

Perspectives

NationsBank Neighborhood Program

*An Interview with
Hugh L. McColl
Chairman and CEO, NationsBank Corp.*

NationsBank has established the NationsBank Neighborhood Program in 30 communities as a holistic approach to targeted revitalization of inner-city neighborhoods. In this article, Perspectives asked McColl to discuss neighborhood revitalization and the partnership roles of community-based organizations, government and community development financial institutions.

INSIDE



What are the key elements of the NationsBank Neighborhood Program that targets neighborhood revitalization?

The key elements of our neighborhood program stem from our general approach to all our community investment initiatives. It's simply a more focused, targeted strategy.

First, we believe it's essential that any effort be needs-based and results-driven. There is no one development plan that fits all neighborhoods.

Listening is critical. We seek input from residents and business owners in the neighborhood so we can learn—first-hand—issues, concerns and common ground.

Finally, partnership is the way to results. The task of rebuilding our most troubled neighborhoods is complex. No one company, nonprofit organization or government agency can do it alone. All have important roles to play. All have certain expertise and resources to bring to the table. Through partnerships, we're able to avoid duplication of efforts, maximize limited resources and get results that truly make a difference in people's lives.

In your opinion, what specific economic and affordable housing development actions can banks take as partners in neighborhood revitalization efforts?

I'm proud that NationsBank is recognized as a leader in neighborhood revitalization. We've achieved this distinction because we've been willing to take a nontraditional approach, to



develop innovative products and services, and to not let uninformed critics distract us from the important work we are accomplishing.

Bankers traditionally have taken leadership roles in their communities. That provides us a unique opportunity to be the catalyst for bringing groups together.

Beyond that, as an industry, clearly we need to learn more about and better understand neighborhood issues. And we need to be able to find ways to advance solutions.

Every financial institution should constantly reevaluate industry standards and question acceptable levels of risk. Do we hold certain loans in our portfolio? Can we enhance underwriting, making products more innovative and responsive to neighborhood

(continued from page 1)

needs? These are questions we should be asking. At all times, however, the answer must be framed with what makes good business sense.

Do you have any suggestions that would serve to strengthen the partnership among banks, community-based organizations and government to better facilitate neighborhood revitalization?

Egos must be checked at the door. Given the image I sometimes have in the popular press, that may sound contradictory. And, I'll admit, I want NationsBank to be the best in this business. My expectation is for NationsBank to be a catalyst while influencing other players to join the effort.

All participants must be open and honest when they come to the table. Participants can't have hidden agendas that will blindside other partners. Territorialism is a clear impediment to getting anything accomplished. And everyone must be willing to share responsibilities and accountability.

Finally, the education process is a two-way street. Just as banks and other business leaders need to learn and understand neighborhood agendas, community leaders should be realistic about what is and is not in the scope of the business community or the public sector.

Do you envision a role for community development financial institutions (CDFIs) in neighborhood revitalization?

Absolutely. That's why NationsBank has committed \$25 million to CDFIs and is seeking additional investors.

CDFIs play an important role in neighborhood revitalization. As special-purpose lending institutions, they don't

have the same government restrictions and costs as traditional banks.

Therefore, they're able to take more risk and make loans that a traditional bank cannot.

What value has NationsBank derived from being a partner in neighborhood revitalization initiatives?

We benefit when our neighborhoods become healthy and stable communities. As they prosper, we prosper. Being involved in the revitalization puts us closer to our customers. They know us, become comfortable with us and do their business with us. That contributes to earnings for our company and returns for our shareholders.

What value do education and counseling programs provide?

Demystifying banking is part of that overall education process so important to making successful partnerships. Beyond that, we cannot do our job of making loans if customers do not understand the process. A strong customer base is essential to creating a strong community. We can aid that effort by helping prepare those customers who may never have used a bank. We have a role to play in increasing the understanding of why it's important to establish and maintain good credit, to broaden awareness of the loan application process and how decisions are made, and to present the advantages of doing business with a bank.

What challenges are inherent for banks in taking a leadership role in neighborhood revitalization?

Clearly, the upside is recognition and satisfaction that you're accomplishing important work. From a busi-

ness perspective, you achieve early entry into a new market by helping stabilize a neighborhood. NationsBank is often first to establish a banking center in a low- to moderate-income neighborhood. It's interesting; without fail, our competitors always follow.

