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COMMUNITY REINVESTMENT IN THE CITY OF ST. PAUL: ARE RESIDENTS AND BUSINESSES RECEIVING THE FINANCIAL SERVICES THEY NEED?

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The findings are entirely the responsibility of the authors. Comments are welcome.

I. EXECUTIVE SUMMARY

In January of 1989, at the request of St. Paul's City Council Research Office, the Center for Urban and Regional Affairs (CURA) of the University of Minnesota undertook a study of community reinvestment in St. Paul. The focus of our study was on the people of St. Paul and whether their financial needs were being met uniformly across the city, including in low and moderate income areas. We were not looking at the lending patterns of individual institutions; we did look for service gaps, but not the reasons for them. By "financial services" we mean both loans and other financial services.

A diversity of other studies related to credit issues and financial service needs was examined and we then conducted a variety of our own analyses.

Chapter II looks at problems facing the city and its various neighborhoods; it uses a physical housing inventory, a survey of residents, and interviews with key informants to show that problems are more complex in the inner-city. Chapter III uses existing financial data bases to examine real estate and lending patterns across the city and finds similar problems in the inner-city. Chapter IV examines four neighborhoods (representing a cross-section of the city), asking key informants (including financial officers) in each about the financial institutions serving those neighborhoods. Chapter V offers both a summary and a set of observations about what this means and recommendations for improving the current situation.

The report finds that:

- St. Paul is very fortunate in having a number of banks that are knowledgeable and concerned about and involved in neighborhoods of St. Paul, including lower income areas of the city.
- At the same time, it is also clear that much of the home mortgage market in low and moderate income neighborhoods is not well served by

traditional financial institutions, but must rely instead on individual seller financing (i.e., contract-for-deed) to buy and sell homes.

- What limited information we have indicates that Blacks, Native Americans, and people of Hispanic origin are denied mortgage loans at more than twice the rate of Caucasians and Asians in the Twin Cities Standard Metropolitan Area. (No data are available for the City of St. Paul separately.) This finding cannot be construed to mean racial discrimination exists, because we have no information on income or credit histories of the individual applicants. It does mean minorities are having difficulty buying homes.
- These problems of loan availability and refusal rates do <u>not</u> apply for home improvement loans, where lower income areas and minority home owners are treated more equitably. However, the lowest income areas are experiencing high refusal rates. (N.B. Rejection rate data apply to the entire metropolitan area, not specifically to St. Paul.)
- Small Business Administration loans, the only business loans about which we could find data, appear to be distributed uniformly across the city in proportion to employment.
- There is considerable concern by neighborhood informants that many people cannot afford checking, savings, automatic cash cards, and similar services, and have to rely on even more expensive check cashing and other services prevalent in certain neighborhoods.
- In addition, there is also a widely perceived if unmeasured need for greater understanding of how financial institutions work, and knowledge of public and private loan programs and financial counseling. The range of neighborhood financial services is largely unknown and certainly unexamined at the neighborhood level.

- With some notable exceptions, financial institutions themselves, even those who are knowledgeable and concerned about particular neighborhoods in need of development assistance, seem to take a rather passive attitude, typified by the comment, "We'll be happy to answer any questions you might have."

II. INTRODUCTION

RESEARCH DESIGN

Title VIII of the Housing and Community Development Act of 1977 (Public Law 95-128, 12 U.S.C. 2901-2905) is also know as the Community Reinvestment Act (CRA). The act states that "regulated financial institutions have a continuing and affirmative obligation to help meet the credit needs of the local communities in which they are chartered." The rules and regulations for implementing the act make clear that this "continuing and affirmative obligation" includes helping to meet the credit needs of "low and moderate income neighborhoods, consistent with the safe and sound operation" of the financial institutions (*Federal Register*, Vol. 43, No. 198, October 12, 1978, p. 47147). For this study, we chose to combine exploration of the needs of the residents of St. Paul for financial services as well as to analyze the performance of the city's financial institutions in meeting these needs.

Are the residents and businesses in St. Paul receiving the financial services they need? Are residents in some neighborhoods of St. Paul treated differently by financial institutions than their peers in other neighborhoods? Are certain groups--particularly people of color and lower income households--treated inequitably? In sum, are the people of St. Paul being adequately served by the financial institutions in the city? Anecdotal reports, studies of other metropolitan areas, national deregulation of the financial industry, the continued attention to the Community Reinvestment Act of 1977, and the formation of a coalition of community-based organizations to promote increased financing for nonprofit housing developers are some of the indications that the level of community reinvestment by financial institutions in St. Paul is a cause for concern.

Preliminary conversations focused on the research question: Does there exist credible but unmet demand for loans and other financial services at the neighborhood level in St. Paul and, if so, how might this demand be more adequately met? This two-part question proved, however, too ambitious and research into policy and programmatic recommendations had to be dropped.

To address the first part of the question, a three-phase research design was developed. First, exploratory work was conducted to look at the issue of community reinvestment in St. Paul. Work began by looking at diverse community reinvestment studies (see references). We then conducted an initial series of interviews with key informants who had comparative experience with the issue of community reinvestment in several St. Paul neighborhoods. These exploratory investigations, summarized in this introductory chapter, led us to believe that, indeed, a problem did exist. They also provided the context and structure for the subsequent research. Second, publicly available financial data were analyzed city-wide to determine if there were any discernible patterns of racial or economic discrimination. The results are presented in Chapter III. Finally, a second round of interviews was conducted with key informants in four diverse planning districts to enable neighborhood level comparisons of experiences with and perceptions about local financial institutions. Our informants include residents, business people, and community volunteers. We also interviewed representatives of financial institutions serving these districts. A summary of these interviews is presented in Chapter IV.

THE CLUSTER PATTERN OF ST. PAUL NEIGHBORHOODS

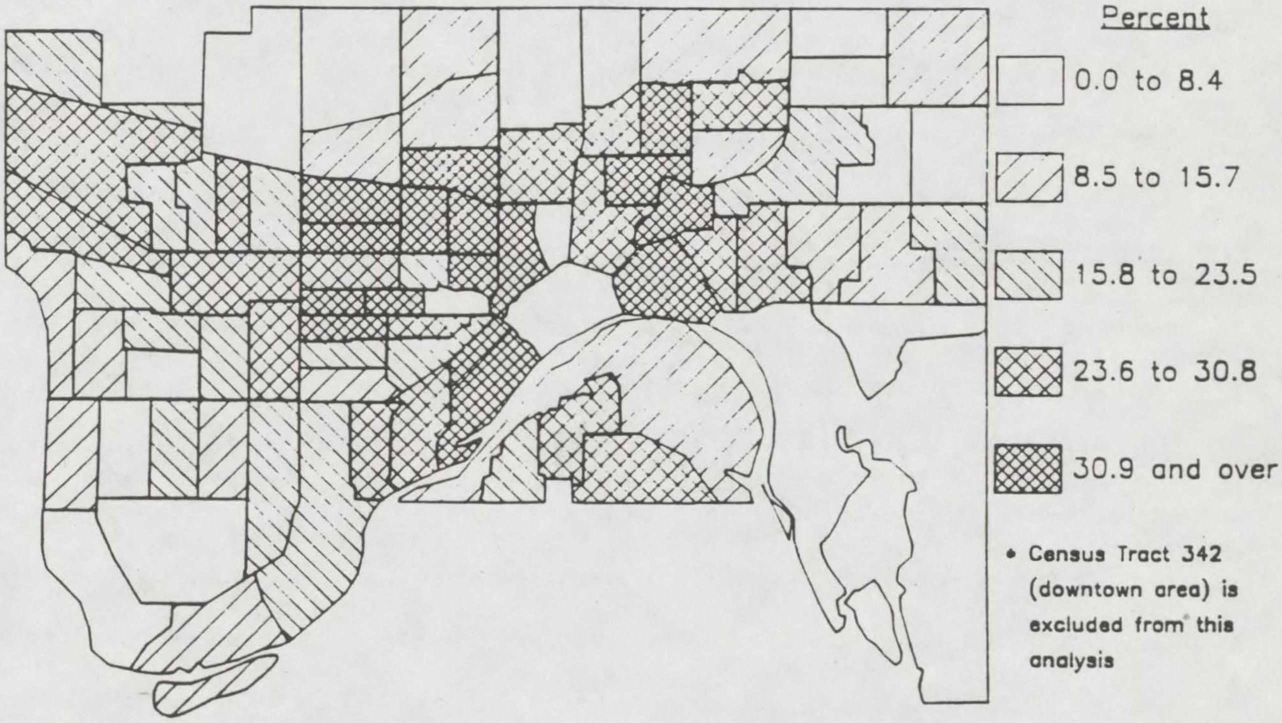
Community reinvestment in St. Paul, as elsewhere, is considered largely a matter of funding for "bricks and mortar" activities; that is, funding for residential and commercial rehabilitation and new construction. Less attention is paid to loans for other types of economic development activities. This may well change in the near future as the understanding of "community development" broadens to include not only bricks and mortar and economic development but human services, community arts, the roles of parks and schools and churches, and other aspects of what makes communities out of neighborhoods. Currently, nevertheless, the emphasis for community reinvestment remains on funding to maintain or upgrade an area's physical condition.

With the exception of downtown, attending to the physical condition of the neighborhoods means, foremost, the condition of housing. In this regard, the diversity of St. Paul neighborhoods is well documented. Figure 1 shows census tracts where "deficient" one- and two-family housing units are concentrated. "Deficient" here includes units needing minor or major repair as well as those judged to be dilapidated. The highest proportion of deficient units are found in the innermost city, census tracts closest to downtown. Moving toward the city's boundaries, one tends to find fewer units in need of repair or replacement.

Whether a map of St. Paul shows the condition of housing units or is a map of unemployment, income levels, housing values, and other standard demographic characteristics, the cluster pattern of Figure 1 is repeated and readily seen. (Figures 4-7 in Chapter III are further illustrations of this cluster pattern.)

Figure 1. ONE- AND TWO-FAMILY HOUSING UNITS (percent deficient)

Figure 1



SOURCE: "Saint Paul Housing Conditions 1988 Survey," Planning Division, Department of Planning and Economic Development, City of Saint Paul, September 1989, p. 18.

What may not be so studied or familiar, however, is the attitude of residents about neighborhood conditions. The *Star-Tribune*'s Minnesota Poll, conducted in April of 1989, asked 1,013 adult residents of St. Paul whether they considered nineteen issues "major," "minor," or "no" problem in their neighborhood. At least ten of these nineteen issues are frequently associated with declining neighborhoods. These issues include deteriorating buildings, landlords who don't maintain their property, selling of drugs such as crack, lack of access to parks and park programs, and so forth. Figure 2 shows in boldface numbers how many of these ten items were identified as a "major problem" by a higher percentage of respondents in each neighborhood than the city-wide average. The numbers in smaller face indicate the particular issues identified by residents in that neighborhood as "major problems" at rates above the city average for each of the issues. The sample sizes in individual neighborhoods are quite small, so detailed conclusions should be viewed with caution. The general pattern, however, of residents in inner-city neighborhoods identifying more issues as "major problems" than those on the city's periphery, is undoubtedly valid. Figure 2 shows again the cluster pattern seen in Figure 1. In addition, inner-city residents identified many of the issues listed in Figure 2 at rates two to three times those in neighborhoods at the edges of the city. Something other than lack of concern must explain the deteriorating conditions in parts of these central neighborhoods.

Figure 2

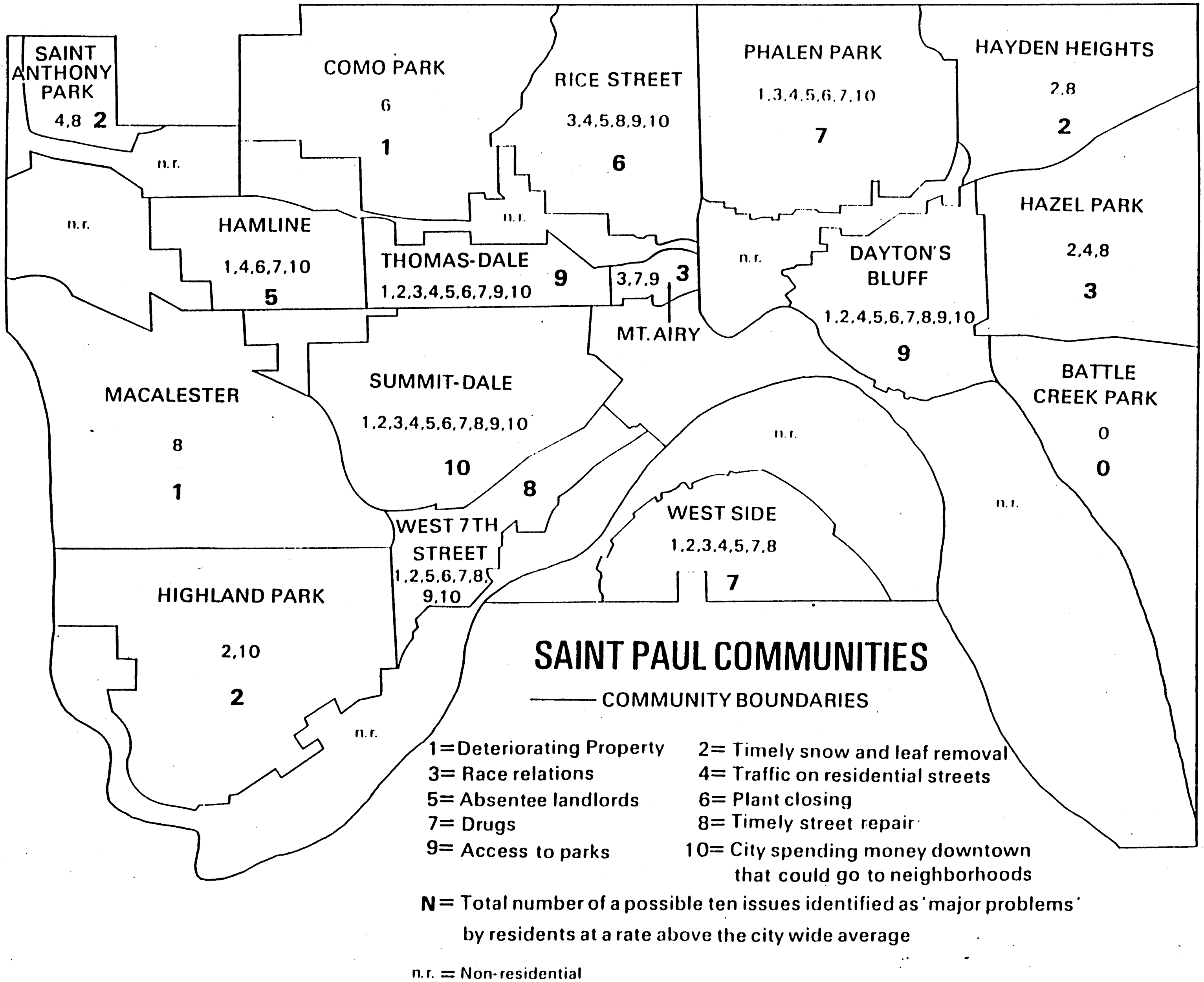


Figure 2. ISSUES IDENTIFIED BY RESIDENTS AS "MAJOR PROBLEMS" AT RATES ABOVE CITY AVERAGE

FIRST ROUND INTERVIEWS

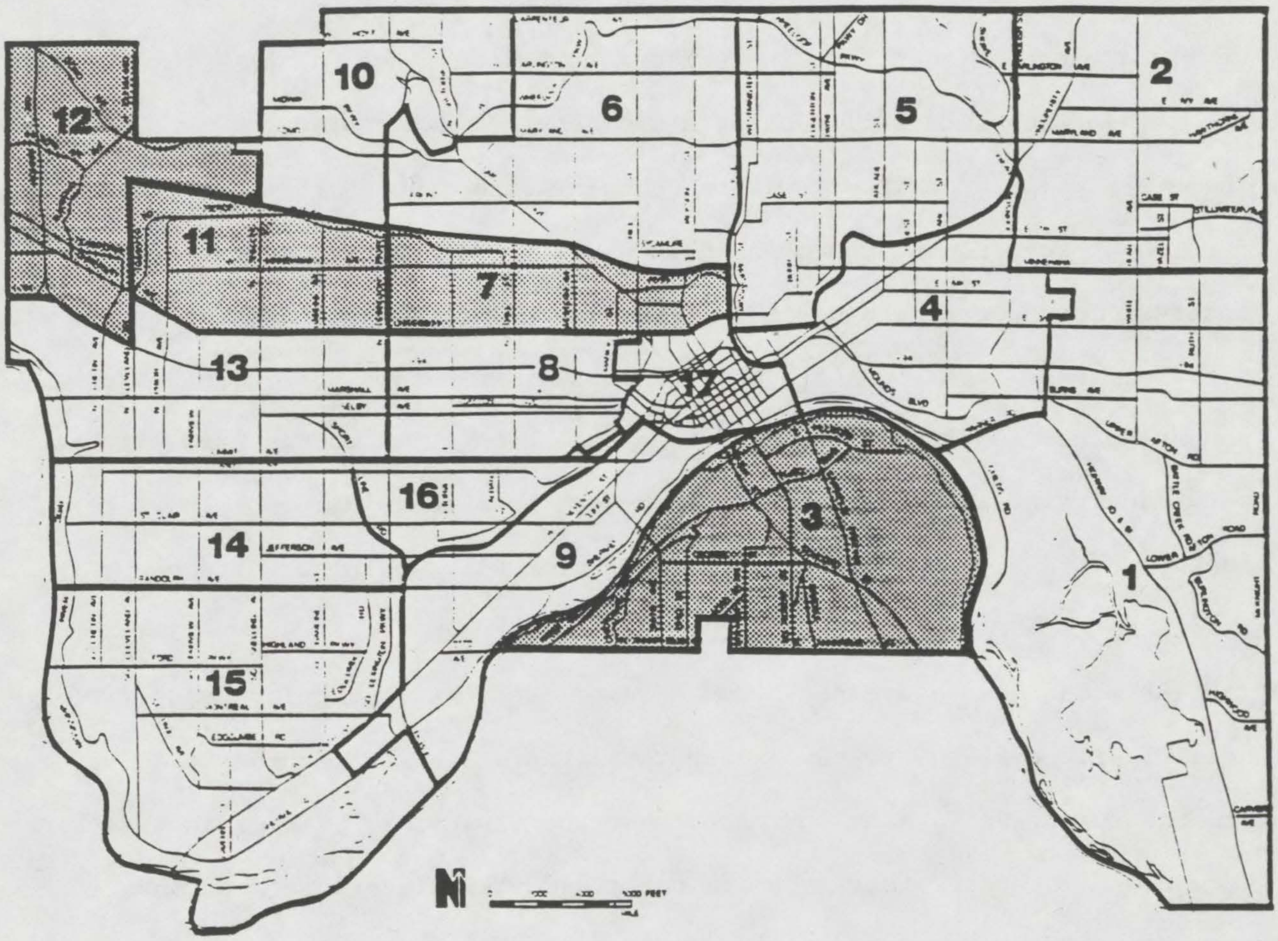
A first round of interviews was conducted with fifteen "key informants" selected from a variety of organizational perspectives, including:

- District Council staff and board members
- Neighborhood service organizations' staff
- Neighborhood community development corporations' staff
- Neighborhood business owners and business association leaders
- Realtors
- Developers
- Private nonprofit financial service providers
- Private, for-profit financial service providers (including banks, savings and loan associations, mortgage companies, credit unions and insurance companies)
- Public (government) financial service providers

Interviewees from these categories were geographically distributed throughout the city of St. Paul and were able to offer perspectives on all of the city's planning districts (see Figure 3). The purpose of the first round of surveys was to identify the predominant issues facing St. Paul neighborhood residents in obtaining financial services so that a more focused and detailed survey could be designed for a second round of interviews. Those interviewed are listed in Appendix B, page 129.

Figure 3. ST. PAUL CITIZEN PARTICIPATION PLANNING DISTRICTS

Figure 3



CITIZEN PARTICIPATION PLANNING DISTRICTS

1. SUNRAY-BATTLECREEK-HIGHWOOD
2. HAZEL PARK, HAYDEN-PROSPERITY HEIGHTS, HILLCREST
3. WEST SIDE
4. DAYTON'S BLUFF
5. PAYNE-PHALEN
6. NORTH END
7. THOMAS-DALE
8. SUMMIT-UNIVERSITY
9. WEST SEVENTH
10. COMO
11. HAMLINE-MIDWAY
12. ST. ANTHONY PARK
13. MERRIAM PARK, SNELLING-HAMLINE, LEXINGTON-HAMLINE
14. GROVELAND-MACALESTER
15. HIGHLAND
16. SUMMIT HILL
17. DOWNTOWN

FINDINGS FROM THE FIRST ROUND OF INTERVIEWS

In the first round of interviews, banks were the primary financial institution that interviewees mentioned using. Most were not critical of the services they had received from these institutions, noting that "banks can only do so much and still remain in business." Many noted, however, that there are still great needs within certain neighborhoods for financing. By far, the most frequently mentioned need was for long-term, below market interest rate mortgage and rehab loans. Most informants noted that these types of subsidized loans are most often available through government or nonprofit sources. Many respondents noted that in low income areas of the city, bank financing is often combined with these subsidized or guaranteed loans, providing funds in cases where it otherwise would not have been possible.

A second need mentioned by most respondents was for guidance services specifically tailored to the "unsophisticated or inexperienced" seeker of financial services. Many commented that the financial system is not set up to service the needs of those who are not already knowledgeable about how it operates. Thus, a substantial group is left out of the process. Suggestions centered around creating more awareness in both the banking and realty communities of the variety of financing alternatives that exist for low income individuals and of the special needs of these people. Financial counseling and education about the varieties of financial services available, were also frequently mentioned.

Geographically, the areas cited by first round informants as being in greatest need of financial services formed a ring around downtown St. Paul. Mentioned were districts 3, 4, 5, 6, 7, 8, and 9 (see Figure 3). Those interviewed overwhelmingly pointed to District 7, Frogtown, as the neighborhood in greatest need. Particular problems cited as facing the area were: deteriorating buildings, crime, not enough viable commercial activity, and a lack of any sustained citizen activity, organization, or commitment. District 8 (Summit-University), District 3 (the West Side), and District 5 (the Near East Side) were generally mentioned as falling not far behind Frogtown. In these districts problem areas were often characterized as "bad pockets," with other areas in the district being relatively stable. These districts also, it was noted, had more organizational resources than District 7. After these areas, District 6 (the North End) and District 4 (Dayton's Bluff) were mentioned. Finally, District 9 (West Seventh) also falls into this "inner city ring," but was not mentioned as frequently.

To contrast the comments on these inner-city neighborhoods, information was also solicited about and an interview done in District 12 (St. Anthony Park), the northwestern corner of the city. While St. Anthony Park was mentioned as having some "pocket area" problems, reinvestment concerns in this middle-class neighborhood did not seem nearly as extensive or urgent as those in the inner-city. Strong citizens' organizations exist in the district, and the area seems to benefit from the neighborhood development activities initiated by these organizations. As in similar, stable middle class neighborhoods, St. Anthony Park is also aided by the formal and informal networks of information regarding available financial services.

In discussing financial service needs, informants mentioned three related areas that sometimes present problems. While these areas are outside the immediate subject of this report, they are related to the process of neighborhood deterioration and development and were frequently noted in this initial round of interviews. First, realtors were mentioned as having a large amount of control over both where prospective buyers look for homes and what types of financing alternatives are available. Several respondents complained that realtors sometimes "steer" clients to upper income neighborhoods and never explore the assets that some inner-city neighborhoods have to offer. Others noted that the realtor is often a buyer's only (or first) source of information on financing options. If a realtor does not know about or does not tell a client about subsidized or guaranteed loan programs that might make buying an inner-city house more attractive, the buyer may never have an opportunity to take advantage of this option. This produces a cycle, some interviewees argued, that makes it difficult for inner-city areas to improve.

A second related area was the appraisal process. Some respondents mentioned that appraisers often overvalue properties in low income, inner-city areas, making them more difficult to sell. The third related area mentioned was insurance companies. Some respondents recounted problems in obtaining insurance for rehabilitated houses in the inner-city. In one instance, three companies turned down an application for insurance for such a house, before a fourth finally agreed to issue a policy.

First round interviews corroborated and elaborated much of what was in the data (see Chapter III). A second round of interviews was conducted to focus on the relevant major issues identified in the first round and to explore the variations of these problems as they are seen in various neighborhoods. The following does not contain programmatic conclusions or policy recommendations; these were beyond the scope of the project.

III. STATISTICAL MEASURES OF FINANCIAL SERVICES

INTRODUCTION

The overall purpose of this project was to assess how well financial institutions are meeting the needs for financial services of the people of St. Paul and whether people in all parts of the city are having their financial needs met. More specifically, we are looking to see whether minority and low/moderate income neighborhoods are being treated equitably. This chapter presents an analysis of the relevant public financial data that we could locate and analyze.

The major focus is on loans for the purchase and improvement of homes for individuals. This is the most readily available data and, perhaps, the most important credit need of people. A small amount of information is available on loans to neighborhood businesses and that information is reported at the end of this chapter. A summary of the data sets used is presented in Table 1. This table lists the sources, details about the information used from each source, and the limitations of each.

The sources of data used are listed in Appendix A and may be of interest to others wishing to update this report in St. Paul or elsewhere. Other data may exist (or are unknown to us), but the major problem with those sources is the lack of geographic detail. For example, a "Call Report" presents summary data about all loans made by a particular bank with no geographic detail, even state by state.

Mortgage information may be the most interesting to readers, but the results presented here should be viewed with caution. First, no data are available currently for mortgage companies, even though they have provided

Table 1. SUMMARY FINANCIAL DATA SETS INVESTIGATED, CONTENTS AND LIMITATIONS

HMDA (Home Mortgage Disclosure Act)	Mortgage and home improvement loan counts and amount by census tract. <u>Limitations</u>: No data from mortgage companies (nationally one-quarter to one-half of mortgage loans come from these companies). No data from other financial institutions having assets under $10 million. Data summarized at census tract level. No data about refusal rates or characteristics of successful applicants.
FHLBB (Federal Home Loan Bank Board)	Mortgage and home improvement loan application refusal and acceptance data. <u>Limitations</u>: Data for thrifts (savings and loans and savings banks) only, not for other financial institutions, even mortgage subsidiaries. Relatively few applications by minorities. Demographic data are given for individual applicants, but associated income levels are not available. Income levels and minority percentages are matched for tract level summaries, but for a limited number of very broad classes; and the income/minority information applies to tracts themselves, not to the applicant. The FHLBB refused to provide data at a smaller geographic area than the entire metropolitan area.
Ramsey County Department of Taxation and Records Administration	Turnover rates and means of conveyance for single-family homes. All sold homes are accounted for. <u>Limitations</u>: County could not provide data at comparable census tract level. No data on buyer income level.
Multiple Listing Service	Value and quickness of sale for listed homes. <u>Limitations</u>: Geography is not comparable. Does not include homes sold by owner.
Small Business Administration	Number and amount of business loans made by the Small Business Administration. <u>Limitations</u>: This data set includes a small portion of all loans made to businesses. Incompatible geography.

one-quarter to one-half of the mortgages nationally during the 1980s according to the U.S. Department of Housing and Urban Development. The Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) will require all mortgage companies to report their loan activity by 1991. Second, the primary sources tend to summarize loan data by census tract and the only means of classifying the income or race/ethnicity characteristics of the lending patterns is to use census data for the tracts. For our purposes this is not a major shortcoming since we are looking at neighborhoods and whether they are receiving the financial services they need. Finally, most of the mortgages issued by financial institutions are sold on the secondary market with those buyers (including the federal government) defining the acceptable limits of risk for the borrower and for the property. In many ways the discretion of local financial institutions is limited. Mortgage insurance companies further restrict the ability of financial institutions to use discretion in making loans. While these limitations offer good reasons for not making some mortgage loans, the question of whether the citizens and neighborhoods of St. Paul are having their needs met remains open.

Home improvement loans are perhaps a better way to judge local financial institutions. These loans are not sold off and much local discretion is possible. It should be noted that home equity loan data are not available, and not included in this analysis, despite the fact that much of the money from those loans goes into home improvement.

As with the mortgage data, income and race/ethnicity data are available only for the census tract in which each loan was made, not for the individual loan applicant. Incompatible geography in the data sets plagues most of the analysis that follows. Data are never provided by planning district and are instead provided by census tract, quarter-section, MLS sub-district, and zip code. For the most part, visual comparison of maps provides a coherent pattern, especially since we have overlaid each map with planning district boundaries. The FHLBB data are available only for the ten-county standard metropolitan area as a whole; its use in the city of St. Paul is rationalized on the grounds that a very high percentage of low income and minority people live in the central cities of Minneapolis and St. Paul.

The sections that follow present and analyze data on a source by source basis. The list of data sources includes: the federal Home Mortgage Disclosure Act (HMDA), the Federal Home Loan Bank Board (FHLBB), the Ramsey County Department of Taxation and Records Administration, and the Multiple Listing Service. Looking at business loans, we found only one useful available data set, from the Small Business Administration.

Data were collected for the years 1981 to 1987, or the most current year available. All dollar figures were adjusted to 1986 dollars. Data are presented in maps and tables. Our purpose is to portray current patterns, so the text will describe findings in the present tense.

THE ST. PAUL ENVIRONMENT

Much of the analysis that follows requires an understanding of the spatial distribution of income levels, minority populations, and home values across the city of St. Paul. Figures 4 through 6 provide this necessary background. Each map shows the spatial distribution of one characteristic by census tract based on the most recent Census of Population and Housing, 1980. Overlaid on these maps (as on others in this report) is an outline map showing the location and extent of each planning district (see Figure 3, page 11 for the number and name of each district).

The distribution of income is presented in Figure 4. The measure chosen is median family income. The pattern presented is not different from what is seen in other cities around the country. Income levels in the downtown area are relatively high, but this area is surrounded by lower income tracts. Wealthier areas then reappear on the outer edges of the city. The close-in high income area of Summit Hill is the exception to this general pattern of concentric income rings.

Minority percentages are depicted in Figure 5. "Minority" as used in this report includes both racial minorities and the Hispanic ethnic group. The pattern seen complements the income map, i.e., higher income areas have a low minority percentage and vice versa. Minorities are primarily located on the West Side (south of downtown), in the Summit-University area (west of downtown), and north of downtown.

Not surprisingly, the median value of owner-occupied homes (Figure 6) also follows the pattern of income. The lowest value homes surround the downtown area. Highest values occur in downtown itself, on Summit Hill, East River Road, in Highland Park, and in Battle Creek.

Figure 4

Figure 4. MEDIAN FAMILY INCOME (in 1986 dollars)

