Neighborhood Lending Agreements:
Negotiating and Financing
Community Development

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NEIGHBORHOOD LENDING AGREEMENTS:

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With the introduction of land-use regulations in this century, negotiated agreements have become a standard feature of urban development. The primary actors in these negotiations have been real estate developers and public sector regulators [Weiss 1987]. In more recent times, organizations representing neighborhood property owners and residents have also made their voices heard in the decision-making process. However, even in cases where community groups engage in direct bargaining with developers, neighborhood organizations often oppose new development or redevelopment without proposing constructive alternatives. Community involvement in negotiations expressly designed to promote long-term strategies for neighborhood development has not yet become the common pattern.

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Recently a new model of affirmative negotiations was created in the City of Chicago. A key aspect of this approach is that the community groups are acting as spokesmen for real estate developers, sitting at the bargaining table with real estate lenders to negotiate a plan for privately financing community redevelopment of inner-city neighborhoods.

The strategy of negotiated financing for neighborhood revitalization is made possible by a federal law called the Community Reinvestment Act (CRA). The CRA essentially requires legally-chartered financial depository institutions to loan money in the geographic areas from which they draw their deposits. The CRA and its companion legislation, the Home Mortgage Disclosure Act (HMDA), were passed by Congress in the mid-1970s as a response to the "redlining" issue, in which various community groups documented patterns of disinvestment by lending institutions in certain central city neighborhoods. The HMDA requires public disclosure of lending patterns so that the performance of banks, savings institutions, and their mortgage banking subsidiaries can be evaluated by community groups and public officials. Citizens can obtain access to HMDA data and utilize it to challenge an institutional lender's CRA record. A CRA challenge can cause federal regulators to deny permission for lenders to add new branches or to merge with or acquire other institutions.

These two laws have been used by the Chicago Reinvestment Alliance, a broad coalition of community organizations, neighborhood development groups, and citywide development networks. In the spring

of 1984, the Alliance successfully negotiated neighborhood lending agreements with three of Chicago's four largest banks. First National, Harris, and Northern Trust Banks agreed to create an aggregate, five-year lending pool of $173 million for housing, commercial, and industrial development in inner-city Chicago neighborhoods. During 1986 the Alliance negotiated a $20 million neighborhood lending agreement with Chicago's other large bank, Continental Illinois. The Chicago case is perhaps the most significant community/bank partnership of its kind in the country, due to the size and scope of the agreements -- which include increased commitments from each bank foundation for community development -- as well as the role played by community-based organizations in loan packaging and program review [Bailey 1985].

This paper will proceed in three parts. First, the model for negotiating inner-city neighborhood development will be outlined to illustrate the key components of the bargaining process. Second, the Chicago experience will be examined by tracing the negotiations with the banks, the programs created, and the results, in order to reveal the dynamics of the model. Finally, the Chicago case will be placed in a larger context of experiences in other cities, to determine its relevance, applicability, and potential as a model for negotiated urban development.

THE MODEL

The most distinctive feature of this model of negotiated urban development is that it is based primarily on private initiative -- no government agency formulates or implements a program for neighborhood reinvestment. Instead, strategies are created and managed by community organizations in tandem with financial institutions. Government acts: 1) as a formal rule maker, setting the context for negotiations through enforcement of the Community Reinvestment Act; 2) as a contributor to fact-finding, through enforcement of the Home Mortgage Disclosure Act and, in the case of Chicago, the city's own more extensive ordinance that also requires disclosure of savings deposits and commercial lending patterns; 3) as an informal broker in negotiations, as was the case with the Mayor of Chicago; and 4) as a facilitator of the development process, through grant and loan programs, planning assistance, infrastructure improvement, and other forms of subsidy. The interaction of the three sectors -- citizen groups, government, and lenders -- creates a "private-public-private" decision-making process.

The two federal financial regulatory laws play a crucial role in this model. Political pressure in response to "redlining" and inner-city disinvestment from neighborhood coalitions in Chicago and across the country during the 1970s resulted in the enactment of HMDA and CRA [Naparstek and Cincotta 1976; Urban-Suburban Investment Study Group 1975]. The Home Mortgage Disclosure Act of 1975 requires banks and savings institutions and their mortgage banking subsidiaries, as well as credit unions and all other depository institutions, to document

the number and dollar amount of five residential lending categories -- government-insured mortgage loans (FHA, Veterans Administration, or Farmers Home Administration), conventional mortgage loans, home improvement loans, non-occupant mortgage loans, and mortgage loans on multifamily dwellings. With the exception of the latter, the disclosure categories apply to mortgage loans on properties with one to four units.[1]