But the real challenge inherent in being a leader is you frequently become a target for unwarranted attacks.

We firmly believe the benefits and rewards far exceed that risk. The true measure of success should be in results. A four-year total of \$13.2 billion of loans in low- and moderate-income neighborhoods and projects such as Dallas' Wynnewood Gardens clearly demonstrate NationsBank is making a positive impact.

Unfortunately, baseless attacks on a leader who is recognized for achieving results become disincentives for other banks or businesses to get involved in neighborhood revitalization. Why not remain on the sideline and avoid the conflict?

No one really questions the motives, credibility or effectiveness of the attackers. Is this a group that truly speaks for the neighborhood? Has it been successful in getting results, building coalitions or developing sustainable revitalization programs? These are questions that rarely get asked.

If such attacks result in keeping other banks and businesses on the sidelines, no one wins. And the real losers will be the neighborhoods and individuals most in need. ▼

Public & Private Partnership

Mission Accomplished

*East Austin's
Ebenezer Baptist Church
Puts Its Community
on the Path to Revitalization
Through Partnerships
with Banks, the City,
the State, a Foundation
and a Private Developer*

As pastor of East Austin's Ebenezer Baptist Church since 1969, Marvin C. Griffin had watched the neighborhood surrounding his church become the second poorest area in the city due to a lack of economic development and capital infusion. The church stood beside dilapidated buildings that gave shelter to drug deals and other illegal activity. Rev. Griffin and his 850-member congregation sought to combat the community's overt signs of decay by buying property around the church, demolishing an old building and planning new developments.

Rev. Griffin's and the congregation's ideas were set in motion in 1988, when Van Johnson, an economic development specialist, encouraged the church to form the East Austin Economic Development Corp. (EAEDC), a nonprofit organization that would eventually oversee three devel-

opment projects—a child and elder day care center, an office building and affordable housing for the elderly—that would serve as a cornerstone in the community's revitalization.

"As in many inner-city areas, the church is a guiding influence in the community, and Ebenezer Baptist Church served as an anchor for redevelopment in East Austin," says Johnson of the church, which was organized in 1875. "If there were any hopes of revitalizing the neighborhood, then the Ebenezer Baptist Church would be the key in making those changes because the church understands the community's needs."

The church also had the financial resources, initiative and commitment to pursue its plans, says Johnson, who now serves as executive director of EAEDC. Through the acquisition and

(continued on page 4)



Ebenezer Baptist Church plays a key role in the redevelopment of East Austin.

(continued from page 3)

sale of land near the church and money saved from annual budgets, Ebenezer Baptist had \$1.5 million in land and money to commit to the EAEDC and its development efforts.

In its early stages of operation, a \$28,000 planning and technical assistance grant from the Indiana-based Lilly Endowment Inc., a private, charitable foundation, enabled EAEDC and the church to plan a development strategy, as well as identify the type of commitment their future partners would have to make to realize the church's development goals. The grant was one of 28 awarded by the Lilly Endowment to promote collaboration between religious institutions and community development organizations to create jobs, housing and economic change within their neighborhoods.

"One attractive aspect of the [Ebenezer Baptist Church] projects was the potential effect they would have on turning around an area of the city that was in significant decline," says Willis Bright, program director, community development, at the Lilly

Endowment. "Their commitment and the grant allowed them to leverage additional financial support for their projects."

"The Lilly Endowment was a critical element in our ability to spend time to develop a detailed plan for our projects, which led to crucial partnerships with the city and local banks," says Johnson.

In 1995, through EAEDC's efforts, the church's first project—a 25,000-square-foot child and elder care center—received \$400,000 in community block grant development funds from the city of Austin. NationsBank followed the city's commitment with two loans to the church and the day care center totaling \$800,000.

"Ebenezer Baptist Church and EAEDC brought sizable assets to the table, such as land, money and community support," says Johnson, about the revitalization projects. "The church and EAEDC approached the city and NationsBank as strong partners in the economic development, which helped minimize the risk for the city and bank."

Haley Moy, community investment coordinator at NationsBank, agrees. "We felt comfortable entering into a partnership with EAEDC because the organization is meeting the need for child care in the community and because of the combination of city funding, endowment grants and the significant capital the church contributed," he says. "All these factors, as well as the pastor's long history in community leadership, were strong incentives for NationsBank's involvement."