Figure 5

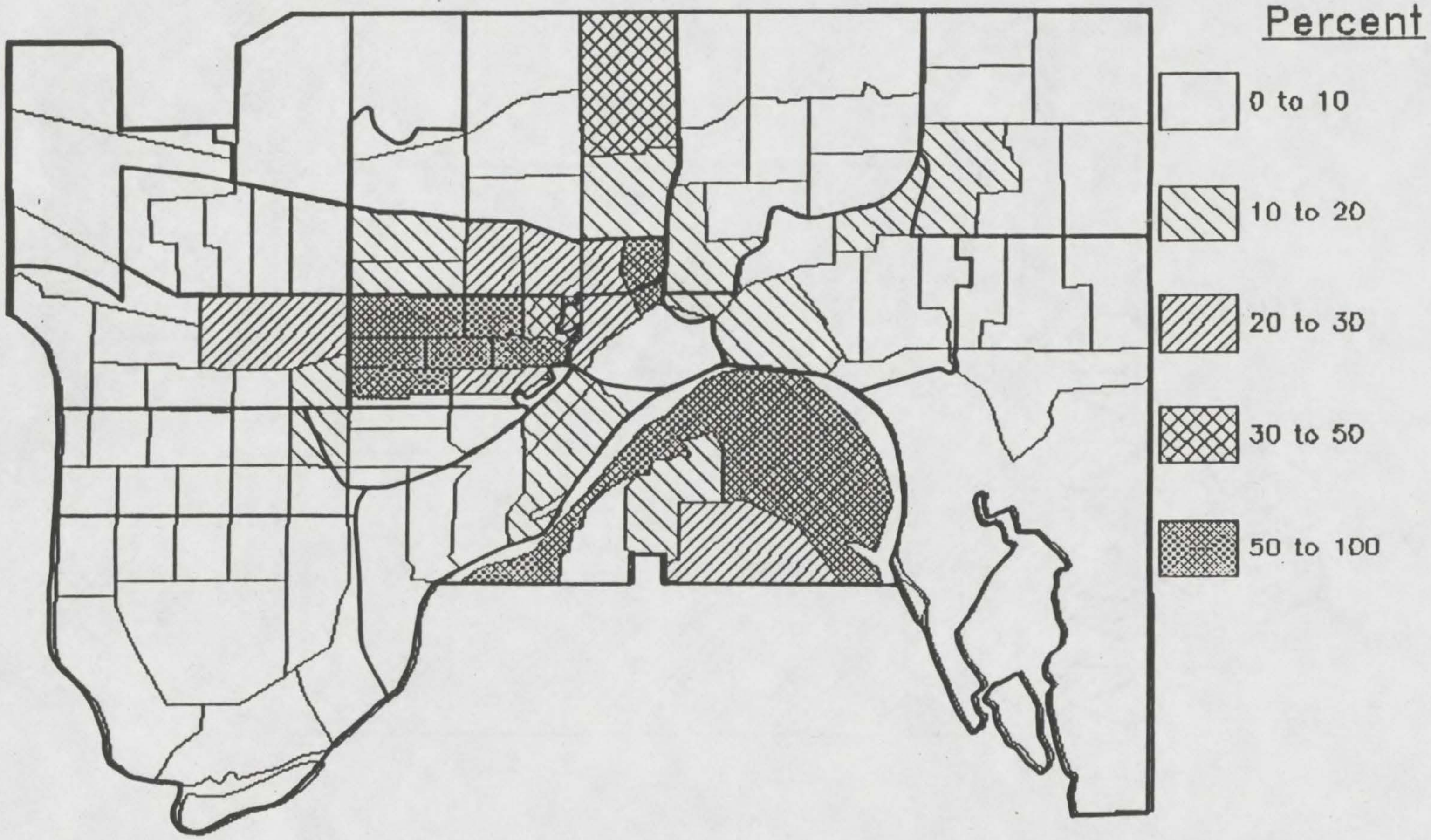


Figure 5. PERCENT MINORITY

Figure 6

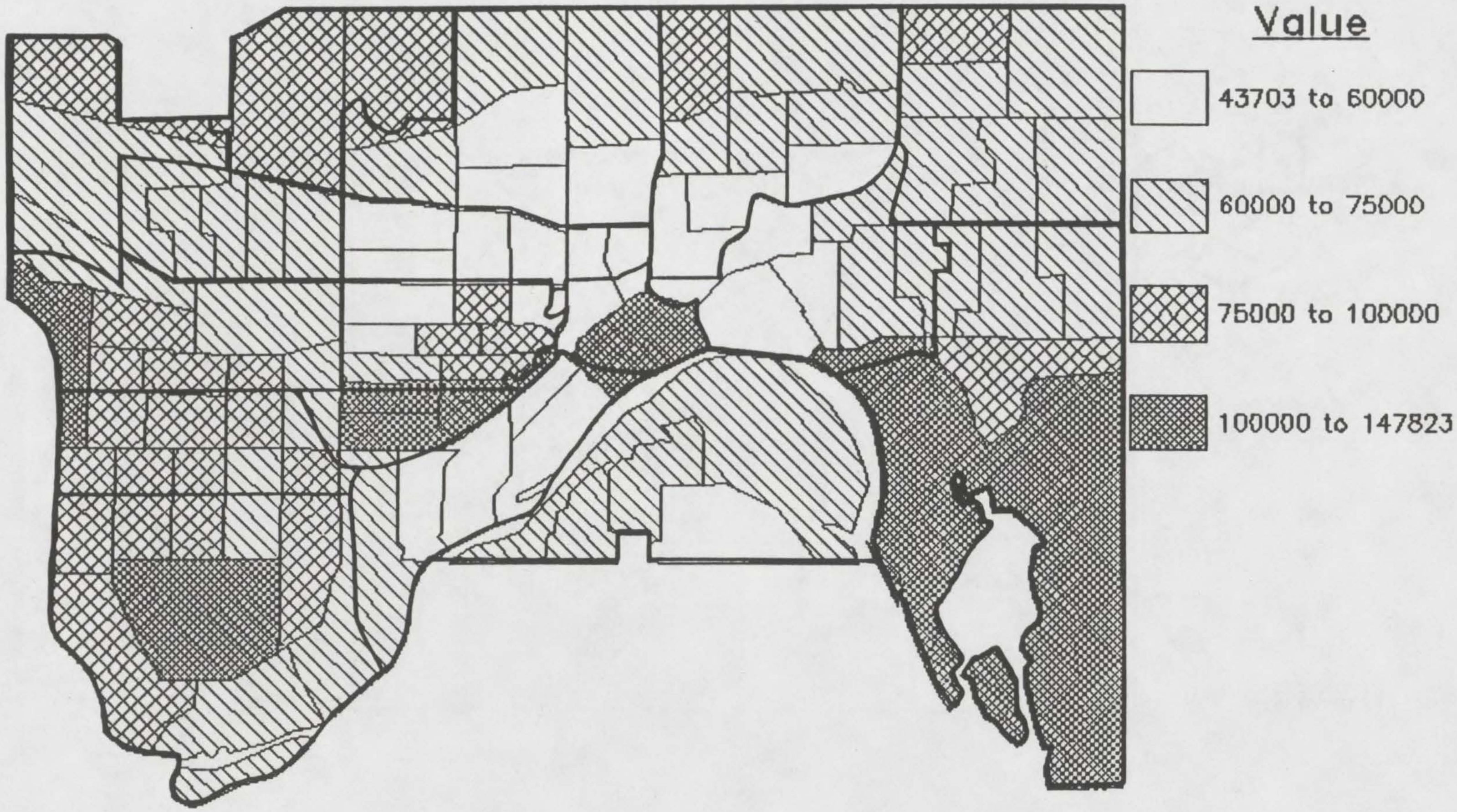


Figure 6. 1980 MEDIAN VALUE, OWNER OCCUPIED HOMES (in 1986 dollars)

HOME MORTGAGE DISCLOSURE ACT (HMDA)

The federal Home Mortgage Disclosure Act (HMDA) requires lenders to disclose the number and amount of real estate loans, both mortgage and home improvement, made by census tract. All regulated lenders with assets of at least $10 million are required to make this report annually, including banks, savings and loan associations, and federal credit unions. HMDA data contain no information on loans made by mortgage companies.

HMDA data cannot be used to determine whether individuals or neighborhoods are getting all the financial assistance they want or need. HMDA data contain data about loans given and say nothing about demand, either about loan applications rejected or about people who are too discouraged to apply for a loan they might need.

HMDA data contain loan information for each financial institution by census tract. For each tract, information exists on the number and types of loans made. We made a preliminary analysis of the geographic distribution of loans and found surprising evenness across the city. Because many institutions, especially the larger ones, make most of their mortgage loans through wholly owned subsidiary mortgage companies, it would be misleading to compare the lending patterns of various institutions. Using the 1987 data, however, we found three of the top institutions (Cherokee State Bank, Liberty State Bank, and Western Bank) with exemplary levels of service in low income areas.

We then systematically analyzed the HMDA data by census tract looking for any patterns of racial or income discrimination. Because the U.S. Census gives information on income, racial, and other characteristics of census tracts, we can make inferences about the lending practices of financial institutions in general, and of specific institutions. That is the nature of the analysis that follows.

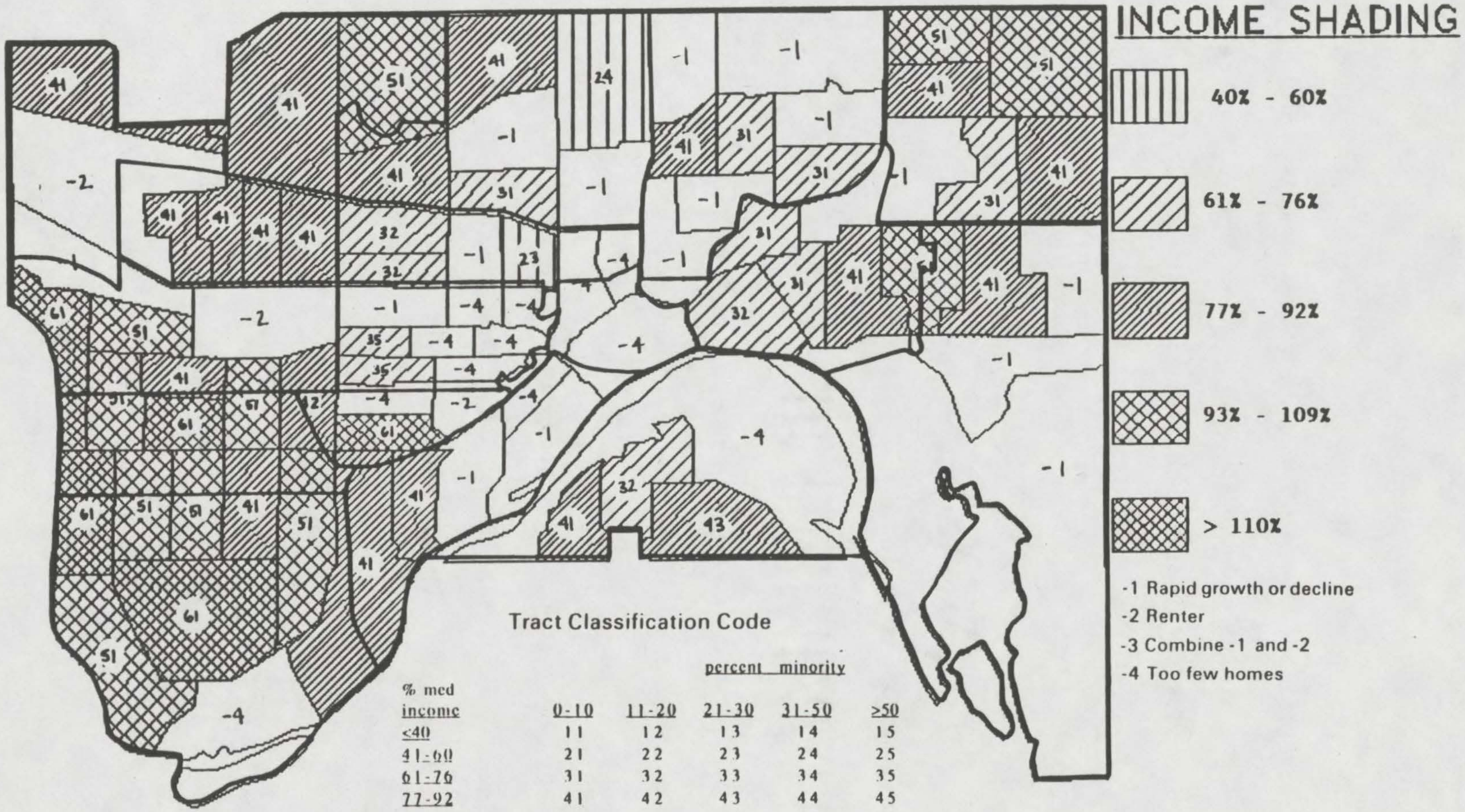
We have categorized different parts of the city of St. Paul both by income level and by percent minority. This classification scheme was used to analyze the patterns of lending in St. Paul. The classification scheme (and resulting data sets) was developed by Charles Finn, Project Director of the Banking and Community Economic Development Project at the University's Humphrey Institute of Public Affairs. Finn has used the scheme to look at lending patterns in a number of U.S. cities, especially at disparities in lending to minorities while holding income constant. He has not studied the spatial patterns of these loans or looked at differential lending patterns by income level holding race constant.

First, we must explain our classification system. Each census tract was categorized in a two-way, two-digit classification scheme, shown in Figure 7. The map shows each tract shaded by income level and labeled with a two-digit code. The table at the bottom of the figure shows the labeling scheme, with the first of the two digits indicating an income class for the census tract and the second number indicating the minority percentage class. Thus census tract 301, in the northwestern corner of the city, is classified "41," meaning that people living there had a median family income 77-92 percent of the metropolitan median income and that the tract was 10 percent or less minority. No census tracts in St. Paul fell below 40 percent of the metropolitan median income. All data used to classify tracts come from the <u>1980 Census of Population and Housing</u>.

A large number of tracts could not be included in this analysis. They are the tracts classified with a negative number.

-1: These tracts were excluded because of extremely rapid growth or decline since 1980, as indicated by building permits for construction (1.12 per 100 units) or demolition (1.33 permits per 100 units)--more than one standard deviation above the city average.

Figure 7



Tract Classification Code

% med income	percent minority 0-10	11-20	21-30	31-50	≥50
≤40	11	12	13	14	15
41-60	21	22	23	24	25
61-76	31	32	33	34	35
77-92	41	42	43	44	45
93-109	51	52	53	54	55
≥110	61	62	53	64	65

Figure 7. MATRIX OF INCOME AND RACE

-2: These tracts had more than 67 percent rental property--one standard deviation above the city mean. In these tracts there are few opportunities for home ownership.

-3: These tracts were disqualified by having both of the above characteristics. St. Paul had no tracts of this type.

-4: These tracts had too few homes--fewer than 250 owner-occupied homes in the entire tract. Most often these are industrial or commercial tracts.

The classification scheme described above is then used to summarize the HMDA data. The HMDA tract data are summarized by income level and minority percentage. The rationale for this approach is to allow us to compare loan distributions to areas having comparable income levels but different percentages of minority populations; and to compare loans across income levels, controlling for race.

The results of our analyses are presented in Tables 2-7. These tables summarize the HMDA data across the years 1981 through 1987 and present results for each type of census tract. All dollar figures have been adjusted to 1986 dollars using the Twin Cities Metropolitan Consumer Price Index. <u>The reader is reminded that the analysis of this data set uses the income and racial characteristics of the census tract, not the characteristics of the individual receiving the loan</u>.

HOME MORTGAGE LOANS

Table 2 shows the number of mortgage loans per 1,000 owner-occupied units, 1981-1987. This number is normalized by the number of owner-occupied units to equalize small and large tracts. If there were racial discrimination, one would expect the number of loans per 1,000 owner-occupied units to decrease in any one row as one reads left to right. By restricting this analysis to one row at a time, one can remove the influence of income. In fact, the tracts receiving the largest number of loans are those with more than 50 percent minority populations (and earning only 61 to 76 percent of the median income). There seems to be no pattern of racial discrimination by regulated institutions in the distribution of loans made across the city of St. Paul, analyzed by census tract.

TABLE 2. NUMBER OF MORTGAGE LOANS PER 1,000 OWNER-OCCUPIED UNITS, 1981-1987
(For unique combinations of census tract income and minority levels.)

Percent Median Income	Percent Minority 0-10%	11-20%	21-30%	31-50%	>50%
< 40%	--	--	--	--	--
41 - 60%	--	--	80.6	1.5	--
61 - 76%	50.8	69.2	--	--	107.4
77 - 92%	73.0	64.9	72.8	--	--
93 - 109%	64.3	--	--	--	--
> 110%	98.6	--	--	--	--

Looking at this matrix the other way, by column, one can see the influence of income level while controlling for the effect of race. Only the first column, with 10 percent or less minority, has enough entries to generate any conclusion, and that pattern is uneven. However, with the highest income tracts receiving 98.6 loans per 1,000 owner-occupied units and the lowest income tracts receiving only 50.8, one seems justified in saying that higher income tracts get more loans than lower income tracts. This says nothing about rejection rates or need levels. Since Table 2 refers to the number of mortgages, not the dollar amount, this conclusion is disturbing. Turnover rates are not significantly different from one part of the city to another, yet more mortgages are going to the upper income areas.

Table 3 presents a similar table for the dollar amount of home mortgage loans given per owner-occupied unit. Once again, minority tracts do quite well in getting home mortgages. The group of tracts with the highest minority percentages received the second highest dollar amount per owner-occupied unit despite the fact that their income levels are significantly less than tracts receiving the highest dollar amounts. And once again, the wealthiest tracts receive two to three times as much in home mortgages as do the poorer tracts, but this is partially justified by higher home values.

TABLE 3. DOLLAR AMOUNT OF MORTGAGE LOANS PER OWNER-OCCUPIED UNIT (in 1986 dollars), 1981-1987
(For unique combinations of census tract income and minority levels.)

Percent Median Income	Percent Minority 0-10%	11-20%	21-30%	31-50%	>50%
< 40%	--	--	--	--	--
41 - 60%	--	--	$3,010	$3,420	--
61 - 76%	$2,780	$3,220	--	--	$5,690
77 - 92%	$3,890	$3,540	$3,620	--	--
93 - 109%	$3,720	--	--	--	--
> 110%	$7,470	--	--	--	--

Table 4 presents the average dollar amount of the mortgage. There is no pattern of racial discrimination. Within a given income level, tracts with higher minority percentages often receive larger average mortgages than those tracts with lower proportions of minority residents. It is no surprise that higher income areas require larger home mortgages. The differences in dollar amounts are not large given the differences in income levels.

TABLE 4. AVERAGE MORTGAGE LOAN AMOUNT (in 1986 dollars), 1981-1987
(For unique combinations of census tract income and minority levels.)

Percent Median Income	Percent Minority 0-10%	11-20%	21-30%	31-50%	>50%
< 40%	--	--	--	--	--
41 - 60%	--	--	$37,380	$48,200	--
61 - 76%	$54,650	$46,540	--	--	$52,970
77 - 92%	$52,890	$54,450	$49,770	--	--
93 - 109%	$57,850	--	--	--	--
> 110%	$75,810	--	--	--	--

HOME IMPROVEMENT LOANS

Tables 5 and 6 present data and results similar to what has been shown in Tables 2 and 3, this time for home improvement loans per owner-occupied unit. Once again, there is no pattern of racial discrimination. But the bias towards wealthier areas seems abated in both the number and amount of loans, with many lower income tracts doing as well or better than the wealthier ones. Home improvement loans show no pattern of racial or income discrimination.

TABLE 5. NUMBER OF HOME IMPROVEMENT LOANS PER 1,000 OWNER-OCCUPIED UNITS, 1981-1987
(For unique combinations of census tract income and minority levels.)

	Percent Minority				
Percent Median Income	0-10%	11-20%	21-30%	31-50%	>50%
< 40%	--	--	--	--	--
41 - 60%	--	--	133.3	151.2	--
61 - 76%	153.8	118.8	--	--	158.6
77 - 92%	124.0	145.2	123.8	--	--
93 - 109%	105.1	--	--	--	--
> 110%	133.3	--	--	--	--

TABLE 6. DOLLAR AMOUNT OF HOME IMPROVEMENT LOANS PER OWNER-OCCUPIED UNIT (in 1986 dollars), 1981-1987
(For unique combinations of census tract income and minority levels.)

