they prevent its economic growth.

Thus, during the 1980s, while much of the city of Chicago was undergoing a housing boom, Roseland's market stagnated. In 1984, Roseland averaged about $746 of residential lending per unit, compared to the citywide average of $917 and the Lakeview community's $1,347. By 1986, the city's average had risen to $1,637, nearly doubling; Lakeview's had more than doubled to $3,000. Roseland's part in this boom, however, consisted of a rise to $990 per unit, only $244 higher than 1984.

Despite past problems, Roseland residents continued to rely on mortgage companies and FHA loans to finance their homes. When banks have redlined an area, mortgage companies may be the only source of credit available to the community. These companies, however, are not federally regulated, and often will charge a higher interest rate for their services. In 1986, banks and savings and loans made 413 loans in Roseland, while mortgage companies made 283. The mortgage companies' loans, however, totaled $11.4 million, while banks and savings and loans loaned only $7.1 million. In comparison, in Lakeview banks and savings and loans made 1,278 loans totaling $138.7 million, and mortgage companies made 355 loans totaling $31.6 million.

FHA/VA lending is similar, in that it too is often the only available credit. The lower downpayments may make FHA/VA loans more accessible in the short term, but over the long term these loans can be more expensive than conventional loans. In 1986, 187 FHA/VA loans were made in Roseland totaling $9.1 million; Lakeview had only 30 FHA/VA loans totaling $1.8 million. Conventional lending, on the other hand, requires a larger downpayment but may over the long run be less expensive. Roseland had 188 conventional loans totaling $7.2 million; Lakeview had 1,381 conventional loans totaling $118.4 million.

Chicago Roseland Coalition for Community Control

The Chicago Roseland Coalition for Community Control (CRCCC) was formed in 1975 as a neighborhood block club, acting primarily as an advocacy group for issues affecting the Roseland community. In 1984, CRCCC assumed a more active role in community life by incorporating itself and securing nonprofit status. It formed a community board and began to attack the major problems confronting Roseland. At the beginning, the group focused on anti-crime and community building activities. As CRCCC established itself, it began to move into economic issues, such as job training and economic development. Leading the effort was Willie Lomax, a co-founder of CRCCC who had spent 1980-1986 working in Springfield, the state capitol, as a government administrator. When he returned to CRCCC in 1986, Lomax pushed the organization to conduct an economic needs assessment of the Roseland area. Credit, as well as insurance and employment, topped the list of community needs.

In September, 1986, CRCCC created a Housing Counseling Program to stop foreclosures and defaults by educating homeowners about the rights and responsibilities of having a mortgage. CRCCC also began to investigate how it could start to bring new lending into the community. The first step would be to look at local financial institutions to see who was lending within the neighborhood and who was not. CRCCC's preliminary investigations within the community led it to look more closely at Beverly Bank.

Beverly Bank

Headquartered at 1357 West 103rd Street (just outside the official boundaries of Roseland), Beverly Bank had long been an institution on the far South Side. With assets of $204 million in 1986, Beverly Bank was one of the larger community banks in Chicago. It was owned by Beverly Bancorporation, which had purchased the Matteson-Richton Bank in 1985. Matteson-Richton was a suburban bank, and the Roseland community perceived this acquisition as one of the signs that Beverly Bancorporation was more interested in doing business in the suburbs than in Roseland. In 1986, Beverly Bank opened a new office in Orland Park, and began building a new facility there. At the same time, the bank closed its limited service "annex" at 1140 West 103rd Street, the bank's closest facility to the black community. The annex was separated from the main office by a highway, a high school, and train tracks, and some Roseland residents missed the convenience and familiarity of the drive-thru. More importantly, the residents feared that the main branch might move entirely out to the suburbs, or at least substantially further away.

Robert Teresko, president of Beverly Bank at the time of the closing, says that the bank was actually intending to strengthen its ties to the area by closing the annex. "The old drive-in was too small and needed substantial repair," he says. "So we closed it and opened a new drive-in at the main branch two blocks away. We wanted to better serve our customers in the area." Teresko attributes the residents' fear to lack of communication and a level of mistrust some residents had for the bank. Similarly, a woman in charge of minority relations for the bank found her position being phased out. Teresko felt that everyone in the bank should be responsible for community and minority relations, not just one person. Others, however, saw the bank's move as a disinterestedness towards the black community.

According to the Community Reinvestment Act (CRA), banks and other "regulated financial institutions have continuing and affirmative obligation to help meet the credit needs of the local communities in which they are chartered. . .including low- and moderate-income neighborhoods." (12 USC 2901, Sec. 802, 804) At the time, Beverly Bank felt it was in compliance with the spirit of CRA. "The acceptable standards of CRA were not clear then," says Teresko. "We had a history of being an involved community bank, and in the absence of any outside criteria, we thought we were doing fine. In fact, we felt we were doing more than most." CRA compliance was not rigorously enforced at the time, and banks paid much less attention. "A CRA program often meant a scrap book with pictures of bankers handing out stuffed animals to kids," says Teresko. "It didn't mean what it does today."