The Community Reinvestment Act of 1977 requires banks and savings and loans to affirmatively invest in and meet the credit needs of communities they are chartered to serve. Under the law, a financial institution must annually adopt a CRA statement that outlines its community lending record, and must post a CRA notice on its premises which publicizes both the availability of its CRA statement and the public's opportunity to submit comments on the institution's performance in meeting local credit needs. The bank's CRA statement and all public comments on its lending performance are filed with federal regulatory agencies, who oversee the institution's compliance with the legislation.[2]

The impetus for enforcement is vested in the public's power to challenge merger and branch applications made to federal regulators, on the grounds that the applying institution has failed to meet its CRA obligations. Despite the initial concerns over forced credit allocation, the regulations have been interpreted to place the ultimate responsibility on the challengers, usually a community group, encouraging them to use the challenge threat in negotiating lending

agreements [Canner 1982; Eisman 1982; National Training and Information Center 1979a; National Economic Development and Law Center 1979]. When the CRA was passed, the U.S. Department of Housing and Urban Development (HUD) foresaw this, and issued contracts to community-based organizations to develop manuals for using HMDA and CRA in implementing neighborhood reinvestment strategies [National Training and Information Center 1979b; U.S. Department of Housing and Urban Development 1979a, 1979b, 1979c].

The CRA was introduced in March 1977 by Senator William Proxmire of Wisconsin, the chairman of the Senate Committee on Banking, Housing and Urban Affairs and a key congressional supporter of HMDA in 1975. His bill was based on two assumptions -- that financial institutions, rather than the public sector, should be the primary suppliers of capital for housing and economic development, and that public operating charters granted to private lenders should include a responsibility for community lending. The Community Reinvestment Act authorizes federal regulators to review the community lending policies of financial institutions, and consider public challenges to a lender's service record in meeting local credit needs when deciding upon applications for branches or mergers. Essentially, the act utilizes federal regulatory powers over financial market structure to encourage favorable lending policies [U.S. Senate Committee 1977].

The delegation of enforcement responsibilities among the various federal financial regulatory agencies is outlined in Figure 1. While few merger and branch applications have been denied by the federal

government based on a CRA challenge, the actual challenge, or threat of one, coupled with HMDA lending data and the bank's CRA statement, has often been enough to initiate reinvestment loans for community development projects in disinvested areas. Since its enactment, the CRA has been used nationwide by community groups to negotiate and implement neighborhood lending agreements with local banks [Canner 1982; National Training and Information Center 1979a; National Economic Development and Law Center 1979].

FIGURE 1. Enforcement Responsibilities for the Home Mortgage Disclosure Act (HMDA) and the Community Reinvestment Act (CRA)

Type of Institution	Regulatory Agency
National bank	Comptroller of the Currency
State bank, member of Federal Reserve Board	Federal Reserve Board
State bank, federally insured, but not a member of Federal Reserve Board; Mutual savings bank	Federal Deposit Insurance Corporation
Federal Savings and Loan; State Savings and Loan, federally insured	Federal Home Loan Bank Board
National Credit Union; State Credit Union	Administrator of the National Credit Union Administration
All other depository institutions	Federal Deposit Insurance Corporation

THE CHICAGO EXPERIENCE

Goals and Strategy

The Chicago Reinvestment Alliance was convened in late 1983 by the National Training and Information Center (NTIC) and the Woodstock Institute, two Chicago-based technical assistance organizations. The context for the creation of the Alliance, a loose, ad-hoc coalition of over thirty groups, was shaped by three factors. First, several of Chicago's largest banks were looking to expand by establishing new branches and acquiring or merging with other bank holding companies. Second, the government programs which had supported and strengthened neighborhood development organizations in the 1970s were experiencing drastic cutbacks in funding levels. Finally, community groups from across Chicago were establishing links and forming citywide coalitions around issues in order to more effectively influence development patterns, public policy, and political debate [Metzger and Weiss 1988].

All of the organizations within the Alliance shared the broad goal of improving and expanding employment and housing opportunities in their communities. Due to the coalitional nature of the Alliance, many of the organizations within it had different goals and reasons for coming together around the chosen strategy of neighborhood re-investment. For NTIC and the other advocacy groups in the coalition, the negotiated reinvestment strategy met their goal of "winning a victory" -- achieving another successful use of the two bargaining tools of HMDA and CRA which they had fought hard to enact.

NTIC was established in 1972 to provide assistance to neighborhood groups across the country in organizing, research, tactics, negotiation, and public policy. During the 1970s, NTIC was involved in numerous organizing campaigns around redlining and disinvestment, and worked in concert with National People's Action (NPA), an umbrella group of community organizations from across the country, to lobby for federal legislation that would monitor and regulate investment activities of banks. NTIC played an important role in the national campaign to pass the CRA, and Gale Cincotta, the group's executive director, is a key national leader of the neighborhood reinvestment movement. Cincotta first became a neighborhood activist through her involvement in anti-redlining efforts on the west side of Chicago during the late 1960s [Naparstek and Cincotta 1976].