	Percent Minority				
Percent Median Income	0-10%	11-20%	21-30%	31-50%	>50%
< 40%	--	--	--	--	--
41 - 60%	--	--	$1,390	$1,140	--
61 - 76%	$1,170	$840	--	--	$1,470
77 - 92%	$1,020	$1,280	$860	--	--
93 - 109%	$1,070	--	--	--	--
> 110%	$1,390	--	--	--	--

Table 7 displays average home improvement loan amounts. There is no pattern of racial discrimination. However, it is indeed surprising that average home improvement loan amounts to lower income and higher percentage minority areas are among the largest in the city. It may be that homes purchased in these areas are much in need of repair, but financial institutions are willing to grant the requested improvement loans. The pattern of providing more home improvement loans to minority neighborhoods (at least Black neighborhoods) is consistent with what is happening in other cities across the country (Federal Reserve Board of Governors, "Report on Loan Discrimination," 1989).

TABLE 7. AVERAGE HOME IMPROVEMENT LOAN DOLLAR AMOUNT
(in 1986 dollars), 1981-1987
(For unique combinations of census tract income and minority levels.)

Percent Median Income	Percent Minority 0-10%	11-20%	21-30%	31-50%	>50%
< 40%	--	--	--	--	--
41 - 60%	--	--	$10,430	$7,550	--
61 - 76%	$7,640	$7,110	--	--	$9,290
77 - 92%	$8,190	$8,830	$6,930	--	--
93 - 109%	$10,150	--	--	--	--
> 110%	$10,420	--	--	--	--

CONCLUSIONS

HMDA data present one view of the real estate loan activity of federally regulated financial institutions in St. Paul. The data cover a majority of the mortgage loan information and all but the home equity portion of home improvement loans. Taking all types of loans together, it appears that financial institutions are doing a good job of spreading their loans across the city. More detailed analysis, however, uncovered a few problems.

There is no evidence in the HMDA data of racial discrimination in either mortgage or home loans by financial institutions serving St. Paul. To the contrary, mortgage and home improvement loans made in minority tracts are often more numerous and larger than for comparable white tracts.

However there does appear to be income discrimination, at least for home mortgages. Upper income areas receive nearly twice as many mortgages than the less affluent parts of the city. One would expect mortgage dollar amounts to be lower in low income areas, but not fewer loans, given relatively even turnover rates across the city.

No income discrimination is apparent, however, for home improvement loans. The number and dollar amounts of home improvement loans are equal or higher in low income areas compared to the highest income tracts. Either wealthier people are making their home improvements using (unreported) equity loans, or financial institutions are being extremely fair about this type of loan. Unlike mortgages, where the secondary mortgage market and other factors limit local discretion, home improvement loans are granted entirely at the discretion of local lenders.

FEDERAL HOME LOAN BANK BOARD (FHLBB)

The Federal Home Loan Bank Board (FHLBB) provides data on loan rejection rates for home mortgages and home improvement loans. While these data show differential rejection rates by demographic characteristics of the individual applicant and of the census tract where the home exists, we were, unfortunately, able to obtain only summary information for the ten-county metropolitan area, so there is no way to examine FHLBB data specifically for St. Paul.

The range of financial institutions is limited to thrifts (i.e. savings and loans and "savings" banks). No data are collected from federally or state chartered banks, credit unions, or mortgage companies. Note that most of the largest thrifts have created independent subsidiary mortgage companies whose data are not included in this analysis.

The FHLBB requires that thrift institutions create a loan register and from it file reports with the board semi-annually. From this source, unlike the HMDA data, one can obtain information about loans granted and loans rejected by the race, gender, and marital status of the applicant. Information is also available about the income level and minority proportion of the census tract where the property is located.

We collected and summarized the semi-annual reports for the period January 1981 through June 30, 1988.* All dollar figures have been adjusted to a constant 1986 level using the Twin Cities Metropolitan Consumer Price Index. The results are presented in Tables 8 through 11.

* We could not obtain the semi-annual report on home improvements for the second half of 1983.

HOME MORTGAGE LOANS

Table 8 shows the rejection rates for home mortgages by the race of the loan applicant. There is a clear disparity against all minorities except Asians. Rejection rates for blacks are more than double those for whites, roughly 2.3 times the white rejection rate whether measuring the rejection rates as the percentage of number of loan applications turned down (21.16 percent vs. 9.12 percent) or as the percentage of dollars rejected (14.5 percent vs. 6.4 percent). Rejection rates for American Indians and Hispanics are also significantly higher than for whites. Only Asians do as well as whites. Unfortunately, no FHLBB data exist on the income level of the applicants, so there is no way of knowing whether the higher rejection rates are justified or not. This data, in itself, is not evidence of racial discrimination.

TABLE 8. FHLBB MORTGAGE LOANS BY RACE OF APPLICANT, JANUARY 1, 1981 TO JUNE 30, 1988, FOR MINNEAPOLIS-ST. PAUL SMA
(Dollar amounts in thousands of 1986 dollars.)

Race	Number of applications	Total dollars requested	Average requested dollar amount of loan	Average granted dollar amount of loan	Rejection percent (number of loans)	Rejection percent (dollar amount of loans)
Asian	455	$33,926	$74.56	$74.59	8.1%	7.4%
Black	345	29,755	86.25	73.67	21.2%	14.5%
American Indian/ Alaskan	164	10,219	62.31	62.25	13.4%	11.9%
Hispanic	177	13,001	73.45	73.49	15.8%	12.0%
White	51,934	7,880,766	151.75	169.83	9.1%	6.4%

Table 9 shows the rejection rates for home mortgages by demographic characteristics of the encompassing census tract. Note that these are the characteristics of the tract, not the loan applicant. A few words of definition will be helpful. According to the FHLBB, "minority" applies when 25 percent or more of the tract is not white; "white" means any tract less than

25 percent minority. The three income levels are defined as follows: "low income" tracts have median family incomes which are 80 percent or less of the median family income for the entire metropolitan area, "moderate income" tracts have incomes between 81 and 95 percent of the metropolitan area, and "average income or above" tracts have incomes of 96 percent and above.

TABLE 9. FHLBB MORTGAGE LOANS BY CENSUS TRACT CHARACTERISTICS, JANUARY 1, 1981 TO JUNE 30, 1988, FOR MINNEAPOLIS-ST. PAUL SMA
(Dollar amounts in thousands of 1986 dollars.)

Race	Number of applications	Total dollars requested	Average requested dollar amount of loan	Average granted dollar amount of loan	Rejection percent (number of loans)	Rejection percent (dollar amount of loans)
Low-income, minority	152	$8,027	$52.81	$51.97	26.3%	28.1%
Low-income, white	2,254	84,316	37.41	54.58	10.8%	15.6%
Moderate income, minority	142	7,965	56.09	63.98	14.1%	11.1%
Moderate income, white	5,011	329,434	65.74	67.22	8.7%	7.5%
Average income or above, minority	33	2,779	84.21	91.86	6.1%	4.2%
Average income or above, white	32,182	2,370,723	73.67	77.06	7.0%	6.7%

Table 9 displays the rejection rates on home mortgage applications within six different combinations of income level and minority status. Surprisingly, the lowest rejection rates occur within average income or above tracts where 25 percent or more of the population is minority. But given the small minority population of the Twin Cities, there are few such tracts and, in fact, only thirty-three applications were received from them in seven and one-half years. The next lowest rejection rate, not much higher, came from the highest income, mostly white, tracts. As we saw in the HMDA analysis, rejection rates increase as income levels of the tracts decrease.

What is more disturbing is that within a given income level, rejection rates are significantly higher in minority tracts compared to white tracts for all but the highest income category. This underscores the findings based on the race of the applicant, and gives evidence, albeit circumstantial, that the rejection is racially based. In the low income tracts the rejection rate for minority tracts is 2.4 times as high on the number of applications rejected and 1.8 times as high on the dollar amount. In moderate income tracts, the rejection rate for minority tracts is 1.5 times as high as for white tracts. This last finding is most disturbing given the narrow income range of these moderate income tracts and the fact that both the average amount requested and the average amount granted were lower in the minority tracts.

HOME IMPROVEMENT LOANS

Table 10 presents individual race information for home improvement loans. As was the case with mortgage applications, black rejection rates are on the order of twice as high as for whites, 1.8 times as high on the number of applications rejected, and 2.3 times as high on the dollar amount. All minority races have higher rejection rates despite the fact that whites have, on average, requested bigger loans. The smallest disparity is for American Indians; they have near parity on rejection rates in the number of applications, but 50 percent higher rejection based on the loan amount. These discrepancies can be accounted for by income differentials of the racial groups as seen below.

TABLE 10. FHLBB HOME IMPROVEMENT LOANS BY RACE OF APPLICANT, JANUARY 1, 1981 TO JUNE 30, 1988 (EXCLUDING JULY 1, 1983 THROUGH DECEMBER 31, 1983), FOR MINNEAPOLIS-ST. PAUL SMA
(Dollar amounts in thousands of 1986 dollars.)

Race	Number of applications	Total dollars requested	Average requested dollar amount of loan	Average granted dollar amount of loan	Rejection percent (number of loans)	Rejection percent (dollar amount of loans)
Asian	167	$2,637	$15.79	$17.14	24.0%	15.9%
Black	253	3,972	15.49	17.30	28.5%	23.5%
American Indian/ Alaskan	142	2,006	14.13	15.10	16.9%	15.7%
Hispanic	118	1,480	12.54	12.22	23.7%	25.4%
White	20,183	398,854	19.76	21.42	16.0%	10.4%

Table 11 presents the regional analysis for home improvement loans. These patterns are significantly different and encouraging. There is no racial disparity. In fact, moderate and higher income minority tracts often do better than their white counterparts. Moderate income minority tracts had the lowest rejection rate based on the number of applications rejected and the third lowest rate based on loan amount. The fact that the average loan requested by people living in low and moderate income minority tracts is a fraction of the amount requested from other areas somewhat diminishes these encouraging results.

There is a pattern of income discrimination shown in Table 11, at least for the low income tracts. Rejection rates are double those for moderate and higher income tracts.

TABLE 11. FHLBB HOME IMPROVEMENT LOANS BY CENSUS TRACT CHARACTERISTICS, JANUARY 1, 1981 TO JUNE 30, 1988 (EXCLUDING JULY 1, 1983 THROUGH DECEMBER 31, 1983), FOR MINNEAPOLIS-ST. PAUL SMA
(Dollar amounts in thousands of 1986 dollars.)

Race	Number of applications	Total dollars requested	Average requested dollar amount of loan	Average granted dollar amount of loan	Rejection percent (number of loans)	Rejection percent (dollar amount of loans)
Low-income, minority	210	$2,385	$11.36	$11.01	24.8%	26.3%
Low-income, white	1,107	19,535	17.65	18.93	27.0%	18.8%
Moderate income, minority	211	1,727	8.18	8.00	5.2%	8.2%
Moderate income, white	4,777	103,333	21.63	26.39	13.9%	7.9%
Average income or above, minority	66	1,782	27.00	43.81	4.1%	3.5%
Average income or above, white	13,887	272,079	19.59	20.59	15.7%	10.8%

CONCLUSIONS

FHLBB data appear to display a pattern of racial bias by "thrifts" in whether loan applications are accepted or rejected. This conclusion holds whether looking at the characteristics of individuals making the loan application or at racial characteristics of the neighborhood where the home is located. Both mortgage and home loans to lower income areas also are rejected at higher rates, regardless of the percentage of minority residents.

Minorities have a difficult time getting mortgages or home improvement loans compared to whites. Minority applications for home mortgages are rejected at rates more than twice those for whites, despite significantly lower amounts being requested. For home improvement loans, rejection rates are roughly twice as high for blacks and Hispanics as compared to whites.

Unfortunately, this part of the FHLBB report includes no information on income levels, so much of this bias might be justified by arguing that minorities have lower income on the average and less ability to repay their loans. The fact that mortgage loan amounts requested by minorities are half or less of those requested by whites gives a partial rebuttal to this argument.

Further evidence of racial discrimination comes from looking at the minority status of the census tract where the home is located. Discriminatory patterns continue and are underscored, at least for home mortgages. Holding income constant for the tract, rejection rates for mortgages are 1.5 times or more in minority tracts compared to white tracts, despite the fact that amounts requested in these minority tracts average well below the average amount requested in comparable white tracts.

The pattern of higher rejection rates in minority tracts is broken when looking at home improvement loans, though the average amounts requested in minority tracts are half or less of loans requested in comparable white tracts.

These conclusions have been based on FHLBB data for the entire metropolitan area, but there is little doubt that they especially apply to the central cities of Minneapolis and St. Paul. These two cities contain 69 percent of the minority population and 84 percent of the black population.

RAMSEY COUNTY DEPARTMENT OF TAXATION AND RECORDS ADMINISTRATION

St. Paul is the county seat of Ramsey County. The county is responsible for all aspects of administering local property taxation and consequently has extensive records on real estate. We approached the Ramsey County Department of Taxation and Records Administration for information on single-family home sales.

The basic source of information is the "Certificate of Real Estate Value" filed with every real property sale in Minnesota. The county had merged a portion of the information from the form into a set of full records for all real property in the county. We requested information for sales in St. Paul from 1981 through 1988, years comparable with our other data sources. This information is presented in map form, but not by census tract as in other parts of this report. The county uses a PIN (Property Identification Number) number on each property that is based on its location within the Public Land Survey system and we have mapped the data by quarter-section, a square area one-half mile on a side. We have left blank any quarter-section cell that had fewer than ten sales during the eight-year study period. Planning district boundaries have been overlaid on these maps to orient the reader.

Figure 8 shows the current (1989) estimated market value of homes that sold during the eight-year period. This map shows patterns quite similar to the census map of median value of owner-occupied homes (Figure 6), but with a finer geographic resolution.

Figure 8

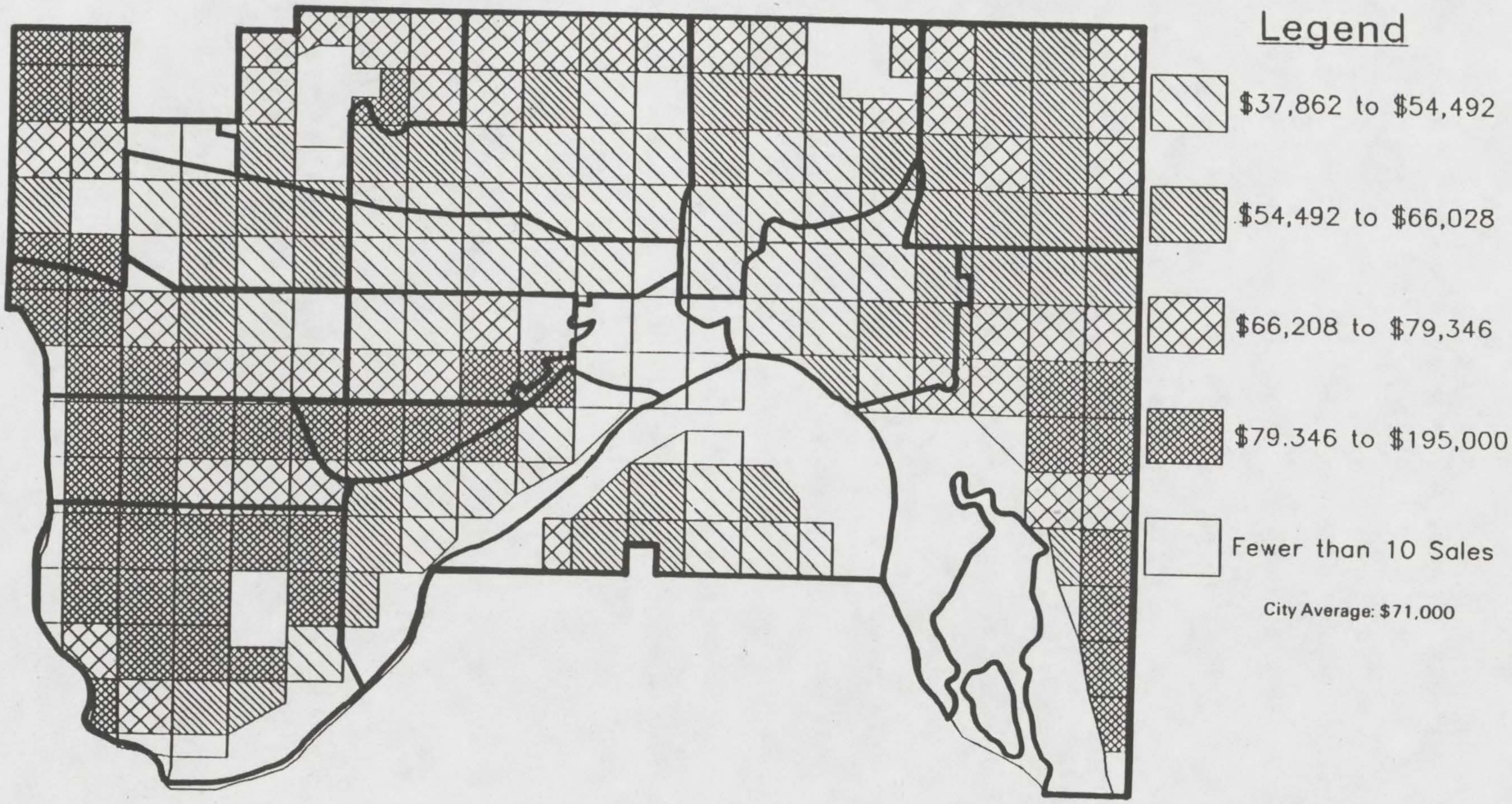


Figure 8. ESTIMATED MARKET VALUE OF SINGLE-FAMILY HOMES SOLD, 1981-1988

Figure 9 shows the turnover rate of single family homes in St. Paul. Three features of this map are intriguing. First is the fact that no part of the city has a high turnover rate--6.3 percent is the highest. Second is the narrow range of turnover, from 2.1 percent to 6.3 percent, with 89 percent of the cells in the range of 3.0 to 5.0 percent turnover. Third is the relative randomness of the patterns, with both high and low value areas falling into areas of high turnover. However, there is a slight pattern of low value areas having higher stability. This relative lack of pattern is the result of attempting to make a differential where little distinction can be made. It must be remembered that this analysis of stability is made for single-family homes, not for apartment buildings.