Initial Investigations

Lomax paid a visit to the main branch of Beverly Bank in the early fall of 1986 to obtain Beverly's CRA statement and Home Mortgage Disclosure Act data. All banks are required by law to have a CRA statement in which they describe how they will meet their lending responsibilities to the entire community, including low- and moderate-income areas. This statement must delineate the local community of the bank, list the specific types of credit that are offered to the community, and provide a copy of the CRA notice which informs the public about CRA requirements. The Home Mortgage Disclosure Act (HMDA), passed in 1976, requires banks and savings and loans to report the residential loans they had made for the year by census tract and type of loan. HMDA data thus shows the patterns of an individual institution's lending, and allows regulators and communities to determine if certain areas are being redlined by certain institutions. Both the CRA statement and the HMDA data for the bank are required to be readily available for public inspection at each office of the bank or savings and loan, and copies are to be made available to the public.

Upon entering the bank, Lomax says he was struck by the bank's apparent lack of attention to CRA. A posted CRA notice, required in all banks, was nowhere to be seen, and neither was the CRA community map, delineating the bank's community area. Lomax approached the president's secretary and asked to see the president. Teresko came out, whispered to his secretary, and then approached Lomax. Lomax told Teresko about the lack of public CRA notices, and asked to see a CRA statement and the bank's HMDA data file. "He told me I had no right to see that," says Lomax, "so I said, 'Why don't we call the FDIC? They'll tell you I have a right to see those files.' Then he threatened to call the police. I said, 'I don't mind, I could use the free publicity. And I'm sure your Board of Directors would love it, too.'" By this time, the sight of two men yelling at each other in the lobby had attracted the notice of customers. Teresko finally demurred, and Lomax was given the bank's HMDA data.

Early Dialogue

It was about this time that Lomax joined with several local ministers in pursuing negotiations with the bank. In a letter to Teresko, the group asked to "discuss the role of Beverly Bank in the black community" on such topics as loans to black businesses, churches, and students, the lack of mortgages, the closing of the annex and the level of black employment at the bank. After initial discussions with Teresko, the group sent a letter on January 6 challenging the bank to make ten "commitments of accountability." First on the list was to "assist [the group] in formulating a savings bank from capitalization to administration." One of the ministers wanted to start a savings institution for the black community in the annex building that the bank had closed. Other requested commitments included setting aside ten percent of the bank's portfolio for black businessmen, providing 100-200 student loans to Roseland students, establishing a new home improvement loan program, promoting three black female staff members to vice-president, and putting three to five blacks on the Board of Directors for the bank.

Teresko replied a few weeks later. He could not, he stated in a letter, help the group form a new bank, because banking regulations prohibited it. He then set out his strategy for negotiations. "I would prefer," he wrote, "to spend our time concentrating on those areas where we can make good and positive progress and defer, for a second phase, the more difficult concepts over which there may be disagreements." He singled out "preparing the younger members of your congregations for economic success and stability" as a "top priority," and said that the first step would be to search for available funds from grants or loans for financial assistance. He also expressed interest in an internship program. "I do not know that this response is what you wanted," Teresko wrote. "I will not doubt the sincerity or motives of your requests, and would ask that you do the same for us."

The Boycott

The negotiations continued throughout January, but to little avail. The ministers and Lomax decided protest action was necessary to produce real concessions from the bank. Following through on earlier plans, they decided to boycott the bank. Lomax, who had long been a community organizer, was no stranger to the tactics of community pressure. Along with the ministers, he mapped out a four-part plan for the boycott: 1) encourage community members to withdraw their funds from the bank; 2) have people call the bank constantly to jam their phone lines; 3) arrange a picket outside the bank; and 4) contact members of the bank's Board of Directors by phone, mail, or in person to complain about the bank's practices. Lomax was able to get about 75 people to participate in the picketing, calling, and spreading of the news. Flyers were printed up and distributed throughout the community. Local newspapers such as the Chicago Defender and a local TV station reported the boycott. While the boycott had an economic impact, more harmful to the bank was the erosion of its credibility within the community. "We had white and black customers coming up to us, asking us what we were doing wrong," says Teresko.

It is apparent from the flyers and publicity surrounding the boycott that the confrontation had taken on racial overtones. The bank "disrespected" the black community, according to the coalition. Flyers, bearing the picture of Martin Luther King, Jr., said that monies from black depositors went "to an all white suburban bank board," that "black folks money went to purchase 'all white' Matteson-Richton bank. . .for white workers only," while the "103rd Street annex closed down and black workers fired!!!" Another flyer stated that "an insufficient number of loans are being made to: black businesses, black churches, black students, single black women. . .We will not be taken for granted. . .Stand up and be counted." The ministers' influence over the boycott was also easy to see. After talking about bank reinvestment in the community, one flyer stated: "Armed with the facts and shielded by the knowledge that truth crushed to earth will raise again, we prepare to meet our (first) Goliath, the Beverly Bank, on the battlefield of honor; and like David we shall overcome."

The official boycott stretched on until the last week in February, when an accord was reached between the protesters and the bank. Rather than forcing concessions, however, the protesters settled for further negotiations and a promise from the bank to try harder. "Our dialogue with Beverly Bank has identified goals and areas of common concern toward which the parties will proceed in good faith," stated one minister in the Defender. Lomax, according to the article, merely stated that "it was a fruitful meeting which brought on fruitful understanding."

Standstill

Soon thereafter, Lomax and CRCCC broke with the ministers and started a new round of negotiations with the bank. Lomax had been more interested than the ministers in focusing on the goal of getting credit back into the neighborhood, and he found the bank was initially responsive to a new round of negotiations. Over the next several months, however, little headway was made. The meetings would sometimes become contentious, and neither side could really trust the other. One time, says Lomax, he had prepared a fact sheet on the bank's lending and then gave it to Teresko. "We argued over it, and then he ripped it up," says Lomax. "I told him he'd better tape that one back together, because I wasn't going to bring him another one." "At times things got fairly heated," acknowledges Teresko. "The bank was like my family, and I was very protective of my family."