Two other important goals broadened the scope of representation within the Alliance. The first was to expand the pool of resources available for financing local development. Federal programs, such as the community development block grants and housing subsidies administered by the Department of Housing and Urban Development and the business loan programs of the Small Business Administration, had been decimated by cutbacks and were playing a lesser role in the financing and implementation of neighborhood development projects [Palmer and Sawhill 1984]. Increased commitments from private lenders could help fill this gap, and in the process meet an additional goal of building the capacity of neighborhood development organizations to finance, package, and implement projects. These goals brought a diversity of

development groups into the coalition, from local organizations working in housing, commercial, and industrial revitalization to citywide housing and economic development networks. The geographic base of the Alliance was also expanded, encompassing both low-income areas and middle-income neighborhoods from across the city.

For Chicago's large banks, the negotiations met their goal of improving their reputations as community lenders at a time when they were seeking to expand by acquiring or merging with other bank holding companies. In 1982, Illinois' large banks had successfully lobbied for changes in the state's antiquated unit banking law, which prohibited branch banking within the state. The newly-liberalized banking law added to the positive climate for merger and branching activity, and the negotiated reinvestment strategy became a necessary tool for the large banks in Chicago, by creating good public relations and easing the way for regulatory approval of their expansion moves.[3]

The bargaining strategy of the Alliance occupied a distinct niche, differing from many other neighborhood development strategies in Chicago. The Alliance, operating as a coalition of advocacy-oriented community organizations, project-oriented neighborhood development groups, and policy-oriented citywide development networks, chose neither to act as individual organizations nor to seek additional government development programs, but instead chose to negotiate collectively with private financial institutions. The direct negotiating process set the rules, terms, and boundaries of the program

implementation, targeting the lending agreements to specific low and moderate-income areas that had been disinvested.

The key organizations within the Alliance eventually coalesced around the strategy of direct negotiations with banks. However, some groups in the Alliance, particularly the Chicago Workshop on Economic Development (CWED), the Housing Agenda, and the Center for Neighborhood Technology (CNT), were initially critical of this strategy. All of these groups are policy-oriented "think-tank" organizations with a citywide focus. To them, the community-bank partnership removed neighborhood development activity from the realm of public sector influence, at a time when a new progressive mayoral administration in Chicago was attempting to initiate creative partnerships of its own with communities, often with the support and involvement of groups like CWED and CNT.

In addition, conflicts over strategy existed within both the Chicago Rehab Network (CRN) and the Chicago Association of Neighborhood Development Organizations (CANDO), two important members of the Alliance. CANDO is a citywide network of local economic development organizations, and CRN is a coalition of non-profit neighborhood housing groups. Within CRN, some neighborhood housing development groups felt the strategy avoided the question of shrinking public-sector housing programs. These groups pointed out that deals or projects using the housing loans implemented through this strategy would need public subsidies to ensure affordability for low-income people. Although the Alliance-bank lending programs offer one-stop

expediency and below-market interest rates, the CRN critics felt that the lack of public subsidy to offset rising construction and rehabilitation costs could hamper the viability of the new agreements. Within CANDO, conflict emerged because some of the member groups had decent working relationships with the downtown banks, and were nervous about using a confrontational negotiating strategy. Also, in both CANDO and CRN, further conflict was generated when their leaders were forced to make quick decisions during the bank negotiations without first consulting with their member groups.

The Negotiations

The first opportunity to negotiate occurred in the summer of 1983 when First Chicago Corporation, the bank holding company for First National Bank of Chicago, announced its intention to acquire American National Corporation, the bank holding company for American National Bank. As First Chicago made plans to apply to the Federal Reserve Board for the merger, NTIC and the Woodstock Institute, a not-for-profit research and technical assistance agency specializing in reinvestment issues, began to gather information on First National's lending record in Chicago. HMDA data revealed that from 1979 to 1982, 90% of First National's loans for housing were concentrated in just 14 Chicago neighborhoods. Over that time, First National had made just one multifamily building loan in the city. In 1982, 66% of its home mortgages went into just three north lakefront communities.

Data on the geographic distribution of commercial loans and savings deposits was available through a local disclosure ordinance that applied to banks holding municipal deposits from the City of Chicago.[4] This information revealed that, in 1981, predominantly black communities received a return of only 60 cents in conventional mortgage money for every $100 of deposits in First National, while predominantly Hispanic neighborhoods netted a mortgage return of only 40 cents per $100 of deposits. From 1979 to 1981, 72% of First National's commercial loans went to businesses located in the central business district [Pogge, Hoyt, and Revere 1986].