Figure 10 is most important to this study. It shows the percentage of sales closed using a contract-for-deed.* Such sales are made when the seller provides the financing and the buyer makes payment to the seller for a specified period of time. The alternative approach is to use a warranty deed where the buyer pays the seller in full, with the usual source of money being a mortgage from a financial institution. The county data are for all recorded home sales, including those financed by mortgage companies.

It is readily apparent that the low value areas are relying much more heavily on contracts than warranty deeds. In other words, low value areas are not using financial institutions to finance their home sales. The map shows a high incidence of contract sales in the area north of downtown, along West Seventh, and on the West Side. In fact, in those areas contracts were used in more than 30 percent of the sales.

* Actual county records show warranty deeds and "other"; the overwhelming majority of other sales are, in fact, contracts.

Figure 9

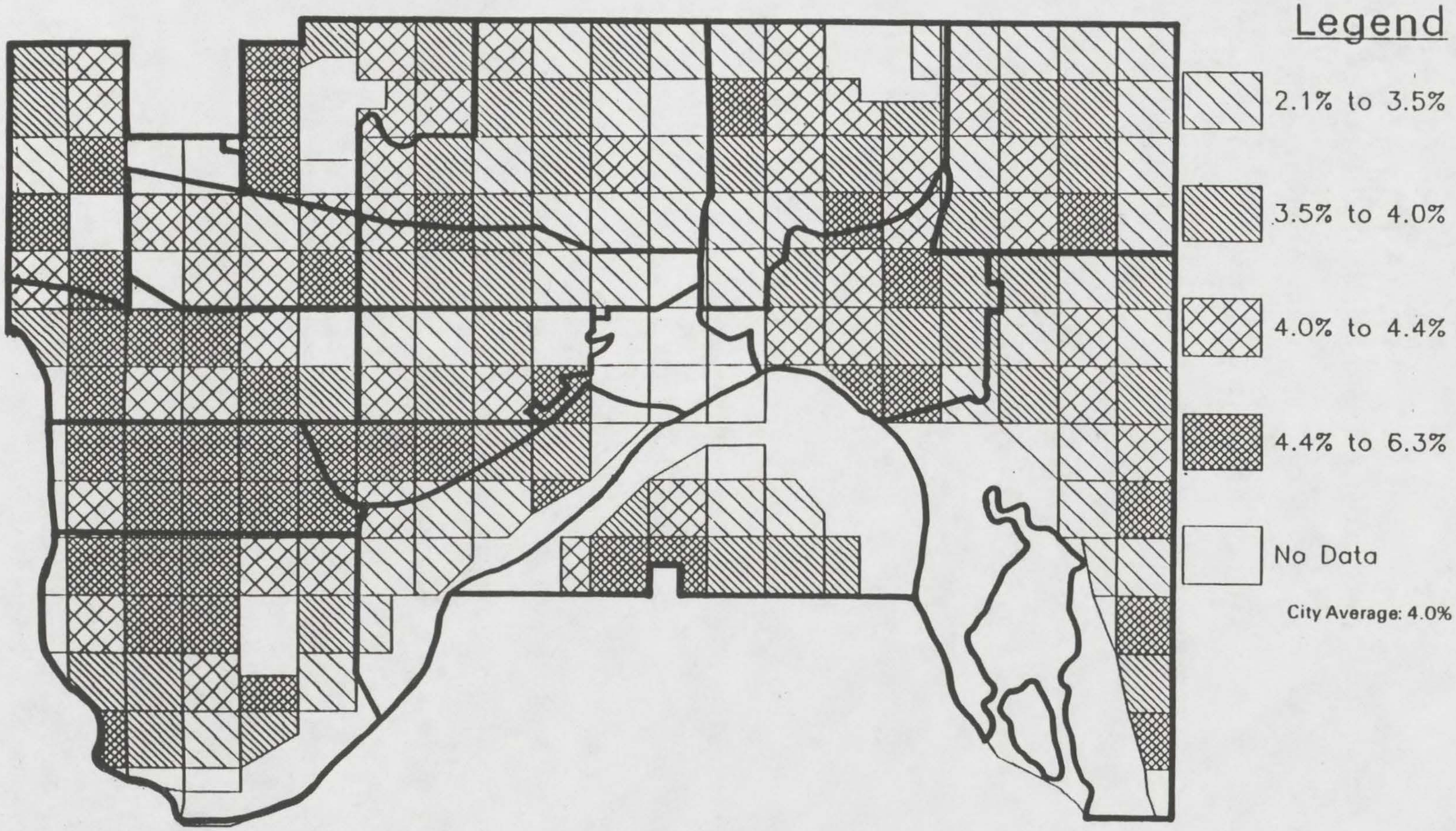


Figure 9. ANNUAL TURNOVER RATE OF SINGLE-FAMILY HOMES, 1981-1988

Figure 10. CONTRACT FOR DEED SALES (percent of sales not by warranty deed)

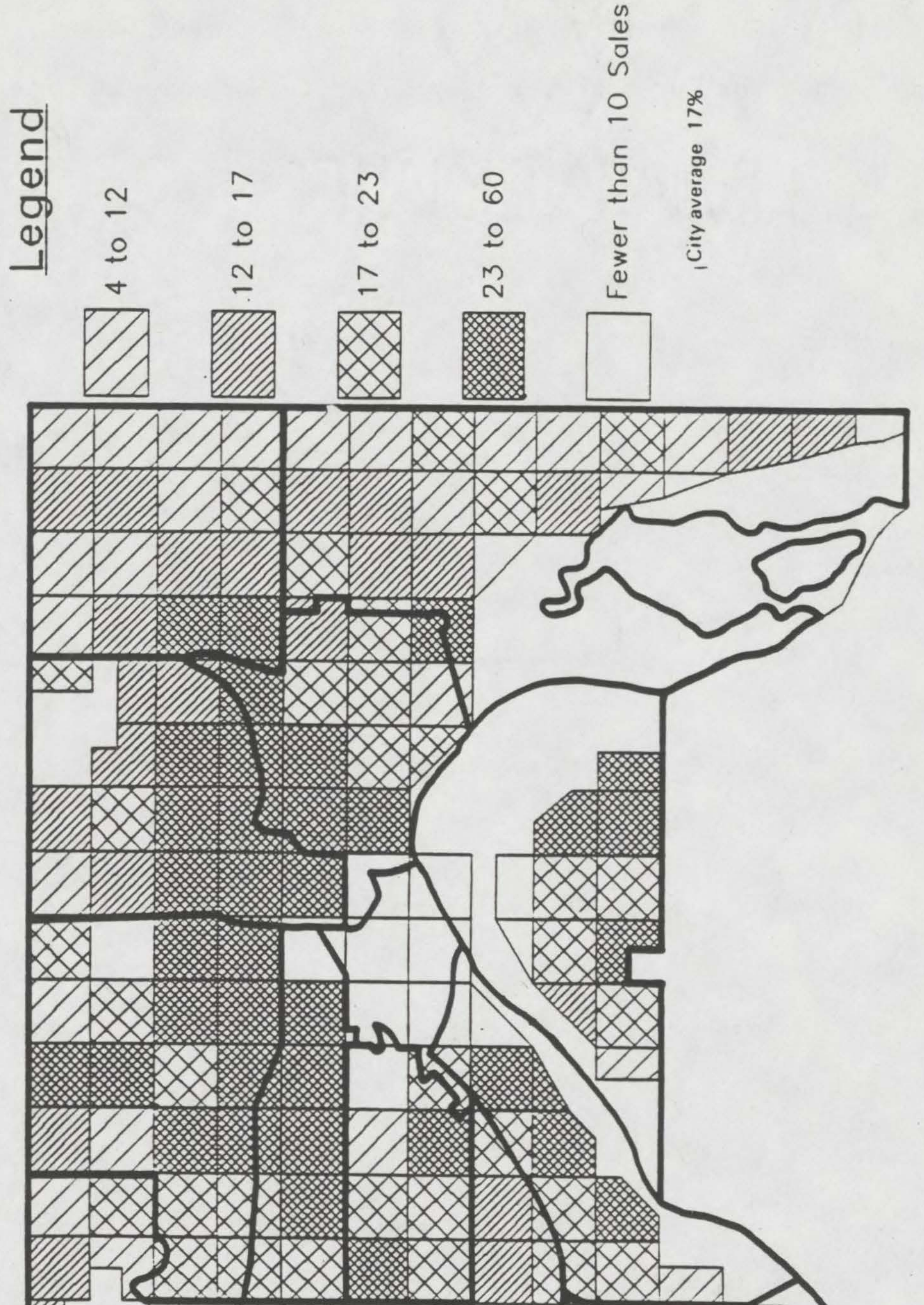


Figure 10

CONCLUSIONS

People in the poorer parts of St. Paul are not using financial institutions to pay for purchases of single-family homes as much as people in other parts of the city. It is not known whether this is because of an unwillingness, perhaps inability, of banks to make loans to these parts of the city or because the people themselves are taking advantage of other financing techniques that are better suited to their needs. In either case, it can be concluded that substantial portions of the home-buying populations in the poorer parts of the city are not being served by existing financial institutions.

MULTIPLE LISTING SERVICE (MLS)

The St. Paul Association of Realtors produces year-end reports of real estate activity over the previous year. This information is shared with municipal officials in the Department of Planning and Economic Development.

We requested information about single-family homes only, the data most relevant to this project and the data most completely compiled by the city. These data are most often presented by MLS district and this is a problem, because only thirteen districts cover the city and we were interested in more detail. Fortunately, from 1984 through 1988, the data were presented by subdistrict and there were nearly three times as many of these subdistricts. We are therefore able to present a more fine-grained look at real estate activity in St. Paul in Figures 11, 12 and 13.

Figure 11 maps the average price of homes sold in 1987. This map confirms what we have seen in other value maps (Figures 6 and 8).

Figure 12 is new information. It shows the average number of days on the market of homes that eventually sold in 1987. The general pattern is quite clear: homes in poorer neighborhoods take two to three times as long to sell as those in middle or upper class neighborhoods. Some of the highest value homes, in Summit Hill and Battle Creek, may also take many days to sell.

This same pattern is repeated in Figure 13, which indicates the percentage of homes listed that sold. Generally, a homeowner contracts with a realtor to list his home for 180 days. At that point, a new contract may be signed, a new real estate company may be engaged, or the seller may remove his home from the market. Half or more of the homes in the poorer neighborhoods did not sell using these measures.