II. FROM CONFRONTATION TO AGREEMENT

II. From Confrontation To Agreement

Before CRA, the only ways to pressure banks into changing their reinvestment policies were the traditional means of public protests, such as pickets and boycotts. While these methods can work in some cases, it is almost impossible to keep sustained pressure on an institution. Even if the bank was forced to negotiate, it was difficult to establish long term accountability for the bank. The bank, ultimately, could make illusory concessions without making actual changes in their lending practices. There were no external incentives to work with the community.

Under CRA, however, banks must answer not only to the community, but also to a higher authority: their regulatory agencies. Whenever a bank wants to close a branch, open a new one, create a new affiliate, or merge with an existing institution, the bank must apply to its regulatory agency for approval. The regulators then conduct an evaluation of the application, examining the bank's safety and soundness as well as its community reinvestment record. Community groups may even protest a bank's application on grounds of failure to comply with CRA. If the community groups present a convincing case, the regulators may decide to deny the application outright, or grant conditional approval requiring changes in the bank's practices.

Beginning the CRA Protest

Banks become vulnerable under CRA when they make the application. On June 15, 1987, Beverly Bank applied to the Federal Deposit Insurance Corporation (FDIC) to open a new facility in Oak Lawn, Illinois, a suburb of Chicago. Woodstock Institute, a nonprofit advocacy and research organization, had created a notification system of CRA opportunities for local community groups. Woodstock contacted CRCCC when it learned of the Beverly Bank application. The bank's application was doubly significant for CRCCC. It not only signaled the bank's continuing shift from the city into the suburbs; it also presented an opportunity for CRCCC to protest this shift.

Lomax knew that an effective protest would need legal and technical assistance to make the best case possible. Daniel Burke and Jean Goodwin, lawyers with the Legal Assistance Foundation (LAF), signed on to handle legal affairs for the challenge. Burke had been working with CRCCC on another matter, and had also worked previously on a CRA protest. Josh Hoyt, a vice-president at Woodstock Institute, was asked by LAF to conduct a thorough analysis of Beverly Bank's community reinvestment record as the substantive centerpiece of the CRA protest. Burke and Hoyt had worked together on another CRA protest, and were familiar with many of the intricacies of the law.

After an application that is subject to CRA is filed, the regulatory agency provides a "comment period" during which time community groups may send information on the bank's reinvestment record to the agency. Upon finding out about Beverly Bank's application, CRCCC's first move was to ask for an extension of the comment period. The FDIC had only provided for a ten day comment period, and once that period was closed, the agency would accept no more information. CRCCC needed more time to make the best presentation possible. The FDIC granted the 60 day extension that CRCCC requested.

CRCCC saw the protest not as a way to prevent the bank's expansion, but rather as a tool to force a real reinvestment commitment from the bank. In early July, Willie Lomax sent a letter to Bob Teresko notifying him of the comment period extension and requesting a new round of negotiations. Lomax told Teresko he wanted to work towards a "community reinvestment agreement that serves the credit needs of our community." Teresko's reply came three weeks later. "I really thought," he wrote, "that, earlier this year, we had made some progress in communicating. Obviously, you and I are not as far along as I had thought. I continue to extend the invitation to stop and visit, and talk about the concerns in your community." Teresko's notion of a "talk", however, did not match CRCCC's desire for negotiations.

Regulatory Oversight

On July 15, LAF sent a letter to Paul Rooney, regional director of the FDIC, requesting a summary assessment of Beverly Bank and nonconfidential parts of its CRA file. The summary assessment was a brief synopsis of the CRA evaluation made by bank regulators after a CRA examination had been conducted. In May, 1987, the FDIC had conducted a CRA examination of Beverly Bank, and found it to be in compliance. Regulations required that the examination include a rating, which was then kept confidential, and a summary assessment, which was to be available to the public.

After the request was made, however, it soon became apparent that the summary assessment had never been written. Woodstock Institute eventually learned that summary assessments for over 19 banks in the Chicago area had not been written for the examinations conducted by the FDIC. Woodstock passed this information along to Senate Banking Committee Chairman William Proxmire, who wrote a letter to FDIC Chairman William Seidman asking for an explanation of its lax CRA enforcement. The FDIC eventually explained that it did not write summary assessments for banks which had received a satisfactory or better rating. CRCCC decided to put some additional political pressure on the agency and petitioned the Illinois senators, Sen. Alan Dixon and Sen. Paul Simon, to support the community's request for the assessment. On July 28, Sens. Simon and Dixon wrote to Seidman: "Without the information contained in the summary assessment, interested groups are less able to make informed comments on applications before the FDIC. We urge you to provide the information that would have been contained in the summary assessment to the Roseland Coalition."

Two days later, the FDIC provided a summary assessment. It is written below in full:

> A review of the subject bank's performance relative to the Community Reinvestment Act (CRA) was conducted as of May 18, 1987. The bank is very active in student loan programs and consumer lending. The majority of the

bank's loan extensions are within the delineated community, including several commercial loans to local small businesses. Although it was noted the volume of traditional real estate mortgages and home improvement loans made by the bank was low, the bank's new home equity loan program is being marketed in the community and reportedly is being used as a substitute for more traditional real estate loans. The bank appears to be addressing the credit needs of its delineated community in a generally satisfactory fashion.