With this information in hand, the Alliance was formed to develop a bargaining strategy and reinvestment program. The Woodstock Institute brought together non-profit neighborhood developers to identify financing needs and design a comprehensive reinvestment agenda. Meetings of the Alliance were held in NTIC's Chicago office, and were chaired by Gale Cincotta. Using the implicit threat of a CRA challenge to First National's acquisition application, the Alliance entered into negotiations with the bank in December 1983.

A negotiating team was chosen from among the organizations in the Alliance, representing the diverse mix of advocacy and development groups. During these negotiations, and during later sessions with two other Chicago banks, the Alliance essentially held three types of meetings. First, the Alliance negotiators met with the bank's negotiating team. During the first two months of 1984, the Alliance held nine of these sessions with First Chicago, and also conducted

neighborhood tours of local development projects for the bank negotiators to reveal the growing expertise of community development organizations working across the city. Second, the Alliance's negotiators held strategy sessions among themselves before each bank meeting. Third, strategy sessions were held between the negotiating team and the rest of the Alliance. These meetings occurred every week during the bank negotiations.

The Alliance negotiating team also met periodically with Mayor Harold Washington of Chicago and members of his cabinet to keep them informed and seek their support in the bargaining process. This added to the leverage held by the Alliance during the negotiations. Inner-city neighborhood development was a key component of the new mayor's agenda, and his surprise election earlier in 1983 had awakened Chicago's private sector to the growing political power of community-based organizations in the city [City of Chicago 1984].

After a two-month negotiating period with First National, which involved long exchanges over the amount, nature, eligibility, and targeting of the loans, the implementation of a five-year $120 million neighborhood housing and commercial lending program was jointly announced by First National and the Alliance in March 1984 [Swift and Pogge 1984]. The Alliance's bargaining strategy continued after the First National agreement was reached, as NTIC and the other groups attempted to build and sustain the momentum of the negotiating process. The Alliance first tried to force reconsideration of the Federal Reserve Board's January 1984 approval of New York-based

Citicorp's acquisition of First Federal Savings and Loan of Chicago. This failed despite the poor CRA record of First Federal and Citicorp.

Another CRA opportunity for the Alliance quickly emerged, however, with the announcement during January of the Bank of Montreal's intent to acquire Chicago's Harris Bank. Research by the Alliance showed that Harris Bank's housing loans declined citywide between 1979 and 1983, with this smaller amount remaining concentrated in a few community areas. In addition, commercial lending information for 1982-83 revealed that downtown-based businesses were the main beneficiaries of Harris' loans. Negotiations with Harris Bank began on the heels of the First National agreement. The Alliance sought to plug specific financing gaps left uncovered by the First National neighborhood lending program. An agreement was reached relatively quickly, and in May the Alliance and Harris Bank jointly announced a $35 million targeted neighborhood loan program for housing, small businesses, and mixed-use real estate projects.

Meanwhile, another local banking event mobilized the Alliance to act. In early 1984, Northern Trust Bank of Chicago applied to the Federal Reserve Bank for the right to create a Florida-based bank holding company. The Alliance was suddenly presented with its third opportunity to utilize the CRA since late 1983. The lending data revealed similar investment patterns to that of the other banks. Again the negotiations were brief, and by June the Alliance and Northern Trust jointly announced an $18 million neighborhood lending program. With the completion of this negotiated agreement, the

Chicago Reinvestment Alliance, in the span of less than a year, had utilized HMDA data and the CRA to forge neighborhood lending agreements with three of Chicago's four largest banks, leveraging a five-year pool of $173 million in targeted community reinvestment loans.

The Programs

The implementation of the three neighborhood lending agreements in the spring of 1984 immediately expanded the pool of money available for use by for-profit and not-for-profit neighborhood developers in the city. Of the grand total of $173 million in loans, about 60% was allocated for housing, 30% for commercial and industrial projects, and 10% for mixed-use developments. The lending agreements also boosted the pot of money available from each bank foundation for community development grants. Figure 2 illustrates the breakdown of the agreements by lending category and bank.

All of the loans were limited for use in municipalities with median household incomes at or below 75% of the median household income of the metropolitan area. In effect, this formula kept the loan programs restricted to Chicago and three other small, low-income municipalities. Business loans were kept available for the entire city, but housing loans were targeted to low and moderate-income census tracts at or below 80% of the eligible municipality's median family income.