The day care center will enable the church to care for 170 children—70 more than the church's previous center—as well as provide care and activities for senior citizens. "Caring for children has been a part of the church's ministry for many years, and now we can also better serve the needs of our community by also caring for the elderly," says Rev. Griffin.

In addition to the Lilly Endowment grants, NationsBank provided a \$25,000 grant that EAEDC used to create a revolving loan fund. The loan fund makes lines of credit available to minority subcontractors working on the developments, which fuels the local job market.

EAEDC built upon the successful partnerships it forged during the child and elder care center development with its second project—a two-story, 10,000-square-foot office building. The project was funded by \$150,000 from Ebenezer Baptist Church, two loans totaling \$480,000 from the city, a \$220,000, 10-year, 8.5-percent interest, loan from Texas Commerce Bank and a \$100,000 grant from the Lilly Endowment. The city has leased 70 percent of the building as space for its microloan program and for the Austin multibank CDC. EAEDC offices will



From left: Wendel Pardue of Texas Commerce Bank, EAEDC's Van Johnson, Haley Moy of NationsBank and Rev. Griffin of Ebenezer Baptist Church review EAEDC's developments.

Fast Facts

also be housed within the building.

"Bankers really enjoy seeing the revitalization of a community," says Wendel Pardue, vice president at Texas Commerce Bank, of its involvement in the church's office building project. "Ebenezer Baptist Church has a heart for the area and for the people."

The third piece of the church's and EAEDC's development strategy is housing for the low- and moderate-income elderly that will be finished in June. "The elderly have few affordable housing choices in East Austin," says Johnson. EAEDC's six duplexes, which will contain a dozen, 700-square-foot units, will provide more housing options in the community. The church and its developments now occupy two city blocks in East Austin.

Everyone who has partnered with Ebenezer Baptist Church and EAEDC attributes the recent spurt in economic development in East Austin to the development activities of these two organizations.

"Ebenezer Baptist Church is providing a shot in the arm for East Austin," says Greg Smith, manager for community development assistance programs at the city of Austin. The city now plans to develop an office retail complex, and another local nonprofit is planning a 100-home affordable housing development in East Austin.

"Our initial investment in the neighborhood has attracted more than \$20 million in new development," says Johnson. "East Austin is now assured of extensive redevelopment, and there is a tremendous infusion of public and private money that is transforming the area from one of the most distressed to one of the most vital in Austin." ▼

East Austin Economic Development Corp. (EAEDC), a nonprofit organization created by Ebenezer Baptist Church, is taking a holistic approach to neighborhood revitalization and community and economic development. EAEDC is building a child and elder care center, office building and 12 units of affordable housing for the elderly.

Child Care/Elder Care Center: \$1.9 million project

City of Austin CDBG \$400,000 (grant)

NationsBank \$800,000 (15 years at 9-percent interest)

Ebenezer Baptist Church \$500,000 (cash)
\$200,000 (value of land owned by church)

Austin Kiwanas Donating equipment for the playground

Office Building: \$950,000 project

Ebenezer Baptist Church \$150,000 (cash)

Lilly Endowment \$100,000 (grant)

Texas Commerce Bank \$220,000 (10 years at 8.5-percent interest)

City of Austin CDBG \$480,000 (two loans, \$130,000 for 10 years at 1-percent interest and \$350,000 for 20 years at 0-percent interest for years 1–10 and 4-percent interest for years 11–20)

Ebenezer Senior Housing: \$850,000 project

Texas Department of Housing and Community Affairs \$741,000 (HOME Program deferred loan—no repayment required)

Ebenezer Baptist Church \$109,000 (value of land owned by church)

The Lilly Endowment and Bennet Construction provided grants for administration, and NationsBank provided a grant that EAEDC used to establish a revolving loan fund to make lines of credit available to minority subcontractors.

For More Information:

East Austin Economic Development Corp.
1010 E. 10th
Austin, Texas 78702
(512) 472-1472

The Lower Colorado River Authority has been bringing power to Texas Hill Country businesses and residents for more than 50 years, but for the past six years the utility company has also promoted economic development in its service region by sponsoring a certified development corporation.

In 1990, the Lower Colorado River Authority (LCRA) formed the nonprofit CEN-TEX Certified Development Corp. (CDC) to serve expanding businesses and to foster economic growth in its rural and urban areas.