The assessment was an obvious disappointment to the supporters of CRCCC. Its vague acceptance of Beverly Bank's policies showed little interest in penalizing banks that did not comply with CRA. At the same time, however, the assessment showed that there was little evidence to back the FDIC's initial assessment, making it easier to overturn in the future.

More importantly, the FDIC's failure to initially provide the assessment had generated attention and political heat around the agency. The political nature of the CRA protest in turn made the FDIC more sensitive to CRA claims. "That was the smoking gun," said Daniel Burke, looking back on the protest. "The fact that [the assessment] hadn't been done was embarrassing to the bureaucracy. The FDIC then began clearly communicating to the bank that it was in their best interest to reach an agreement."

The Official Protest

Due to the delay in the release of the summary assessment, the comment period was further extended to August 7. Burke wrote one last letter to Teresko before the deadline, reiterating CRCCC's willingness to negotiate even after the protest was filed. The bank did not reply, but did send a "Community Reinvestment Assessment" to the FDIC, defending its record. The two-page statement argued that its restructuring, including the closing of the Roseland branch, was designed to result in "an increased service to the community." The bank touted its student loan programs, its home equity loans, and its small business forums as examples of its CRA commitment. The numbers the bank cited in its assessment, however, undercut its claims. Only 57 percent of all its loans, and only 35 percent of its commercial loans, fell within its primary CRA area.

CRCCC filed a formal protest on August 7. The protest had two parts: a ten-page letter from LAF and a ten-page analysis of Beverly Bank's reinvestment record with 17 appendices from Woodstock. In the protest letter, Burke requested a formal hearing on the application, and outlined the reasons for this request. "The findings of the Woodstock Institute, which are supported by documentation provided. . ., offer uncontroverted evidence of the bank's failure to meet community credit needs," stated Burke. Due to this failure, the bank was not in compliance with CRA regulations. A hearing was needed because "no other forum has considered the merits of the bank's community reinvestment efforts." The bank's "adversarial conduct" and unwillingness to negotiate had prevented any progress towards agreement between the two parties. The letter then attacked the FDIC, stating that the summary assessment "clearly demonstrates that the FDIC has not performed a CRA examination that comports with either FDIC policies or regulations." A hearing was necessary to set the record straight.

Woodstock's analysis addressed the substantive issues in CRCCC's claim. Using the CRA regulations as a guide, Hoyt outlined the many ways in which Beverly Bank failed to meet its CRA responsibilities. It had failed to maintain a CRA file of public comments, a violation of the statute. It gave "no evidence" that it had "undertaken any effort to determine community credit needs." Real estate brokers, newspapers, community groups, and businesses that served the black areas of the bank's community area had no contact with the bank and felt shunned. The bank had stopped offering mortgages, made no FHA/VA, or multifamily loans, and was shrinking the number of home improvement loans it made. The loans that were made increasingly fell outside the community area, and outside of the black neighborhoods within that community area. Overall, the report concluded that the bank clearly had a "poor" record of community reinvestment.

These conclusions were substantiated clearly and effectively with a variety of sources. HMDA data, Beverly Bank call reports, and information supplied by the bank to the FDIC and the City of Chicago were used to document the bank's lending practices in detail. Surveys of area real estate brokers, newspapers, and community groups showed the bank's lack of contact with the community. A study by the Fair Housing Legal Action Committee used HMDA data to document the bank's suburban lending. Finally, the bank's lack of a CRA file was documented by letters that should have been in it and an affidavit from an LAF attorney that the bank had not had this information in a file.

Negotiations

Soon after the protest was filed, Beverly Bank agreed to negotiations. "There was a good possibility our application would have been approved," says Teresko. "But we knew it wouldn't resolve the issues, and we wanted to resolve them." "I don't think they had much choice," Jean Goodwin told a local newspaper. "If they didn't negotiate, we'd subject them to a public hearing with the FDIC. Even if they won that hearing, we could appeal to the courts. It would only take more time, and who knows when they would get their Oak Lawn application approved."

The bank wanted negotiations to be held at the offices of Mayer, Brown and Platt, the bank's legal counsel. CRCCC agreed, but only under the condition that CRCCC could conduct the negotiations. Before sitting down with the bank, the CRCCC team of Lomax, Hoyt, Burke and Evangelist Samuel Jordan developed a negotiating strategy, which enabled them to seize the initiative at the outset. For example, the group developed a concrete plan of action based on Woodstock's CRA experience and CRCCC's knowledge of its community. This plan took the form of ten "negotiating points," such as loans for single-family housing, loans for abandoned housing, and affirmative action programs. In addition, Lomax made sure to control the procedural aspects of the negotiations. He arranged the seating so that bank representatives sat next to community representatives. He felt this would not only break down the barriers between the groups, but also prevent the bankers from whispering to one another during negotiations. Lomax also decided when to open and close the daily sessions, and he kept them going usually about nine hours a day. Breaks were short, when they were allowed. "I was used to going without food, being an organizer, but they weren't," says Lomax. "I don't smoke, so I didn't have to worry about that, but some of those bankers, they started sneaking off to the bathroom to get a smoke."