Figure 11

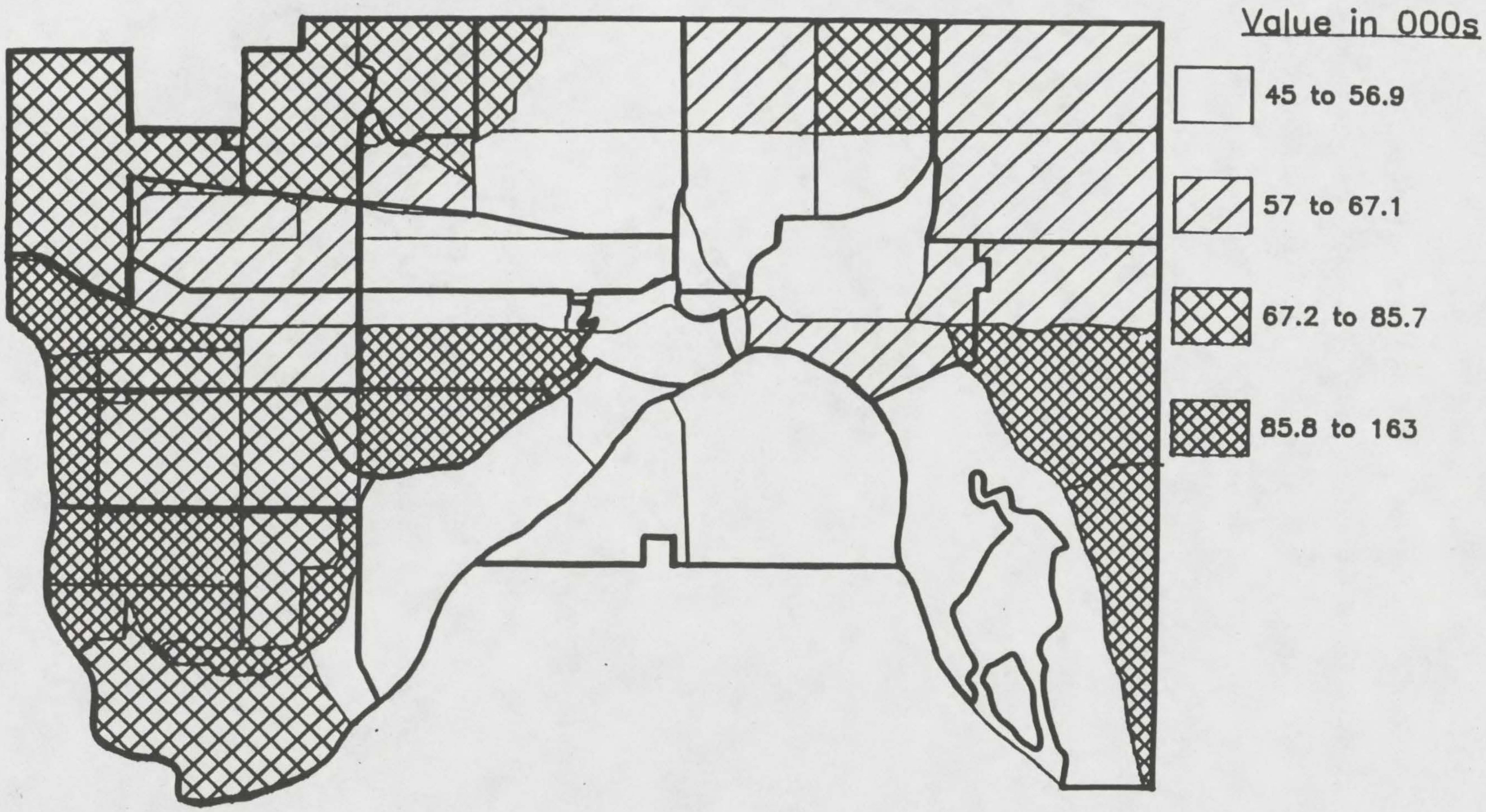


Figure 11. 1987 HOUSING VALUES FOR SINGLE-FAMILY HOMES

Figure 12

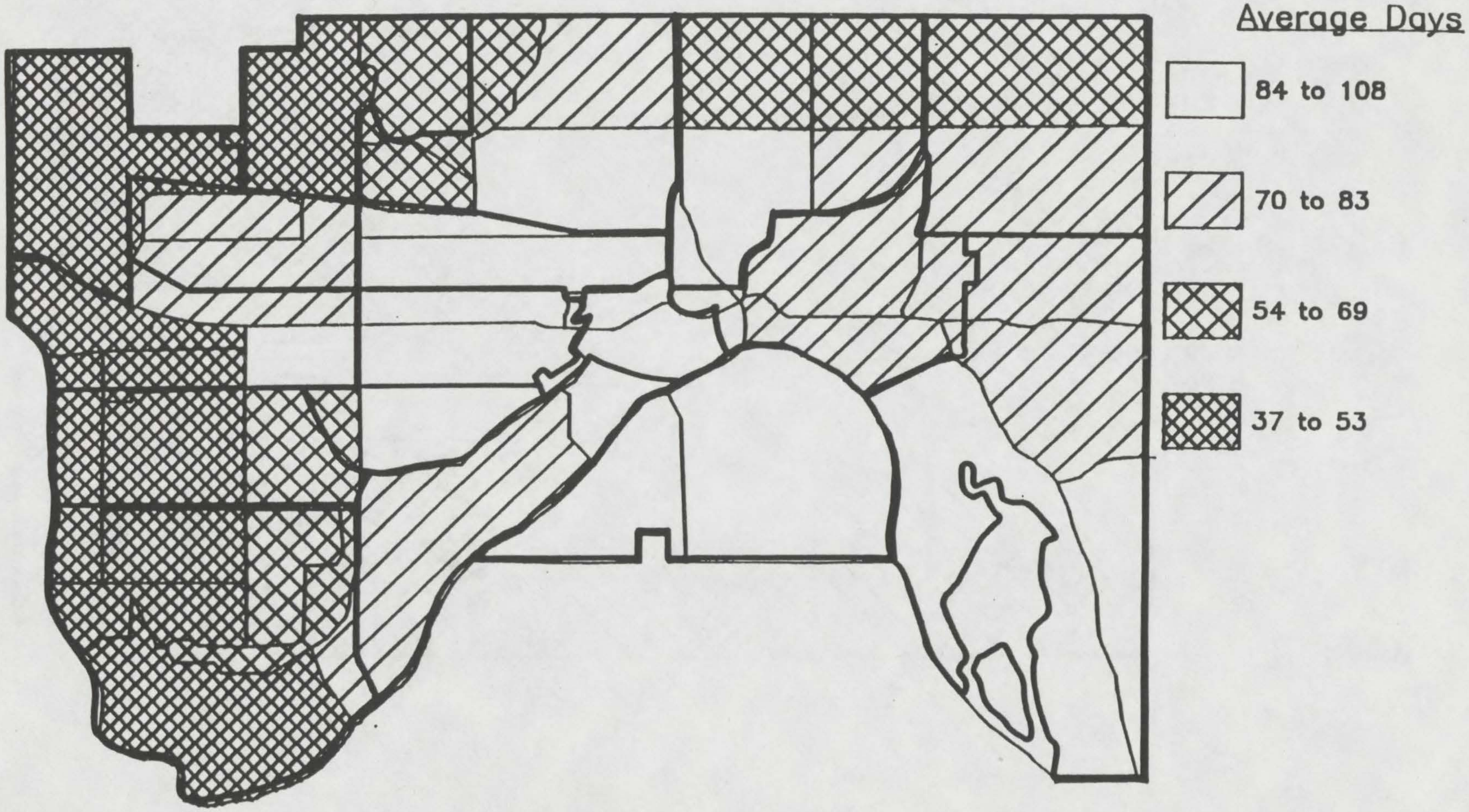


Figure 12. DAYS ON MARKET FOR SINGLE-FAMILY HOMES IN 1987

Figure 13

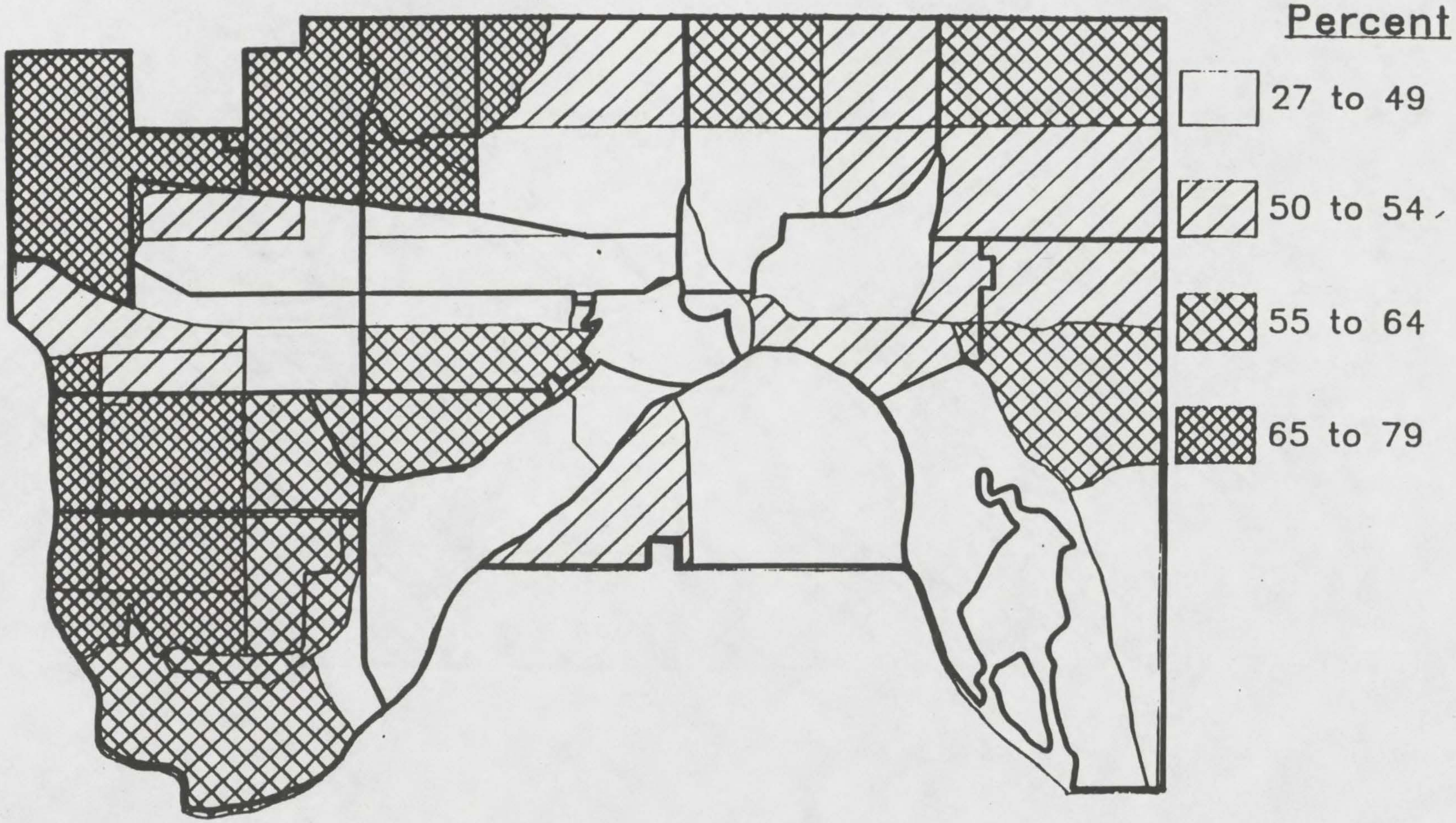


Figure 13. PERCENT OF LISTINGS SOLD FOR SINGLE-FAMILY HOMES, 1988

CONCLUSIONS

Poorer parts of St. Paul have weak residential real estate markets. Even though homes have lower values, they do not sell as quickly as homes in other parts of the city. Indeed, a substantial portion do not sell within a 180-day realtor contract period. We have no direct evidence on how this affects or is affected by financial institutions. To the extent that lack of mortgage money makes it difficult to sell inner-city homes, financial institutions may be the cause of this weak market. To the extent that the rules of the secondary mortgage market prevent them from making loans in these areas, they may be losing a market they would like to serve.

SMALL BUSINESS ADMINISTRATION

This study is interested in financial services provided to different parts of the city, for both residential and business purposes. We were able to locate only one data source that provided information about loans to businesses in St. Paul, the records of the federal Small Business Administration (SBA). These loans are guaranteed by the federal government to businesses following federal limits on size, but the authorization is most often managed by local banks. Federal reports contain a listing of each loan by amount, city, and zip code, as well as information about who administered and who received the loan.

We requested information on SBA loans made from 1980 through 1987. We adjusted loan amounts to 1986 dollars. We kept and summarized those records that listed "St. Paul" as the city and had a St. Paul zip code. This selection criteria was necessary both because some zip codes cross the city boundary and because the SBA records sometimes confused St. Paul zip codes with cities in different parts of the metropolitan area. This summarization may therefore be less than complete.

Table 12 displays the distribution of 144 loans totaling over $18 million. Figure 14 is a map of zip code areas of St. Paul to be used in interpreting the loan distribution table. Most particularly, the reader should note that zip codes 55101 and 55102 represent the downtown area.

TABLE 12. SMALL BUSINESS ADMINISTRATION LOANS IN ST. PAUL, 1980-1987
(in 1986 dollars)

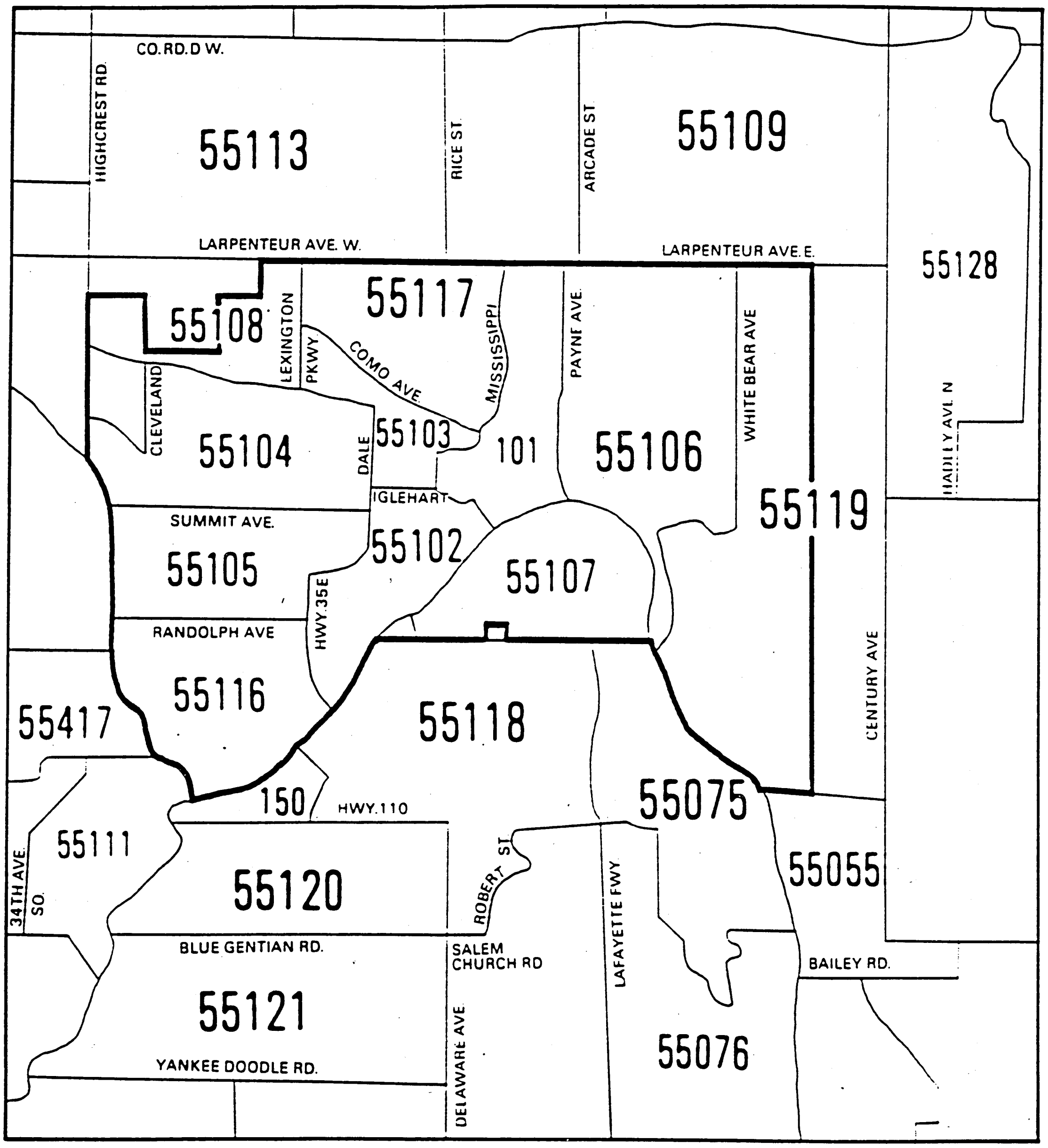
Zip Code	Number of loans	Percent of loans	Dollar amount	Percent of money	Average loan dollar amount
55101	34	23.6	$4,677,781	25.9	$137,582
55102	31	21.5	4,300,000	23.8	138,710
55103	2	1.4	627,525	3.5	313,763
55104	19	13.2	2,890,000	16.0	152,105
55105	10	6.9	586,938	3.3	58,694
55106	11	7.6	1,410,000	7.8	128,182
55107	5	3.5	339,732	1.9	67,946
55108	3	2.1	336,959	1.9	112,320
55114	10	6.9	1,353,839	7.5	135,384
55116	7	4.9	469,314	2.6	67,045
55117	9	6.3	734,668	4.1	85,284
55119	3	2.1	304,223	1.7	101,408
Total	144	100	$18,030,979	100	$125,215

Since the purpose of the downtown area is to provide a central location for business, it should not be surprising that the downtown area received the bulk of the business loans. The two downtown zip code areas received 45.1 percent of the number of loans awarded and 49.7 percent of the dollar amount. Roughly one-third of St. Paul's jobs are located in the downtown area. The average loan size in downtown was $138,120, compared to $114;597 in the rest of the city.

Other zip code areas received SBA loans roughly in proportion to the number of jobs in the area. For example, the 55104 and 55114 zip code areas, with the large number of jobs in the University Avenue corridor, received nearly one-fourth of SBA loans awarded in St. Paul. Average loan size in this area was $146,339.

Figure 14. ST. PAUL ZIP CODES

Figure 14



CONCLUSIONS

Small Business Administration loans appear to be equitably distributed across St. Paul in relation to employment, with a slight bias towards downtown. We have no information about rejection rates for businesses that applied for such loans or the availability of other kinds of loans to meet those needs.

SUMMARY

The purpose of this chapter was to use existing data sets in order to determine how well St. Paul neighborhood, residential, and business needs were being met by existing financial institutions. The available data sources tended to focus the investigation on residential real estate loans, but we were able to provide some information on business loans. In this summary we attempt to integrate the findings from the various data sets, realizing that they are incompatible in many ways (see Table 1). We assume that the individual data sets each offer a representative look at the available financial services in St. Paul and have come to the following conclusions.

Home mortgages are not as available to lower income residents as needed. HMDA data indicate that lower income neighborhoods are not receiving the number of loans that could be expected. FHLBB data show higher rejection rates in lower income tracts. Ramsey County data confirm these findings by showing that a high percentage of sales in the lower income neighborhoods are financed by the seller through a contract-for-deed rather than by a financial institution.

There is also the suspicion of racial discrimination in mortgage rejection rates, at least for the thrift institutions reporting through FHLBB. This finding is confusing given an analysis of HMDA data that found no racial bias in the distribution of mortgage money into minority areas. One possible explanation is that minorities are applying for mortgages at relatively high rates so that even after a disproportionately high percentage of the applications are rejected, they come out with their fair share of mortgages.

The residential real estate market in the poor and minority areas of St. Paul is particularly weak as seen in the MLS data. To the extent that banks, and their secondary mortgage markets, are responding to this characteristic, they might be viewed as prudent. To the extent their lack of mortgage activity is a cause of the weak market, they might be described as discriminatory.

The home improvement situation (where local financial institutions have more discretion) is a much happier story. HMDA data show no pattern of discrimination at the census tract level, either by race or income level. FHLBB data continue to show disproportionately high loan rejection rates for minority applicants, but those data do not consider income level. Using FHLBB data on census tract income levels, minority areas with comparable income levels have equivalent rejection rates. Moderate income minority tracts had some of the lowest rejection rates. FHLBB data do show high rejection rates in the lowest income areas, a fact that must be rationalized in the same way differential rejection rates for mortgages were. Probably a relatively large number of applications were made and rejected to yield a HMDA result of an equal distribution of the home loans themselves.

Only Small Business Administration loans data were available to analyze the lending patterns to businesses. Despite some bias towards downtown, it appears that such loans are being made uniformly across the city in proportion to employment.

IV. ATTITUDES ABOUT FINANCIAL SERVICE ISSUES

INTRODUCTION

This chapter is divided into five sections. The first four summarize information provided by key informants from four planning districts in St. Paul. The fifth section, starting on page 100, is based on interviews with representatives of financial institutions serving these districts.

Forty-four key informants from four of the seventeen districts in St. Paul were selected for interviewing on their attitudes about various financial service issues in their districts. Informants were selected from the same constituencies as were the first round interviewees. (See page 10 for a listing of these constituencies and Appendix C for the names of neighborhood interviewees.)

The interview instrument for district informants was designed to survey the respondent's direct experience as well as her or his perceptions in four areas: experience with financial institutions, neighborhood needs for financial services, outreach and marketing of financial institutions to the neighborhoods, and knowledge and use of alternative sources of capital for neighborhood development needs (including public and nonprofit funding programs). Survey results in each of these four areas are summarized after a brief description of each of the neighborhoods selected.