"LCRA has been promoting economic development for some time," says Randy Schlueter, senior business analyst with LCRA. "CEN-TEX CDC is another way for us to ensure that the communities we serve grow and remain economically healthy and vital."

LCRA, one of the few utility companies in the country to sponsor a CDC, provides office space, professional staff and supplies to CEN-TEX,

The Power to Make a Difference

Utility Company Fuels Economic Development

which is overseen by a 10-member board of local business and community people.

"LCRA has a long-term relationship with its customers, and two years ago we surveyed them to find out our customer's needs," says Rosa Rios-Valdez, who oversees CEN-TEX's Community Lenders program. "We discovered that the primary needs were jobs and housing for working families." Through its Community Lenders program, CEN-TEX will soon offer two new loan products at below-market rates,

interim construction financing to small businesses and down payment and closing cost assistance programs for working families seeking to buy affordable new or existing homes.

Although CEN-TEX's services include housing development and community lending, its original service—providing SBA 504, 502 and 7a loans—has been quite successful in the growth and expansion of numerous businesses in its service region.

Since its inception five years ago, CEN-TEX has made 44 SBA 504 loans totaling approximately \$41.5 million. CEN-TEX loans have helped its customers open a car wash, a convenience store, a gas station and other businesses. "Through CEN-TEX and the SBA loans, small business owners who may not be able to get a traditional bank loan can now get financing," Schlueter says.

"CEN-TEX completes all of the SBA paperwork, services the loan and processes the closing," says Patrick Brandenburg, senior vice president of business and professional lending with Franklin Federal Bancorp, an Austin bank that has worked with CEN-TEX to provide SBA 504 loans. "The SBA 504 loans offer borrowers long-term, fixed-rate financing for up to 20 years at a favorable rate."

"SBA 504 loans obtained through CEN-TEX always have below-market interest rates compared to conventional loans—with a 10-percent down payment instead of a 20-percent down payment," says Schlueter. "Banks benefit from participating in the loan as well because they receive first lien on the loan, even though they contribute only 50 percent of the funds."



Joyce Smith of CEN-TEX CDC visits with Dan Jardine of Jardine's Texas Foods at his salsa and spice plant, which he built using proceeds from a SBA 504 loan.



REPORT

Since the late 1970s, national nonprofit intermediaries have assisted the neighborhood revitalization efforts of local nonprofit organizations by providing a range of services including technical assistance, grants for administration of the nonprofit organization or for development projects, development loans, equity investments in projects through the purchase of tax credits and a secondary market for loans. Nonprofit intermediaries also assist local nonprofit developers by serving as their agent or negotiator when they're working with financial institutions and government agencies to forge public-private partnerships.

A national nonprofit intermediary often works closely with a community-based nonprofit development organization to provide assistance with community organizing, strategic planning and resource development. And because the national nonprofit intermediaries work in many communities around the country, they can provide local nonprofits with information on community revitalization models that have proved effective in other communities.

As examples of how nonprofit intermediaries assist local nonprofits, this report focuses on four national nonprofit intermediaries for community development.

Local Initiatives Support Corp. (LISC)

LISC was created in 1979 through a partnership among the Ford Foundation and six major banking, insurance and industrial firms, and it is active in 35 communities throughout the United States. LISC extends techni-

National Nonprofit Intermediaries

Fostering Community Development

cal assistance to community-based nonprofit organizations and provides grants, loans and equity investments for affordable housing development and to improve commercial and retail services in low-income communities.

Corporations, foundations and others interested in community revitalization have invested in LISC affiliate investment funds such as the National Equity Fund, a syndicator of federal

tions in 150 communities, Enterprise provides technical assistance, grants, low-interest rate loans and equity investments.

The Enterprise Foundation's Loan Fund works with private corporations, individuals and religious organizations to provide assistance to their communities. Enterprise Foundation has also created two subsidiaries, the Enterprise Social Investment Corp., a low-income housing tax credit equity investment fund, and Enterprise Mortgage Investments Inc., which provides permanent financing for the development of affordable multifamily rental housing.

The National Rural Development and Finance Corp. (NRDFC)

The NRDFC is a nonprofit community development finance intermediary serving distressed rural areas. The NRDFC is active in 11 states. It works with local rural development organizations to identify business and community investment needs, assess rural investment risks and manage lending transactions. NRDFC has utilized funds received from the Rural Development

Administration, private foundations and corporations to increase access to capital for rural businesses, develop community-based services, such as clinics and day care centers, and develop affordable housing.