Lomax's strategy was to wear down the bankers into accepting CRCCC's model agreement. The long hours not only fatigued the bankers, but also cost the bank a great deal of money. "They've got the money, but we've got time," says Lomax. "Time was on our side. They've got to pay their lawyers by the hour, but our lawyers were free, doing pro bono work. 'We can fight here all day,' we'd say, 'our lawyers are free.'"

The negotiations lasted a week. Initially, some of the bankers were reluctant to commit any lending to the Roseland community on principle. They did not feel their financial integrity should be compromised by what they considered risky low-income loans. CRCCC countered this fear by offering to work with the bank to develop solid, credible loans. After agreeing upon $20 million in targeted lending as a goal, the two sides clashed over what loans could be used toward this goal. "The bank wanted to count consumer lending and home equity loans toward the total," Hoyt reported to a local paper. "These are good loans, we're happy the bank makes them. But we don't believe they solve the housing or business needs of the area. We wanted the agreement to mainly include home improvement loans, mortgages, and small business loans."

The Agreement

In the final agreement, CRCCC got largely what it wanted. Over a five-year period, Beverly Bank committed $20 million to low- and moderate-income areas in the bank's community areas. The bank agreed to reopen its mortgage department, and $5 million in single-family mortgages were committed. Another $5 million went toward home improvement loans, with half of that amount designated specifically to homeowners with less than $30,000 in equity. Two million dollars were targeted to a special home purchase program for foreclosed or abandoned housing. Five million dollars were designated for commercial lending in low income areas, and the remaining $3 million would be available for a variety of types of loans, including consumer, home equity, and student loans.

The bank also agreed to extend its banking services to the Roseland community. The agreement specified that a new ATM would be set up in Roseland. Additionally, the bank established a new service for those using government benefit checks for their income. These checks would be directly deposited into an account at the bank, and customers could access their money through an ATM card. These accounts could also be used to pay bills at a nearby bill payment facility. A $2 monthly fee would be charged for the account, but this was about $9 less than the average welfare recipient spent on currency exchanges in a given month.

The agreement established CRCCC as Beverly Bank's liaison to the community. The bank would pay CRCCC $10,000 the first year to act as a loan screener and packager for the loans offered by the agreement. CRCCC would train its own members, with help from Beverly Bank, to take loan applications, work with the borrower, and give the qualified applications to the bank. CRCCC would be able to work more directly with applicants to determine their credibility and their ability to pay the loan. Once the loan was made, CRCCC could provide counseling for those borrowers who needed it. CRCCC would also direct qualified applicants for employment to the bank, and advise the bank on new products and services for the community.

Finally, the agreement established an oversight committee to evaluate how the agreement was being carried out. According to the agreement, the committee would be composed of "three representatives recommended by CRCCC and acceptable to Beverly Bank, and three representatives recommended by Beverly Bank and acceptable to CRCCC." The chair of the committee would alternate between CRCCC and bank representatives each year, and the chair would convene the meetings "not less often than quarterly and not more often than monthly." The committee would monitor the loans generated by the bank under the agreement, and review the steps both CRCCC and the bank were taking to originate these loans.

The announcement of the agreement came at a press conference on September 16, 1987. The major Chicago newspapers, such as the Chicago Tribune and the Chicago Sun-Times, carried the news with headlines "Community pressure keeps bank funds right at home" and "Bank, blacks in $20 million pact." The Tribune characterized the signing of the agreement as a "love feast." The local South End Citizen and Beverly Review carried more extensive stories. "Both sides deserve credit for the agreement," editorialized the Review, "but Beverly Bank deserves to be applauded. Not only did it not shirk its community responsibilities, it looked for new and better ways to meet them." In a press release, Lomax too applauded the bank. "We protested this application because of doubts we had about the reinvestment record of the bank. These doubts have been erased by this significant multi-million dollar commitment to our community."

III. MAKING THE LOANS, BUILDING THE COMMUNITY

III. Making The Loans, Building The Community

While the agreement reached between CRCCC and Beverly Bank was the end to a very long process, it was only the first step in getting credit back into Roseland. The agreement represented a statement of intention by the bank; it was not a legally binding document. The $20 million promised by the agreement represented a potential for loans, not a direct subsidy to the community. "Some people thought that [CRCCC] had received $20 million from the bank," said Luz Maria Gonzalez, associate director of CRCCC. "They were asking us for the money."

In order for the agreement to work, both CRCCC and Beverly Bank had to be committed to the project. CRCCC had to cultivate a pool of potential, legitimate borrowers for the bank. The bank, in turn, had to approve loans they had avoided making in the past. There were no definite standards with which to judge the performance of either player. Many, if not most, potential borrowers would fall into a gray area according to conventional banking standards, and either an approval or a denial could be justified under many circumstances. CRCCC would have to adapt itself to the standards of the banking industry, and Beverly Bank would have to extend itself for the needs of the community. If either side failed, the agreement would fail.

A New Relationship

Remarkably, Beverly Bank and CRCCC moved easily out of their adversarial roles into a new partnership. The bank, rather than treating CRCCC as at best a nuisance or at worst an enemy, became more open to the community group. And CRCCC did not treat every move made by the bank with suspicion. Instead, it gave the bank flexibility in meeting the agreement as long as the bank was making a good faith effort. Thus, the bank's openness led to a greater trust and more cooperation between the two parties, which gave the bank greater help and understanding from CRCCC.