FIGURE 2. Neighborhood Reinvestment Programs of Three Chicago Banks: Local Allocation Summary

	Total	First National Bank	Harris Bank	Northern Trust
Housing:				
Single family	$ 21 million	$ 15 million	$ 6 million	----
Multifamily	$ 78 million	$ 60 million	$ 14 million	$ 4 million
General housing	$ 4 million	----	----	$ 4 million
Total Housing	$103 million	$ 75 million	$ 20 million	$ 8 million
Commercial and Industrial:				
Capital equipment & fixed assets	$ 35 million	$ 20 million	$ 10 million	$ 5 million
Purchase of SBA guarantees	$ 20 million	$ 20 million	----	----
Total Commercial & Industrial	$ 55 million	$ 40 million	$ 10 million	$ 5 million
Mixed Use:	$ 15 million	$ 5 million	$ 5 million	$ 5 million
Total Loans	$173 million	$120 million	$ 35 million	$ 18 million
Community Development Grants	$643,900	$397,000	$130,000	$116,900

All loans are restricted by formula to Chicago and three small Cook County municipalities. Some loans are restricted to census tracts at or below 80% of median family income within eligible municipalities.

To ensure that the loans would be directed to areas in need and used for community-sponsored projects, initial screening and loan packaging was left to two citywide groups affiliated with the Alliance -- the Chicago Association of Neighborhood Development Organizations (CANDO) for business loans, and the Chicago Rehab Network (CRN) for housing loans. The Alliance also appointed representatives to review boards to monitor the progress of each of the banks in achieving the program's goals. The review boards for each agreement consist of an equal number of Alliance and bank representatives, the latter including the bank's senior lending officer and foundation director. The purpose of each of the review boards is to examine the implementation of the programs and discuss possible changes in program rules and qualifications.

First National Bank's Neighborhood Investment and Revitalization Program targeted half of its $120 million loan allocation for the purchase and rehabilitation of multifamily buildings (five or more units), with a focus on low and moderate-income rental housing. This financing fills an important gap, as lenders in the city previously made virtually no multifamily loans. Not-for-profit neighborhood developers can obtain lower interest rates, longer terms, and more flexible underwriting for these loans. First National also made combination loans available to owner-occupants and non-profits for single-family purchase and rehabilitation, with restrictions on the building's maximum appraised value after rehabilitation. A pool of $20 million in small business loans was set up for fixed assets and

capital equipment, while $5 million was set aside for mixed-use properties, which have historically faced barriers in obtaining financing in Chicago. First National also agreed to purchase from neighborhood banks $20 million in Small Business Administration (SBA) 7(a) guaranteed loans to small businesses, further increasing overall neighborhood lending capacity.

Interim construction loans are also available, and do not count against the five-year $120 million total package. Loan information, applications, and packaging for the First National Bank program are handled by CRN, for multifamily loans; CANDO, for small businesses and mixed-use loans; and First National's newly-created Neighborhood Banking Division, for single-family loans.

Harris Bank's Neighborhood Lending Program supplements much of the financing available from First National. Harris' housing and business loan allocations are smaller, although its pool for mixed-use properties matches First National's amount. Harris is not purchasing any SBA guarantees, but the terms and sizes of its loans vary somewhat from First National's, offering flexibility to neighborhood developers. CANDO and CRN are again the loan packagers for this program.

Northern Trust's Neighborhood Lending Program, the smallest of the three, diversifies the aggregate lending pool through variations in loan terms and sizes. Northern offers multifamily gap financing, or second mortgages, for neighborhood not-for-profit developers. CRN is the packager for Northern's multifamily loans, but small business and mixed-use loan packaging is split up among seven neighborhood

development corporations from across the city, that are certified loan packagers through the SBA 503 program.

Under each of the bank programs, residential mortgages are available for terms of up to 30 years, with a variety of fixed and adjustable interest rates. The projects must involve building rehabilitation, with a maximum loan-to-value ratio of 80%. Loans for mixed-use and commercial real estate are available for terms of up to 15, 20, and 30 years. Existing small businesses with annual sales of less than $5 million are eligible to receive financing for working capital, machinery, and equipment.

The Results

The results of the three neighborhood lending programs have been twofold. First, the pool of available development money has been expanded, and neighborhood developers are viewing the programs as another valuable tool in implementing local projects. The neighborhood lending programs are somewhat unique compared to most community-bank partnerships, due to their range -- encompassing single-family and multifamily housing, commercial, industrial, and mixed-use projects, along with the purchase of local Small Business Administration loan guarantees and the expansion of bank foundation grants -- and their size, totaling $173 million in loans and $643,900 in grants. The bank programs also offer flexibility, as loan terms, interest rates, and debt coverage requirements vary with each bank.

In response to the problem of redlining, the lending programs are providing private financing for projects in disinvested areas. The programs have also filled specific financing gaps, particularly with multifamily housing loans and mixed-use residential/commercial real estate loans. Prior to the programs, multifamily and mixed-use lending in the city by these banks was virtually nonexistent. Both of these types of loans are being used the most of all the loan categories in the programs.