Neighborhood Reinvestment Corp. (NRC)

The NRC was created by an act of Congress in 1978 to facilitate neighborhood housing improvement and revitalization. By assisting and coordinating a NeighborWorks network of local organi-

Intermediary (int-ər-mēd-ē-er-ē) — One who acts as an agent between persons or things; negotiator; go-between; middleman

Low-Income Housing Tax Credits; the Retail Initiative, a commercial equity fund for the development of supermarket-anchored neighborhood retail shopping centers; and the Local Initiatives Management Asset Corp., a secondary market for affordable housing and community development loans.

The Enterprise Foundation
The Enterprise Foundation has facilitated the development of affordable housing through more than 500 community-based nonprofit organiza-

DID YOU KNOW...?

Community Development Defined

The revised Community Reinvestment Act (CRA) regulation clarifies how community development activities are evaluated under CRA. The revised regulation defines community development to mean affordable housing for low- or moderate-income (LMI) individuals (including multifamily rental housing), community services targeted to LMI individuals, activities that promote economic development by financing businesses or farms that meet size eligibility standards or have gross annual revenues of \$1 million or less, or activities that revitalize or stabilize LMI geographies.

Additionally, the revised regulation requires that qualified investments, community development services and community development loans have community development as their primary purpose.

Community development loans include loans to nonprofit organizations serving primarily LMI housing and other community development needs. However, loans to nonprofits for original amounts of \$1 million or less that are secured by real estate or collateralized by production payments where the proceeds ultimately go to a for-profit business are reportable in the call report as small business loans.

- Loans reported as small business loans for call report purposes should
- be reported under CRA as small business loans and are not reportable as community development loans.

Please refer to the revised CRA regulation for additional examples of community development loans, examples of qualified investments and examples of community development services. Copies of Regulation BB (Community Reinvestment) are available free from the Public Affairs Department of the Dallas Fed at (214) 922-5254 or (800) 333-4460, ext. 5254. ▼

(continued from page 7)

zations in more than 239 neighborhoods throughout the country, the NRC creates and strengthens resident-led partnerships among community residents, local corporations, including financial institutions, and local government offices. Neighborhood Housing Services of America, a NeighborWorks affiliate, provides financial and fundraising services to local organizations, as well as a secondary market for their loans.

For further information about the intermediaries, contact their respective national offices:

Local Initiatives Support Corp.

(202) 785-2908

Enterprise Foundation

(410) 964-1230

National Rural Development and Finance Corp.

(210) 212-4552

Neighborhood Reinvestment Corp.

(202) 376-2400 ▼

(continued from page 6)

A \$1.4 million loan arranged through CEN-TEX and Franklin Federal in 1991 helped Dan Jardine expand his salsa and spice company from a small operation to a 30-acre, 26,000-square-foot plant in Buda, Texas.

"We were in a small, cramped space, and we wanted a place of our own with room to expand," says Jardine, founder of Jardine's Texas Foods. "We had tried to get a traditional bank loan but couldn't get approval. We were convinced we could afford to expand, and we eventually obtained

- the loan through CEN-TEX and Franklin Federal Bancorp."

- Today the Buda plant employs 65 people, and Jardine's Texas Foods has annual sales in excess of \$8 million.

- Jardine says everyone involved recognized it would be good for the community to have the plant in Buda.

- "With the expansion and move to the new plant, we added about 35 people, and as our business expands, we will continue to create new jobs," Jardine says. ▼

Perspectives

Federal Reserve Bank of Dallas
Community Affairs Office
P.O. Box 655906
Dallas, Texas 75265-5906
(214) 922-5276

Gloria Vasquez Brown
Community Affairs Officer
Nancy C. Vickrey
Community Affairs Manager
Ariel D. Cisneros
Community Affairs Specialist
Jim V. Foster
Community Affairs Specialist
Bobbie K. Salgado
Houston Branch
Community Affairs Specialist

The views expressed are those of the authors and should not be attributed to the Federal Reserve Bank of Dallas or the Federal Reserve System.

Articles may be reprinted on the condition that the source is credited and a copy is provided to the Community Affairs Office.