Part of the reason for this new relationship was the friendship that developed between Willie Lomax and Bob Teresko. "In Chicago, nobody seems to get along until after they've scratched and bit and clawed each other," says Josh Hoyt. "I think after they finished fighting, they grew to like and respect each other." Eventually, the two men would end up taking driving tours around Roseland, looking at properties and possible loan prospects. "We would engage in discussions over how best to approach the problems of the area," says Teresko. "We came together on our vision of the future--we both wanted to see the community make a comeback." Beverly Bank's current president, John Van Winkle, also credits Beverly's board of directors for the change in direction. "I came to Beverly Bank knowing of their commitment to CRA," says Van Winkle. "And they knew that Bank of Ravenswood [where Van Winkle was formerly senior vice-president] was very involved in community reinvestment. I definitely think my record in this area was a strong reason why they offered me the position."

The reinvestment agreement has worked because both sides are committed not only to the agreement, but also to each other and to the community. In the concrete results of the agreement, some programs have not reached the amounts originally planned for, and one program was even phased out. CRCCC's members are not out on the streets or at the FDIC protesting, however, because they have a voice in the bank's policies. They understand why the bank has been unable to make the loans or continue the program. If they have any suggestions, they know the bank will listen. "We couldn't be happier with the bank," says Gonzalez. "They've made us a real partner in the effort."

Residential Lending

According to the agreement, $12 million in loans was slated for residential lending: $5 million for conventional single family mortgages, $5 million for home improvement loans, and $2 million for loans for abandoned and foreclosed houses. So far, only about $1.3 million has been made in conventional mortgages. "We've had a problem getting the community to recognize us as a mortgage maker," says John Van Winkle. "The knee-jerk reaction is to go to Citibank for a mortgage. We've been trying to get more loans, and CRCCC is helping to get the word out." In addition, only $122,697 has been made in home improvement loans. However, the bank has also made over $8 million in home equity loans, many of which are used for home improvement, according to Van Winkle. The bank has also made over $23 million in loans in the "other" category for which the agreement allotted $3 million.

One standout for CRCCC has been the Home Owner Partnership Effort program, also known as HOPE. In order to facilitate the foreclosed and abandoned home mortgage program, CRCCC and Woodstock designed a unique partnership between the bank, CRCCC, and the Chicago Rehab Network. CRCCC agreed to act as the loan screener and packager for the program. The Rehab Network, a nonprofit housing development group, would conduct on-the-job training with CRCCC staff. The bank would then receive only completed loan packages, and could decide whether to accept the loan or not. In the first year of the program, only one loan was made. However, the bank was sufficiently pleased with CRCCC's progress in designing the partnership, training its staff, and beginning implementation that the CRCCC staff was officially recognized as loan originators for the bank.

In order to make the program more attractive to potential borrowers, CRCCC and Woodstock worked with the Illinois State Treasurer's Office to lower the interest rate for HOPE loans. In 1989, a linked deposit was made at Beverly Bank by the State Treasurer for the benefit of the HOPE program. The Treasurer's office deposited $250,000 in the bank to be used specifically for the HOPE program. Additional deposits up to $2.75 million would be made, in increments of $250,000, according to demand for the loans. Beverly Bank would have to lend this money out at a reduced interest rate, but it would be allowed to pay the state a reduced rate as well. In addition, the Treasurer would place $2 million in normal deposits in Beverly in recognition of the bank's participation. This program allowed the bank to reduce rates to HOPE borrowers from 11.5 percent to 8.9 percent, opening up loans to those who previously had not been able to afford higher interest rates. In 1991, the program was reapproved with an even lower interest rate of 7.99 percent.

By taking over loan packaging for the HOPE program, CRCCC evolved into what might be called a complete community lending center. Potential borrowers could undergo pre-purchase counseling to arrange their finances to apply for a loan. When they were ready to borrow, CRCCC would take their application and go through a rigorous screening process. CRCCC examined the applicant's credit history and worked with the applicant to sort through any possible problems. Once an applicant was determined to be creditworthy, the appraisal, land survey, and title search were conducted. If all things were in order, CRCCC assembled the complete package and delivered it to the bank. Only about three out of every ten applicants are approved by CRCCC and passed on to the bank. This scrutiny is well rewarded by the bank: it has approved every application it has received. In four and a half years, 41 loans totaling over $2.3 million have been made through the program, already exceeding the $2 million goal.

This process for screening loan applications is beneficial for all involved. "People are scared to apply at a bank," says Gonzalez, who acts as a loan officer at CRCCC. "They feel more comfortable applying through their neighborhood organization. They are also more up front about their credit problems." CRCCC has the time and the desire to help them work through any problems to make a better application. "We can handle anything but bankruptcy," says Gonzalez. This pro-active approach generates more loans for the community. The bank is saved the cost of processing the application itself, and it receives loans that may be small but are almost risk-free. Under the program, only two borrowers have been late with payments, and these problems were quickly corrected through CRCCC's post-loan counseling. No borrower has defaulted.

Commercial Lending

While housing loans are important to the revitalization of a community, these loans cannot be made if the residents do not have jobs. Community development, therefore, should include an emphasis on job creation, and CRA agreements often include a commitment to commercial lending. The CRCCC/Beverly Bank agreement pledged $5 million for targeted business loans that were either SBA-guaranteed or for amounts less than $200,000. One million dollars of these loans were to be in loans under $50,000, and $500,000 of this $1 million was to be for loans under $25,000. It is clear from these conditions that CRCCC wanted to reach the small businesses in the area that could not get credit to begin or expand. By the end of 1989, Beverly Bank had made about $2.4 million in commercial loans; by April 1992, $4.7 million in loans had been made. Of that $4.7 million, over $1 million was made in loans less than $50,000, and $279,138 in loans less than $25,000.