Second, the citywide loan packagers and local development groups are expanding their activities in utilizing these new programs. CANDO and CRN have added staff and resources to handle the increased volume of work generated by the neighborhood lending programs. Loan application and closing fees obtained from borrowers have also contributed to the resources of the citywide loan packagers. The role of CANDO and CRN in the implementation of the programs has bolstered their positions as key actors in neighborhood development activity in Chicago. Leaders of both groups state that their organizations are more active now than at any other time in their existence. CANDO has used the bank programs as the basis for sponsoring local training sessions with the National Development Council in small business and real estate finance and creating their own loan packaging training program.

Not-for-profit neighborhood developers are also gaining new experience and expertise, through the long process of initiating, developing, and implementing local projects that utilize the lending

programs. In addition to sponsoring their own projects, non-profit neighborhood groups that are certified as loan packagers by CANDO and CRN are operating as "mortgage bankers" in their communities, working with private investors to leverage housing and commercial reinvestment.

Roughly $20 million in housing and business loans had been closed through the Chicago neighborhood lending programs by early 1986. As of October 1985, First National Bank had made loan commitments of $4.9 million to 30 projects, while Harris Bank had committed $2 million to 13 projects. By January 1986, $12.8 million had been committed from the programs for multifamily housing. Of that total, $6.5 million was through Harris, $4.1 million was through First National, and $2.2 million was through Northern Trust. By April 1987, $8 million in commercial loans for 42 projects had been approved, split up among $3.6 million at First National, $2.4 million at Harris, and $2 million at Northern.

Many of the loans closed by the banks under the neighborhood programs are used together by developers in a package with government financing, foundation funds, other private sources, or in the case of housing, syndication money. For example, Bethel New Life Inc., a non-profit housing developer, has used a low-interest $1.5 million mortgage from the Harris Bank program in conjunction with $786,000 in federal Community Development Block Grant (CDBG) money and $580,000 from the Chicago Equity Fund to finance the rehabilitation of an old hotel on the city's west side into 114 units of low-income housing.

Bethel had obtained the tax-delinquent property as a donation, through a tax reactivation program for non-profit developers designed by the Woodstock Institute and CRN and operated by Cook County [Pogge 1985]. Through mid-1987, twenty multifamily apartment buildings had been acquired and redeveloped by non-profits through this program and the neighborhood lending pools.

The Chicago Equity Fund has proven to be an important companion to the bank loans in packaging multifamily housing projects. The Fund was organized by the Amoco Corporation and the Local Initiatives Support Corporation (LISC) to raise syndication proceeds from corporate investors for equity injections into low-income multifamily housing projects [Bloch 1985]. The City of Chicago's Department of Housing is another committed "partner" in project implementation, requiring borrowers from their CDBG-funded loan programs to obtain first mortgages from the bank lending programs.

The Neighborhood Institute (TNI) has packaged these elements into two multifamily rehabilitation projects located in the O'Keefe neighborhood of Chicago's South Shore community. TNI is a non-profit subsidiary of the Illinois Neighborhood Development Corporation, the holding company for South Shore Bank. The rehabilitation projects are an abandoned 34-unit courtyard building acquired by TNI through the Cook County tax reactivation program, and a partially-occupied 51-unit midrise hotel-type complex. The project financing of $977,000 and $1.3 million, respectively, is being provided by Harris Bank, the City of Chicago, and LISC. Both projects are joint ventures between TNI

and a minority developer, and are being syndicated through the Chicago Equity Fund.

CANDO has been implementing mixed-use real estate projects. Working with the Chatham Business Association, CANDO packaged the rehabilitation of Chatham Center, a four-story, 60 year-old multi-use building located at a key south side business intersection. The building contains approximately 50,000 square feet of space with 11 storefronts, 16 offices, 3 meeting rooms, a medical center and a laboratory, a 20-lane bowling alley, and 64 residential units. Project financing of $804,000 was provided by First National Bank. Rehab costs were $450,000, while $354,000 was used to refinance existing debt.

In addition, CANDO has provided financing to small and medium-sized businesses through the neighborhood lending programs. Working with the Back of the Yards Neighborhood Council, CANDO packaged a First National Bank loan of $188,000 for Kirby Sheet Metal, a manufacturer of custom sheet metal parts for the construction industry. Kirby used the funds to expand at its current site on the city's near southwest side, by purchasing the adjacent building and renovating it for office space, building an addition to its existing manufacturing plant, and acquiring a new piece of computer-controlled cutting equipment to increase efficiency and productivity in the plant [CANDO City-Wide Development Corporation 1985].