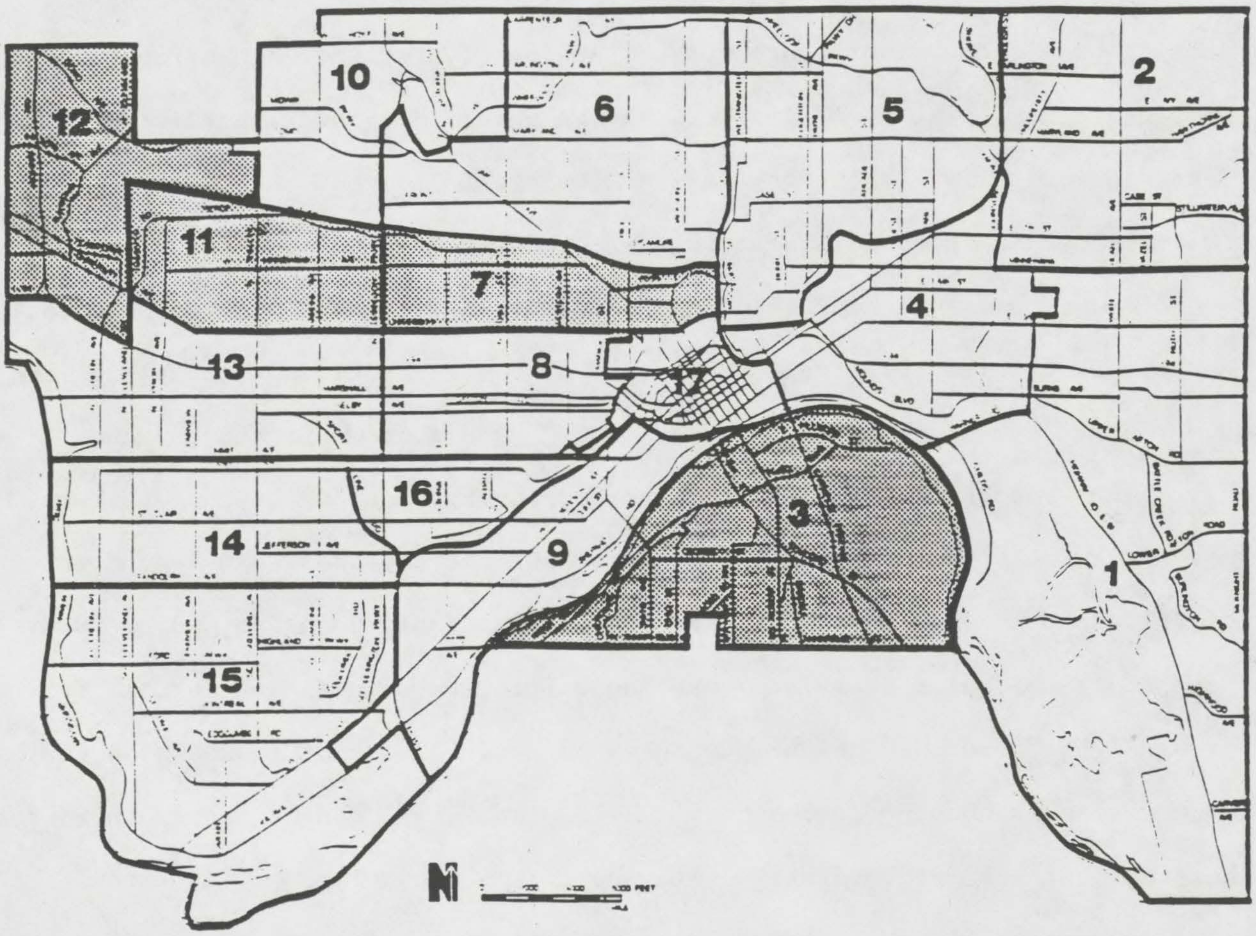
The survey instrument for representatives of financial institutions had a different focus. We asked about their definition of the service area for their institutions, general perceptions and perceptions about financial need in those service areas, financial counseling and referral, outreach and marketing, and cooperation with government and nonprofit funders.

A cross section of neighborhoods was chosen rather than concentrating on all inner-city neighborhoods, since resources were not available for the latter. A broader survey would have provided perhaps a longer and more detailed listing of needs in these central neighborhoods. Yet the cross section provided a wider range for comparison of attitudes about financial service issues. The four districts chosen were: Frogtown (District 7), the West Side (District 3), Midway-Hamline (District 11), and Saint Anthony Park (District 12). These four districts are the shaded areas on Figure 15.

This cross section of the city's neighborhoods ranges from an area (St. Anthony Park) with relatively few problems to one (Frogtown) struggling with numerous social and economic issues. Two of the areas, Districts 3 and 7, have high, though very different, minority populations, while the other two have relatively low minority populations. Of the two areas close to downtown, District 3 has many community-based (though reputedly somewhat uncooperative) organizations, while District 7 has had difficulty maintaining formal, effective neighborhood service and advocacy programs. District 12 has some of the most desirable housing in the city, while District 11 (on its southern border) has the most active commercial center outside of downtown.

It is crucial to recognize, however, that each of these districts has in common a wide diversity of conditions within its own boundaries. There is very fine housing in parts of Districts 3 and 7 just as there are problem properties in Districts 11 and 12. And if much of District 7 has yet to "turn the corner," there are parts of District 12 that are severely underused and unkempt. This report explores the relationships between specific properties and projects with which reinvestment necessarily deals, and perceptions about the general health and welfare of the neighborhood which influence how these properties are evaluated and treated. Chapter III has presented, statis-

Figure 15. ST. PAUL CITIZEN PARTICIPATION PLANNING DISTRICTS



CITIZEN PARTICIPATION PLANNING DISTRICTS

1. SUNRAY-BATTLECREEK-HIGHWOOD
2. HAZEL PARK, HAYDEN-PROSPERITY HEIGHTS, HILLCREST
3. WEST SIDE
4. DAYTON'S BLUFF
5. PAYNE-PHALEN
6. NORTH END
7. THOMAS-DALE
8. SUMMIT-UNIVERSITY
9. WEST SEVENTH
10. COMO
11. HAMLINE-MIDWAY
12. ST. ANTHONY PARK
13. MERRIAM PARK, SNELLING-HAMLINE, LEXINGTON-HAMLINE
14. GROVELAND-MACALESTER
15. HIGHLAND
16. SUMMIT HILL
17. DOWNTOWN

tically, how the upkeep and sale of properties in these as well as other districts in the city are financed. What follows explores the interviewees' perceptions in four different neighborhoods about how adequate are the services of the financial institutions doing business in these districts.

DISTRICT 7: FROGTOWN

INTRODUCTION

Most residents define Frogtown as the area from Lexington Parkway on the west to Rice Street on the east, and from University Avenue on the south, to roughly the Pierce Butler Route and Minnehaha Avenue on the north. However, the city's District Planning Council 7--often called Frogtown or "Thomas-Dale"--includes an area larger than just the Frogtown neighborhood. District 7 encompasses all of Frogtown, but extends beyond Frogtown's eastern border of Rice Street to Interstate 35-E, adding both the Capital Heights and Mount Airy neighborhoods to form the planning district.

The Frogtown neighborhood has a distinct and diverse character, and though many residents recount its numerous problems--from prostitutes, drugs and violence, to absentee landlords and deteriorating housing--many also have a strong loyalty to their neighborhood. Some are hopeful about its future. As one resident said, "Frogtown has bottomed out and is coming back now." Others, however, while active in efforts to address neighborhood problems, feel that Frogtown has shown only little improvement over the past ten years. One resident called Frogtown a "recycling neighborhood," explaining that the area has gone in cycles of good and bad, with the population often changing dramatically during these cycles as people move in and out of the neighborhood.

Almost all interviewees characterized Frogtown today as "very poor, very unstable and very diverse culturally." One respondent noted that "we have every culture here that you could want--black, white, American Indian, Vietnamese, African, Cuban, Mexican..." and more. Another interviewee remarked that "Frogtown is an integrated poor area, but there is a problem of not working together well." Other problems cited by respondents centered around drugs and crime. Many interviewees reported having crack houses on their blocks, along with a high incidence of violence. Many also complained of problems with prostitution in the neighborhood. Another issue mentioned by interviewees was deteriorating houses. Several respondents suggested that the large amount of rental property in the neighborhood may be a contributing factor. Some recounted instances of seeing garbage pile up by houses, old cars sitting on lawns, and yards getting overgrown.

To combat these problems, some residents have gotten together to tackle specific issues. For instance, one interviewee told of the District Council's annual clean-up day, when residents work together to remove uncollected garbage from the neighborhood. Other respondents cited the annual Frogtown Festival as a positive activity in the neighborhood. Area businesses, they said, are very supportive of the event. Frogtown's playgrounds--Scheffer and West Minnehaha--were also mentioned as a focus of positive neighborhood activity. Specifically noted were the programs offered for youths and senior citizens. However, the real problem in Frogtown, one respondent said, is that only a small percentage of people in the neighborhood actually participate in neighborhood affairs. The individuals who are working to improve the neighborhood are too small a group compared to the total population.

EXPERIENCES WITH FINANCIAL INSTITUTIONS

When asked what financial institutions serve Frogtown, interviewees mentioned a wide variety of institutions. Of the eight mentioned specifically by name, five are banks, one is a savings and loan association, one is a credit union, and one is a credit company. The most frequently mentioned institution was Western Bank, which is located within the borders of the neighborhood. Summit National Bank, which is also located in the neighborhood, was the second most frequent response. The remaining six institutions cited were (in alphabetical order): First National Bank of St. Paul; Getten Credit Company; Investor's Savings Bank; Midway National Bank; State Capital Credit Union; and TCF. In addition to these institutions, several interviewees mentioned the existence of numerous check cashing services in the neighborhood.

When asked what factors influenced their choice of a particular institution for "everyday" financial needs (primarily checking and savings accounts), whether for personal or business purposes, the majority of respondents cited better interest rates, low service fees, and convenient location. Also mentioned frequently was access to an institution through a job, as with a credit union. Two other factors noted by respondents were flexible hours and a responsiveness to the community.

When asked what factors influenced the choice of a particular institution from which to seek a loan, one interviewee cited a pre-established relationship as the primary factor. This respondent had approached the institution at which he had already established a line of credit, assuming that this would mean easier, quicker approval. Another respondent, who needed a home mortgage loan, specifically sought an institution that would hold and administer the mortgage locally. This respondent had had a previous experience in which her home mortgage loan was sold to another company that was not located in the Twin Cities area. This required the respondent to make long distance phone calls when any problems arose with the loan, and made it impossible to know the loan officer personally. These two factors proved very difficult for her.

NEIGHBORHOOD NEEDS

Interviewees were asked whether or not they felt that Frogtown needed more financial institutions. One respondent felt that there is no need in the neighborhood for more financial institutions. Others seconded this opinion, but added that what is needed is more active involvement in the neighborhood by those who are already serving it. The ideal, one interviewee said, would be to have a "philanthropic financial institution" that takes risks and loans money to people to help them get started. However, this respondent added, "I do think that banks help as much as they can, but they have to protect themselves as a business." Another interviewee noted that services tailored to meet the needs of the poor--offering check cashing and savings accounts at affordable prices--are very much needed by many neighborhood residents. A third respondent suggested that it would be helpful if credit unions could serve the people that are residents of the neighborhood in which the union is located. Credit unions tend to offer better rates, the interviewee noted, and these lower fees could greatly benefit the residents of a neighborhood like Frogtown.

One interviewee said that neighborhood banks should get involved in the neighborhood "at the grassroots level" by interacting with members of the community and involving residents in the process of identifying neighborhood financial needs. Institutions could design new products or services to meet these needs when possible, or could help assemble other individuals or agencies to fill the gaps when market constraints prevent private financial institutions from meeting the needs themselves. "There are probably a lot of people that could use very small loans--even just $200--that banks are not willing to make," the respondent said. Local financial institutions could create a special pool of funds, to which they would all contribute, that could service this need. Other interviewees suggested alternatives to private financial institutions such as a community development corporation or support through city programs to help meet these kinds of needs.

When asked if the neighborhood would be affected if a local financial institution closed or consolidated, all respondents felt that the closing of a financial institution would have a negative effect on the neighborhood. "Many people do not have cars," one respondent said, "and they need a financial institution nearby." Other respondents stated that the neighborhood would feel a great loss if Western Bank, specifically, were to close. As one respondent said, "If we lost Western, it would have a great impact on the community. They've never given up on us." Another interviewee noted that Western makes many loans in the neighborhood which help contribute to the neighborhood's stability. Others remarked that Western plays an important leadership role in neighborhood activities. As one interviewee said, Western's attitude toward the neighborhood is one of Frogtown's greatest resources.

Interviewees were asked to rate the range of services offered to Frogtown by financial institutions. One respondent stated that services are adequate, but noted that there is a lack of opportunity to establish small accounts (checking and savings) that are inexpensive. Other respondents rated available services as adequate to excellent, but noted that this applies only if one already knows how to get the services needed. Those who do not know where to go for financial services, or do not feel comfortable approaching a private financial institution, are at a great disadvantage. Low income people, one interviewee said, are especially hurt.

When asked about Frogtown's needs for single-family home construction, rehab or purchase loans, respondents generally felt that financial institutions' efforts had been moderate to minimal. One respondent felt that it is especially difficult to get a loan to completely "gut" and rehab a house. Institutions seem to be very wary of getting into a situation where a loan recipient gets halfway through a rehab project and then decides not to finish, the interviewee explained. The property the bank is left to foreclose on is worth very little at this point. Another respondent stated that in some cases, financial institutions are justified in providing minimal services for single-family home loan needs. In Frogtown, the interviewee elaborated, many people's incomes are much lower than average, and many neighborhood houses are substandard. With this combination of factors, financial institutions' fears about making loans seem fairly understandable.

In thinking about the neighborhood's needs for multi-family home construction, rehab or purchase loans, respondents rated financial institutions' efforts much the same as with single-family home loan needs. All who responded to the question felt that efforts had been moderate to minimal. Most cited the same reasons that were offered to explain the single-family home loan situation. One respondent, however, felt that the reason financial institutions' servicing of multi-family home loan needs was minimal in Frogtown was because not many people are applying for such loans.

When asked about Frogtown's needs for small business loans, one respondent felt that financial institutions' servicing in this area has been minimal. The interviewee felt that it is hard to get a loan to start up a new business in the neighborhood. However, several interviewees, while not feeling qualified to answer the question, did note that many small businesses are emerging in the neighborhood--with a particular concentration of businesses run by Southeast Asian families--and that these businesses seem to be doing well. The interviewees drew the conclusion that these people must have sources of money for start-up funds, presumably from private financial institutions.

When asked about the affordability of financial services for residents of the neighborhood, interviewees' responses ranged from "affordable for everyone" to "affordable for only a few." One respondent felt that "services are affordable for the majority of the people in the neighborhood." Another interviewee guessed that "about half the people in the neighborhood can afford financial services." However, the respondent added, "I don't believe many of the mothers on AFDC use a bank. They seem to go to check cashing services." Another respondent felt that in lower income areas of the neighborhood, very few have checking accounts. They are probably not affordable for many in these areas. One interviewee characterized two groups for whom services are not affordable: 1) very low income individuals or families for whom minimum balances and service fees are too expensive and who could never afford a loan at a market interest rate; and 2) the lower middle income individuals and families who may be able to afford a checking or savings account, but who could not afford a market interest rate loan. This group of people often makes slightly too much money to qualify for city, state, or federal subsidy loan programs, and therefore has few alternatives to private financing other than borrowing from family members. One interviewee offered the explanation that affordability has to do with education--knowing what services to go to, and how to use them--as well as income level.

Interviewees were asked whether they knew of any financial counseling services available to residents of their neighborhood who need help in obtaining or understanding financial services. Some respondents mentioned that Ramsey Action Programs is located in the neighborhood and offers some emergency financial counseling. Others mentioned that Family Service, located in downtown St. Paul, offers financial counseling services to help clients with credit problems. Fees for counseling services are charged on a sliding scale so that they are affordable to all. According to interviewees, Family Service also offers classes on money management and budgeting.

When asked if any kind of financial counseling service could be used by the neighborhood, all respondents said yes. Several noted that much of what is needed in Frogtown is education. One interviewee said that many in the neighborhood do not use financial institutions at all, but rather rely on cash or money orders. Part of the reason for this may be that they feel intimidated by financial institutions, or have never had any experience using them. Many stressed that the "corporate" atmosphere of a financial institution may be uncomfortable for lower income individuals, particularly those who are new to this country and are not fluent in English. Others stated that "many people in this neighborhood have a poorly developed concept of how to manage their money." In addition to all these factors, one respondent added, "It is simply very hard to be in a position of having to ask someone else for money."

To address these problems, many suggested classes in money management or budgeting, specifically targeted to individuals with limited incomes. Some suggested that financial institutions themselves should offer these services. Others felt that more informal counseling through nonprofit organizations, language programs, or churches would be more effective. However, one interviewee reported having tried an informal approach without success. This respondent had offered to connect a low income individual to a friend who is a retired accountant, to help the individual in need with budgeting. In this case, the individual did not want the help. One example of a positive experience in providing financial counseling was found in a relationship between Western Bank and the Jackson Elementary School. Staff from Western came to the school to teach the children about checking accounts and how they work. As an expansion of this idea, Western and Jackson have been considering sponsoring night classes for parents of the school children, to teach them how the bank works and what kinds of services may be useful.

OUTREACH AND MARKETING BY FINANCIAL INSTITUTIONS

Though Frogtown currently has no neighborhood newspaper, several respondents noted that Western Bank has advertised in the community newsletter published by the District Council. One respondent noted that both Western and Summit National Bank have advertised in church bulletins. Another respondent mentioned getting advertisements through the mail from TCF.

When asked if financial institutions are involved in the boards of directors of neighborhood organizations, several respondents mentioned Western Bank's leadership in organizing the Frogtown Festival each year. Western was also noted for its support of the neighborhood's annual clean-up project that is sponsored by the District Council. The partnership between Western and Jackson Elementary School was also cited as an ongoing effort on Western's part to reach out to the neighborhood. In addition to the classes on financial services mentioned earlier, staff members at Western have volunteered as tutors at the school. Finally, one respondent mentioned that Western has been excellent in sponsoring teams at the West Minnehaha Playground, often donating money for team t-shirts. Summit National Bank, also located in the neighborhood, was mentioned as giving money to the West Minnehaha Playground Booster Club.

In general, respondents praised Western Bank's active outreach to the neighborhood. Several interviewees noted that in addition to neighborhood philanthropic activities, Western has also been excellent in getting substantively involved in neighborhood economic development issues. For example, when Frogtown's District Council had to write loan guidelines for a state loan program that was to be offered in the neighborhood, Western lent a staff member to help the Council work through the process and establish realistic loan requirements. In addition, Western was noted by several respondents as often providing financial planning advice to neighborhood groups, giving them better chances of survival over the long term. One respondent characterized Western as very open and accessible to the neighborhood. Many interviewees felt that Western's style of neighborhood involvement could be a model for other financial institutions wishing to become actively involved in their neighborhoods.