However, these figures belie some of the turmoil that accompanied the implementation of this part of the agreement. By 1989, Lomax felt the bank was being too restrictive with its credit towards black businessmen in the area. Commercial loan dollars were going to churches, rather than area businesses, Lomax told the South End Citizen in December of 1989. "I don't have anything against making loans to churches, but churches don't create jobs," he said. "Businesses do." Often black businesspersons were denied loans, or forced to wait for several months before hearing anything. The long wait drove one businessman into staging a protest outside of the bank. The applicant, a long-time black business owner in Roseland, had submitted a loan package in May of 1988, and had received nothing in writing by August, 1989. At the end of the month, he and several other local businesspersons picketed the bank. "Beverly Bank has misled and disrespected the black community again!!" stated their flyer, which listed how the bank had "broken" its agreement and listed demands for change. Like the original boycott organized by CRCCC and the South Side ministers, the picketers pointed to racial discrimination in the bank's practices and asked for more affirmative action and more money for black businesses.

This confrontation is a typical example of the gap between banks and struggling minority businessmen. The original loan application was not a completely solid one at the outset; it carried with it risks that many banks would not accept. With some work by both sides, however, the deal could be made. Applications like this one required a new approach on the part of banks - what Willie Lomax describes as a "gung-ho" attitude. "If a bank doesn't want to make deals," says Lomax, "there's no way of doing business."

By the time of the boycott, John Van Winkle had taken over at Beverly Bank. Although Van Winkle had just joined the bank, he was open to the needs of the protesters. In a letter to the businessman, Van Winkle conceded, "Beyond a doubt, like most other organizations, this bank has not historically done all that it could have done in support of black business in its market area." Despite this, Van Winkle said, ". . .this bank is now very firmly committed to making that extra effort in every single instance, with regard to the entire black community in our market area, both business and personal." He closed by saying, "I feel very confident that we can make this loan."

CRCCC, in the meantime, had been working to make the loan package more acceptable to the bank. City and state government loans were secured to lessen the risk of the loan. When the two sides were finally brought together, both were much closer than they had realized at the outset. At the meeting, Van Winkle agreed to every condition set forth by the protest, penciling in only minor procedural alterations. Unfortunately, the loan was put on hold once again; this time, the matching funds from the city and state treasurer's office were slow in coming. The bank wanted to wait for the checks, and the businessman became more and more frustrated, eventually lashing out at the bank in December in the Citizen. "If I would have went on what [Van Winkle] told me personally, one on one, I would have had the loan by now," he said, and threatened another boycott. The bank finally decided to move ahead on the loan, even though the city had not come through on its loan commitment. The project is in its final stages of completion as of June, 1992.

In order to secure more commercial lending for the area, CRCCC recently designed the South Side Banking Alliance. The program creates a pool of money for commercial lending from a number of banks in Chicago's south side, including Beverly Bank. By making loans as a group, the banks lessen their individual risk and thus can make loans which they normally would not have made. CRCCC hopes that this innovative partnership will provide credit to businesses who could not have gotten a foot in the door otherwise.

Community Banking Services

It was originally hoped that the Beverly Bank program would be able to provide low cost banking for those dependent on government subsidy. Unfortunately, the initial hope did not sustain the program. While those customers receiving social security or government pensions proved to be profitable customers, those on public aid created more problems for the bank. The bank felt it needed to hire additional staff to adequately meet the influx of new customers. However, the customers' accounts were not large enough to pay for the new staff, and the program became in the bank's view, expensive. Additionally, the new depositors represented a "different segment of people," as Lomax puts it, than those with which the bank had been used to dealing. Some bankers felt that the public aid recipients brought a "negative environment" into the bank. CRCCC did not actively protest the bank's eventual decision to stop the program.

On the positive side, the bank has made efforts to increase its presence in the black communities in its area. It opened an automated teller machine at a Hopkins Food Store in Roseland, which is still operating. The bank has also tailored its marketing efforts, with the help of CRCCC, to reach African American audiences. The bank began advertising in the South End Citizen and the Chicago Defender, and Van Winkle has even done a cable TV advertisement for the HOPE program. Every year, the bank has put on a series of seminars on the programs it offers. These seminars have been held in churches, libraries, and the bank's parking lot. In addition, the bank has held classes in local schools on the basics of money and banking. Willie Lomax asserts that "no bank is more involved at the community level than Beverly Bank."

Affirmative Action Programs

Opening the bank up for black employees was "damn hard" under the old bank administration, according to Lomax. Lomax believes that the bank realized that change was needed, but wasn't ready or willing for this change. The new management under Van Winkle, however, has made significant progress in integrating the work force. The current vice-president in charge of retail banking is black, as well as several assistant vice-presidents, including a top commercial lender. Throughout the bank, many bank officers and tellers are also minorities. In addition, the bank allowed CRCCC and the city government to establish a teller internship program, through which the bank teaches students basic tellering as well as personal banking and investment skills. The bank liked the program so much that it took it over completely. About 25 students have completed the two year program.