Problems in implementing the agreements have arisen from both sides of the partnership. Loans at Harris Bank and Northern Trust

have been processed and approved at an adequate rate. At First National, despite better staffing, loan processing has been very slow and unsatisfactory, and many loans screened and packaged by CRN and CANDO have been rejected at the final stage. As a result, the loan pools at the other banks are being used up at a faster rate. At the end of the first year of the programs, First National had committed only 5% of its total five-year lending pledge, compared to 22% for Harris and 11% for Northern [Goozner 1985]. By mid-1987, Northern Trust had lent nearly half of its five-year, $18 million commitment. First National has also failed to purchase from neighborhood banks any guaranteed SBA loans to small businesses, which was an aspect of their agreement that was designed to increase the small business lending capacity of neighborhood banks.

Among the neighborhood groups, only four had actually been certified by either CANDO or CRN as loan packagers for the programs by mid-1987. Difficulties have also been encountered in marketing the program, particularly the commercial loan pools. Many small businesses already have credit relationships with lenders in their communities, and are reluctant to shift to the larger, downtown-based Chicago banks. These difficulties have kept the loan volume in the programs down in the first three years.

NTIC, the key convenor of the Alliance, has taken several steps to influence and improve the implementation of the lending agreements. At the outset NTIC established a linkage to the citywide loan packagers through Ted Wysocki, an important actor in the negotiations, who

left NTIC in the summer of 1984 to become executive director of CANDO. More recently, NTIC has supported the increased involvement of Neighborhood Housing Services (NHS) in packaging residential loans through the programs. Gale Cincotta helped initiate NHS in Chicago during the 1970s. NHS has been certified by CRN as a housing loan packager, and has begun to implement "deals" in tandem with financing from the Chicago Energy Savers Fund, a $15 million public-private loan pool partially administered by NHS for energy conservation and weatherization.

NTIC continues to convene meetings of the Alliance, in order to evaluate the programs, discuss review board activities, hear reports from the loan packagers, and develop reinvestment strategies. Concern persists over rising rent levels dictated in many projects by cutbacks in federal housing subsidies. This concern is strongest in neighborhoods facing the threat of gentrification and the displacement of low-income residents.

THE POLICY CONTEXT

The model of negotiated urban development outlined by the case of the Chicago Reinvestment Alliance continues to be replicated, both in Chicago and in other cities. In Chicago, the Alliance has followed up on its own earlier experiences by negotiating a lending agreement with another of the city's largest banks, Continental Illinois Bank. In 1986, Continental was starting to regain its market position in the Chicago area following its financial rescue by the federal government,

and had been exploring the possibility of acquiring several smaller, suburban banks. NTIC identified the opportunity to utilize the CRA, and negotiated an agreement in late 1986 with Continental establishing a $20 million lending pool for home improvement loans. The Illinois Housing Development Authority contributed another $5 million to the loan pool, and the city of Chicago added $500,000. The plan is for these loans to be used through the Chicago Energy Savers Fund, and packaged in tandem with financing from the neighborhood lending programs of First National, Harris, and Northern Trust banks.

In addition to the citywide strategies developed by the Alliance, many of the neighborhood groups in Chicago have built on the momentum of the downtown-based programs by increasing local action around reinvestment in their communities. In the spring of 1985, the Rogers Park Housing Forum, a coalition of neighborhood housing organizations on the far north side, established a local housing and business loan fund of over $3 million with two Rogers Park banks -- North Shore National Bank and Devon Bank. In 1986, the NorthEast Investment Alliance, a coalition of community groups from the Uptown and Edgewater neighborhoods of Chicago, successfully negotiated a $12 million neighborhood lending program with the Community Bank of Edgewater for homeowners, landlords, and business owners.

Reinvestment agreements have also been successfully negotiated in Philadelphia and Providence. In Philadelphia, the Eastern North Philadelphia Initiative Coalition jointly announced a $55 million neighborhood lending agreement with Fidelcor, the bank holding company

for Fidelity National Bank, in February 1986. The coalition of 37 organizations from the North Philadelphia and Kensington neighborhoods utilized the merger of Fidelcor and IVB Financial Corporation, the holding company for Industrial Valley Bank, as an opportunity to negotiate. The pool includes low-interest loans for financing housing and economic development projects, and grants to three area community credit unions. Four review subcommittees have been established to monitor and implement different sections of the agreement [Philadelphia Reinvestment Research Group 1986].

In Providence, a coalition of community organizations used a CRA protest to obtain a promise of $50 million in loans for low and moderate-income housing. The February 1986 agreement was reached after the coalition protested to the Federal Reserve Board the November application of the Fleet Financial Group, Inc. to acquire First Connecticut Bancorp Inc. and Merrill Bankshares Co. of Maine. The lending agreement provides construction and rehabilitation financing for multifamily housing projects, and offers low down payments and other creative financing options for developers of non-profit and cooperative housing. The agreement, which will be monitored by the Providence Human Relations Commission, also creates the Rhode Island Housing Partnership, a non-profit corporation that will provide technical and financial assistance to prospective borrowers in preparing loan proposals.