Oversight Committee

Constant communication is essential for any community reinvestment agreement. The oversight committee, known as the Community Reinvestment Board, maintains strong ties between Beverly Bank and CRCCC by bringing them together each month for discussion. The Board consists of Lomax, Van Winkle, two of the bank's top commercial lenders, and two CRCCC representatives. These monthly meetings keep CRCCC informed of the bank's activities, and gives CRCCC the opportunity to provide input. In addition, the meetings allow both sides to discuss any problems in the implementation of the agreement. "We know the stories behind the loans," says Lomax, "so we can really tell that they're making an effort." The bank is very open to suggestions from CRCCC, particularly in the area of marketing. The Board also meets annually with the bank's Board of Directors to apprise them of the bank's reinvestment record. The high level of cooperation is both a factor in and a symbol of the strong relationship between Beverly Bank and CRCCC.

IV. THE LASTING RESULTS

IV. The Lasting Results

The New Beverly Bank: Stronger Ties to the Community

"The biggest mistake a bank, or any company, can make," says Bob Teresko, "is to assume it knows what its customers want. In fact, the worst situation can come when you have a senior staff of liberals. They will assume they are doing what's right for the community, and may interpret wrongly what the community really needs." Teresko believes that the confrontation with CRCCC opened the eyes of the bank, leading the way to new opportunities within the community.

The agreement with CRCCC and subsequent focus on CRA has brought a new dimension to the bank's business. New lending opportunities are coming in, not only through the HOPE program, but also through new contacts with area businesses, churches, and homeowners. These loans are not charity money--they are all solid business for the bank. The HOPE program has brought in $2 million in state money in addition to the money used to fund the program itself. Less tangibly, the agreement has helped the bank's public relations; as Teresko told U.S. News and World Report in 1989, the relationship with CRCCC has been "good for business and for our visibility."

In a larger sense, the agreement with CRCCC emphasized the bank's ties to the community. "Community reinvestment is not only good for the community, but also for the institution doing it," says John Van Winkle. "What a community bank should be doing is local real-estate related lending. It is not our function to be a large corporate lender." Van Winkle attributes the success of banks like Beverly Bank and Bank of Ravenswood, and the failures of many other banks, to the degree of connectedness to the community. "Bank of Ravenswood did the lending to rebuild its community, and its fortunes prospered as the community grew," says Van Winkle. "Most banks get into trouble when they start lending out of their area." Van Winkle believes after the collapse in commercial real estate and the savings and loan bailout, banks are returning to their roots. "Any bank that doesn't believe in CRA is in the minority," he says. "Good business is good business, and CRA is good business."

The New CRCCC: Catalyst for Economic Growth

"If it wasn't for Beverly Bank, we wouldn't be here today," says Luz Maria Gonzalez. The partnership with the bank opened new doors for the once struggling community organization. CRCCC has received a number of grants from foundations and government agencies since the agreement, including one from Apple computer to produce a CRA guide for other organizations. Willie Lomax is now on community reinvestment boards for the First National Bank of Chicago and South Chicago Bank. He is also a board member of the Chicago Rehab Network and the Chicago Association of Neighborhood Development Organizations (CANDO). "The agreement put us on the map," says Gonzalez. "It has turned us from a little nonprofit into a full-fledged economic development organization."

Through its new contacts, CRCCC has opened the way for new sources of economic growth into the community. Forty-one of the abandoned homes in the area are now owner-occupied thanks to CRCCC and Beverly Bank. The agreement has also opened opportunities for conventional mortgages, home improvement loans, and business loans. The new South Side Banking Alliance will bring a new source of funds for small businesses in the area. After one bank has found lending to be stable and profitable in an area, others will move in. Hopefully, this lending will rebuild parts of the community, starting an economic cycle of growth. "Since 1989, the tone in Roseland has been more positive," says Lomax. "The reinvestment is generating other economic interests and gradually improving our economy."

The New CRA: Building Partnerships

Today, CRA is far more important within the banking world than it had been in the past. In 1989, Congress strengthened CRA by requiring that CRA evaluations by regulatory agencies be made public, including the grade assessed. This move bolstered a trend in regulatory agencies to take CRA more seriously. Beginning in 1989, regulators have been more willing to require improved community investment as a precondition in approval of a merger. Regulators have even denied several applications on the basis of a poor reinvestment record.

For industrious community groups, now this is a good time to seek out new relationships using CRA. Banks have a positive responsibility to meet the credit needs of the community, and local groups must act to make sure its community's credit needs are met. Like CRCCC, community groups must often seek outside technical assistance to complement their knowledge of the community. If the bank is recalcitrant, further assistance and even legal support will be needed to negotiate with the bank. Today, however, most groups will find banks responding to their initial efforts rather than closing the door in their face. True partnerships can be developed that are good for the bank, the group, and the community.

Under the currently harsher regulatory environment, Beverly Bank recently received an "outstanding" rating from the FDIC. Many banks have adapted to the new environment and are more aggressively seeking out reinvestment opportunities. For those who haven't, Bob Teresko has this piece of advice: do not delay. "Banks should find the most rational community group out there, one with an agenda that makes sense," he says. "The bank should then develop a rapport with the group, and create a conscientious CRA program." A partnership with a community group is a "tremendous asset," says Teresko. The link to the community creates greater rapport within the community and tells the bank what the community needs. "Don't think you know what the community wants," he says. "Go and find out."