Variations to the "Chicago" model of negotiated development for neighborhood revitalization have been developed elsewhere. In

Cleveland, a for-profit community development corporation was capitalized by four large banks in the city in response to CRA negotiations with an advocacy organization in the Buckeye-Woodland neighborhood. In 1980, the CRA committee of the Buckeye-Woodland Community Congress (BWCC) began to develop neighborhood reinvestment strategies. With the help of the Cleveland Center for Neighborhood Development (CND), a technical assistance organization based within Cleveland State University's College of Urban Affairs, BWCC designed a plan for a bank-sponsored community development corporation in the neighborhood. A research committee with two representatives from banks, two from BWCC, and one from CND was convened to develop and negotiate the proposal.

After a series of meetings hosted by CND, an agreement was reached between BWCC and four Cleveland banks. Central National Bank, Union Commerce Bank, Society National Bank, and BancOhio agreed to contribute $70,000 as shareholders to capitalize the Buckeye-Woodland Community Development Corporation in 1981. The corporation's board consisted of joint representation from the banks and the community group. A non-profit subsidiary, the Buckeye Evaluation and Technical Institute (BETI), was formed, and joined with the for-profit development corporation and BWCC under the organizational framework of the "Bank on Buckeye" program [Research Subcommittee of the Bank/Buckeye Committee 1981; Bank on Buckeye 1982].

These experiences in cities across the country indicate the replicability and viability of the described model of negotiated urban

development. The model is important for two reasons. First, it outlines a role for the public sector as a broker between citizen coalitions and private lenders, by informally and formally -- through the CRA and HMDA -- providing tools for information and negotiation that stabilize and equalize the bases of power in the bargaining process.

Second, it illustrates the growing power of community-based organizations in negotiated urban development. Neighborhood organizations play a vital role in many urban communities, by organizing residents, providing services, and undertaking actual development projects on their own.[5] These groups have grown in sophistication, serving as a base for community action and development that can be more accountable and flexible in meeting local needs than exclusively governmental efforts [Weiss and Metzger 1987; Vidal et al. 1986; Mayer 1984; Mayer and Blake 1981; Downs 1981; Cunningham and Kotler 1983].

The model reveals the possibilities of a negotiated public-private partnership that utilizes both the growing expertise of neighborhood-based organizations and the previously untapped resources of local financial institutions. The effectiveness of the model depends on the presence of: 1) a context of enforceable rules, through the CRA framework; 2) trained professionals with research, development, and negotiating skills; 3) widely disseminated financial information and policy education; 4) actively mobilized community groups; and 5) public support to legitimize the brokering process, and

provide a basis for programs and subsidies that facilitate the success of neighborhood lending agreements.

Opportunities to use this model of negotiated urban development are spreading rapidly within the current climate of a deregulated banking industry. Financial deregulation has increased the competition for banking services, and in response many institutions have adopted interstate and national expansion strategies for acquiring and merging with other financial entities [Florida 1986; Cooper and Fraser 1984]. As a result, neighborhood groups are being presented with opportunities to negotiate lending agreements with financial institutions, using the leverage of either the CRA or new interstate banking legislation to monitor and respond to changes in financial market structure [Kieschnick 1986; Bradford and Schersten 1985]. In this context, negotiated development can emerge to play a vital role, by convening a "private-public-private" decision-making process to resolve conflicts over urban development and finance arising from the changing environment of the financial services industry.

ENDNOTES

1. Title III of Public Law 94-200 (U.S. Senate Bill 1281, approved December 31, 1975); see also, Federal Reserve Board, Regulation C. Congress recently extended the disclosure requirements to cover non-depository mortgage banking subsidiaries of savings institutions and bank holding companies, and made HMDA a permanent law. See Title V of Public Law 100-242 (U.S. Senate Bill 825, approved February 5, 1988).
2. Title VIII of Public Law 95-128 (U.S. House Bill 6655, approved October 12, 1978); see also, Federal Reserve Board, Regulation BB.
3. Public Act 82-21 (Illinois Senate Bill 578, approved July 3, 1981).
4. Chicago Municipal Code, Chapter 7, 7-30 to 7-41.
5. For example, as a recognition of the key role of neighborhood organizations in urban reinvestment, the Local Initiatives Support Corporation (LISC) and the MacArthur Foundation recently established an $11.3 million Fund for Community Development to support the operations of 30 neighborhood organizations in Chicago over the next eight years.

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