ALTERNATIVE SOURCES OF FUNDING

When asked about financing sources for neighborhood development from government agencies, several respondents noted the URAP project in the Kent-Sherburne area of the neighborhood, which is being run by the District Council. This project offers grants and low interest loans for residential rehabilitation in a defined geographic area. Another URAP project that is just beginning will focus on business development. One respondent felt that the URAP money was not being fully utilized by the neighborhood. Another interviewee seconded this opinion, saying that the URAP project has not yet proven to be a real force in the neighborhood. Other interviewees cited programs offered by the city, many through the Department of Planning and Economic Development. Generally, however, respondents were pessimistic about how much these programs had contributed to neighborhood development. One interviewee guessed that residents west of Dale Street take better advantage of government programs than do residents of the eastern half of the neighborhood. Dale sometimes seems like a wall, this respondent said, in terms of positive neighborhood development activity.

When asked what financing sources for neighborhood development are available from nonprofit organizations, respondents mentioned the Minneapolis/St. Paul Family Housing Fund, the United Way, the Wilder Foundation and First Bank Foundation. Several respondents did not know of any nonprofit programs offered. Some respondents felt that the neighborhood "very rarely" takes advantage of nonprofit sources of financing. One respondent felt that the area of the neighborhood west of Dale Street seems to use Wilder Foundation resources more because they are located closer to the Foundation's Community Center.

DISTRICT 3: THE WEST SIDE

INTRODUCTION

The West Side of St. Paul is a neighborhood defined largely by a major natural boundary--the Mississippi River. It extends from the river to the city's southern border, Annapolis Street. All interviewees from the West Side defined their neighborhood according to these two landmarks. Many residents of the area felt that the distinctness of the river boundary, and the physical separation from the rest of St. Paul, give West Siders a strong sense of neighborhood identity.

Many interviewees noted that within the West Side there are several smaller neighborhoods. Some defined these "sub-neighborhoods" as the Upper and Lower West Side. The Upper West Side was generally defined by respondents as the area on the bluff overlooking the Mississippi River, extending east of the River and south along Smith Avenue. The Lower West Side was then defined as all land east of the Upper West Side. Others offered an even further breakdown, dividing the district into four "sub-neighborhoods": starting from the westernmost border of the district at the Mississippi River and extending to Smith Avenue, from Smith Avenue to the Baker Community Center, from Baker to Robert Street, and from Robert to the eastern border with the river. Generally, respondents characterized the bluff and westernmost area of the district as having the neighborhood's highest incomes, and the easternmost areas as having the lowest.

West Side residents characterized their neighborhood as being very diverse. As one interviewee explained, the population "ranges from the very poor, to the very middle class, to a few millionaires. In terms of culture, there are blacks, Hispanics, Asians and whites." West Siders also characterized their neighborhood as one with very active citizen participation. "There are a lot of neighborhood organizations that are strong," one respondent stated, "and most everyone participates in one of them." However, the interviewee noted, strong participation does not mean united participation, adding that, "generally, the neighborhood organizations do not work together." Almost all respondents felt that the West Side is wrongly perceived by the general public as the lowest income, highest crime area of the city. Though interviewees admitted that the neighborhood has had difficulties in the past, all felt that conditions have improved in recent years and that with some infusions of capital to combat deteriorating house conditions, the area has great potential.

EXPERIENCES WITH FINANCIAL INSTITUTIONS

When asked what financial institutions serve the West Side, interviewees named a number of institutions. Of the twelve mentioned, eight are banks, two are savings and loan associations, and two are credit unions. Two of the institutions--Cherokee State Bank and Minnesota State Bank of St. Paul--are located within the borders of the West Side. The remaining ten institutions are located primarily in downtown and West St. Paul, with one in South St. Paul and one in the Midway area of the city. These institutions are (in alphabetical order): American National Bank, Commercial State Bank, Drovers First American Bank of South St. Paul, First National Bank of St. Paul, Midwest Federal-Signal Hills, Minnesota Central Credit Union, Norwest St. Paul, Signal Hills Bank of West St. Paul, and TCF--downtown and West St. Paul. Respondents noted that due to their location, West Siders often go downtown and to West St. Paul for commercial services.

When asked what factors influenced their choice of a particular institution for "everyday" financial services (primarily checking and savings accounts), whether for personal or business use, interviewees mentioned a variety of reasons. The most frequently cited factor was a long-standing relationship with an institution. Respondents felt that knowing the staff at an institution and having a long-term history at one place were very important. Three factors also cited frequently were: friendly service/personal attention; low priced services; and convenient location. Also mentioned were: advertising or marketing campaigns; referral by a relative, friend or associate; access to an institution through a job (such as with a credit union); and a sense that the institution was primarily oriented to serving the neighborhood.

When asked what factors influenced their choice of a particular institution from which to seek a loan, respondents most frequently mentioned interest rates and service fees. In some cases the interviewee approached the institution he or she used for "everyday" needs because the long-term relationship seemed to increase the chances for loan approval. However, in several other cases respondents specifically applied to other institutions in order to get the lowest interest rates and service fees possible. In one case where a respondent was new to the area when purchasing a home, the interviewee simply used the institution that was recommended by the realtor showing the house.

NEIGHBORHOOD NEEDS

Interviewees were asked whether or not they felt the West Side needed more financial institutions. One respondent felt that the neighborhood is fairly well served, in terms of basic services like checking and savings accounts, by the institutions that are already doing business there. Another respondent felt that a new financial institution might be needed on the Lower

West Side, "because there is not currently a bank located there." Several interviewees felt that there is not necessarily a need for more financial institutions, but that there is a need for more money for neighborhood development. "Banks can't do it all," one respondent said, "but they could perhaps do more...If there were more money available on the West Side for neighborhood development, it would be utilized." Some suggested that a community-oriented bank--called a "people's bank" by one respondent--might help meet this need.

Other interviewees argued not for more financial institutions, but for more extensive involvement by existing ones in the development and revitalization of the neighborhood. These respondents suggested that financial institutions could play a more visible leadership role in neighborhood development, could help steer and enhance development in positive ways through carefully targeted loans, and could share technical expertise with small businesses and community organizations to help them contribute to the development process as well. One interviewee suggested, for example, that a financial institution could initiate a targeted business strip revitalization project, actively promoting loans that would help business owners improve or expand their businesses. In addition to the loan money itself, the financial institutions could provide guidance in financial planning or marketing strategies to help ensure that the businesses are successful. By involving business owners in a comprehensive revitalization project, the financial institutions would also help the owners realize how their individual actions contribute to the revitalization of the neighborhood as a whole.

When asked if the neighborhood would be affected if a local financial institution closed or consolidated, respondents gave a variety of answers. One felt that the neighborhood would not be hurt. "There would still be business as usual," the interviewee said, "because even the big banks downtown still have a small bank attitude." However, others felt that the neighborhood would feel a loss. One respondent mentioned that the neighborhood would suffer because there would then be fewer sources of money available within the neighborhood itself. Another respondent noted that having a bank located in a neighborhood adds to the neighborhood's sense of identity and stability, and that losing a local bank might shake the neighborhood's sense of both. A third interviewee felt that the loss of a local financial institution would break a trust that had been built between customers and the institution. Many people in the neighborhood, the respondent remarked, have grown up with one particular institution. If an institution closed, the personal touches or special outreach services that customers had been receiving (whether formal or informal) would stop. Even if another institution made a concerted effort to fill this gap, re-establishing this personal aspect of services would take a long time. "Low income people," the interviewee noted, "tend to fall through the cracks in this sort of situation." Several respondents mentioned that Cherokee State Bank, in particular, would be a great loss to the neighborhood because of the support it has given to neighborhood activities and organizations.

When asked to rate the range of services offered to the West Side by financial institutions, almost all responded that the range of services currently available is adequate. Most agreed that all types of services-- from checking accounts to savings accounts to loans--are available to residents of the neighborhood. One respondent, however, qualified that assessment. "Compared to other neighborhoods," the interviewee said, "service is adequate. Compared to this neighborhood's needs, service is minimal." Another interviewee felt that service had been excellent personally, but noted that lower income individuals--particularly single women with children--might not have such good experiences to report. One interviewee mentioned that several check cashing services on the Lower West Side seem to be used by some in lieu of traditional private financial institutions for cashing checks and getting money orders. However, this interviewee noted, these services charge high fees for cashing checks, and the people who use the services are probably the least able to afford them.

When asked about the neighborhood's needs for single-family home construction, rehab or purchase loans, respondents expressed a variety of opinions. One said that financial institutions' efforts in this regard were excellent to moderate. The respondent felt that, generally, financial institutions were doing a good job. According to the interviewee, the real problem stems from misperceptions about the West Side. Often, he said, realtors steer potential buyers away from the neighborhood. Another respondent felt that financial institutions' efforts to meet single-family home needs were moderate to minimal. Several respondents noted that West Side Neighborhood Housing Services (NHS) has done an excellent job in helping fill the gap in this area. Through their grants and low interest loans for low income individuals to use for home improvements, West Side NHS has made a visible impact on the neighborhood. Respondents also noted, however, that there is a need beyond that which NHS helps to meet. Many individuals in the neighborhood make too much money to qualify for NHS programs, and yet cannot afford a loan from a private financial institution at market interest rates and terms.

In thinking about the neighborhood's needs for multi-family home construction, rehab or purchase loans, respondents felt that service by financial institutions was moderate to minimal. One interviewee stated, "I don't think there is enough money out there. There are people who are capable of taking on the financial burden, but they simply can't get any money."

When asked about the neighborhood's needs for small business loans, respondents felt that efforts to meet them had been moderate to minimal. "I don't know if local banks have the capacity to do more," the interviewee said, "but more money is definitely needed on the West Side for commercial development. Perhaps a new bank or the city could fill the need." Another respondent felt that efforts to meet needs in the Concord Street business area, in particular, had been minimal.

When asked about the affordability of financial services for residents of the neighborhood, one respondent guessed that "at least half of the residents in the neighborhood can afford services from a private financial institution, and at least one-third cannot." Another interviewee estimated that "half or somewhat less are in a position to pay market rates for services, mortgages, and home improvement loans. The rest won't make it at all, or will use public programs or contracts-for-deed." One respondent felt that checking account minimum balances and service charges may be prohibitive for some low income residents. However, another interviewee stated that checking accounts are affordable to all, since there are free checking accounts available at institutions like TCF. Several respondents characterized the groups for whom they felt private financial services may not be affordable. These were: lower income families, single parents, newer immigrants, people on public assistance, and the elderly.

Interviewees were asked whether they knew of any financial counseling services available to residents of their neighborhood who need help in obtaining or understanding financial services. A variety of programs were mentioned, such as: Minnesota Migrants Association and MEDA, which provide help to small business owners; the City of St. Paul Parks and Recreation Department and the city schools, which sponsor a community education program that includes a course on financial planning; and Ramsey Action Programs. NHS, Chicanos Latinos Unidos en Servicios (CLUES), and Neighborhood House were mentioned as having some financial counseling services, but these are usually for people involved in other programs offered at these organizations. Family Service was also mentioned as providing some financial counseling. One interviewee noted, however, that the counseling offered by Family Service is tailored more to individuals who make enough money to pay all their bills but who have not been wise in their decisions about how to allocate their money. Family Service does not have any counseling services to help those who do not make enough money to cover even their most basic needs. "The family of four trying to live on $20,000 a year, or worse, the family of eight trying to live on $10,000 a year, have nowhere to turn for financial counseling."

When asked if any kind of financial counseling services could be used by the neighborhood, almost all respondents said yes. One interviewee suggested that local financial institutions could plan seminars for local business owners on marketing strategies or other business skills. Other interviewees felt that there is a critical need for general money management and budgeting skills. "There are a lot of people," one interviewee explained, "who think it is OK to go to a check cashing service and pay $5 to cash a $50 check." Many people also have misperception about the nature of the financial obligations they are undertaking. One respondent recounted stories of people who had gone to institutions like ITT Financial Services and taken out a loan at a 20 percent interest rate without knowing that other alternatives exist. Most counseling services that do exist are designed to help people react to crisis situations. However, interviewees said, what people need most is a more proactive service that would help prevent financial crises from happening. People need very basic training in skills like how to use a bank and how to write a check. Some suggested that language learning classes be used as a forum for introducing these skills, to reach newer immigrants who may be unfamiliar or uncomfortable with private financial institutions.

OUTREACH AND MARKETING BY FINANCIAL INSTITUTIONS

When asked what institutions advertise in the neighborhood newspaper or target marketing campaigns specifically to the West Side, interviewees mentioned several. Cherokee State Bank was most frequently cited for advertising in the neighborhood newspaper, The Voice. Minnesota State Bank was also mentioned by several respondents for placing ads in The Voice. Others mentioned were: Signal Hills Bank of West St. Paul, West St. Paul State Bank, First Bank, and First National Bank of West St. Paul.

Interviewees were then asked if any financial institutions are involved in neighborhood organizations. Respondents told of quite a few instances of neighborhood involvement. Cherokee State Bank was mentioned most frequently. Interviewees noted that Cherokee participates on the boards of directors of: Smith-Dodd Business Association, West Side Citizens Organization (WSCO), The Voice, and the West Side NHS. Other institutions mentioned for participating on the boards of neighborhood organizations were: Drovers First American Bank of South St. Paul--CLUES; Signal Hills Bank of West St. Paul--West Side NHS; First Bank St. Paul--West Side NHS. First National Bank of West St. Paul was also mentioned as participating in neighborhood organizations.

When asked if institutions contribute to neighborhood organizations or events, Cherokee State Bank was mentioned most frequently. Respondents told of Cherokee's support for an annual neighborhood festival, Sale to the Bridge and Back; of its providing a free checking account for a neighborhood organization; and of its funding of the Smith-Dodd Business Association newsletter.

Cherokee has also contributed to The Voice and has provided meeting space for neighborhood organizations. Cherokee was characterized by many interviewees as the most visible bank in the neighborhood in terms of neighborhood support activities. First Bank St. Paul was also mentioned as providing support for neighborhood organizations. One respondent noted that First Bank regularly sends volunteers to help with CLUES' literacy program. First Bank was also mentioned for its support for and involvement in West Side NHS. Signal Hills Bank was praised for the support it has given West Side NHS. Finally, First National Bank of West St. Paul was mentioned by one respondent as just starting to get actively involved in the neighborhood.

ALTERNATIVE SOURCES OF FUNDING

When asked about financing sources for neighborhood development from government agencies, respondents mentioned a variety of programs. Included were: HUD funds administered by the city; PED Energy Resource Program; MHFA loans for first time home buyers; and low interest loans from Ramsey County. Most frequently cited sources were city CIB (Capitol Improvement Bonds) money, the Neighborhood Partnership Program (NPP), the Urban Revitalization Assistance Program (URAP), and CDBG (Community Development Block Grant) funds. Most respondents felt that the West Side takes advantage of these resources rather well. As one respondent explained, "The neighborhood utilizes city money well, but its success has a lot to do with the neighborhood organizations that are already established, that know how to apply for grants and loans, and have well-established contacts."

When asked what financing sources for neighborhood development are available from nonprofit organizations, respondents mentioned: the Urban League, the Hispanic Chamber of Commerce, West Side NHS, La Clinica, Red Cross, Girl

Scouts, Society for the Blind, Phoenix House, McKnight Self-Help Initiative Program, the St. Paul Foundation, NSP Energy Program, the St. Paul Companies, Northwestern Bell, and the Minneapolis-St. Paul Family Housing Fund. Generally, respondents felt that the neighborhood utilizes these sources well, though one interviewee felt that use of the programs on the West Side is minimal.

DISTRICT 11: HAMLINE-MIDWAY

INTRODUCTION

The Midway area encompasses the Hamline-Midway neighborhood of St. Paul. Interviewees involved with neighborhood organizations all defined their neighborhood as Hamline-Midway. The boundaries for this area are the District 11 boundaries: Pierce Butler Route on the north to University Avenue on the south and Lexington Avenue on the east to Transfer Road on the west. All of the business people interviewed defined their work neighborhood as Midway. Of the interviewees affiliated with business or business associations, most do not live in the Hamline-Midway neighborhood. Some defined Midway as stretching from the Capitol on the east to the city limits of Minneapolis on the west. Others consider Midway a smaller area, e.g., Lexington Avenue to Highway 280 or Hamline Avenue to Prior Avenue on the west. The north-south boundaries also varied with Grand Avenue being the southernmost identified border and Larpenteur Avenue as the northernmost identified border.

These two different definitions led to differing perspectives on neighborhood needs and how they are being met. Broadly speaking, the business-people were more satisfied personally and business-wise with financial institutions and also felt the neighborhood is, on the whole, well-served by local financial institutions. The community people, on the other hand, were not as complimentary of financial institutions and the services they provide. These particular respondents, though not all live in the neighborhood, are all involved in efforts to improve the neighborhood.

Hamline-Midway has a major commercial area at the intersection of Snelling and University avenues; in fact, this intersection is one of the four largest metropolitan shopping areas. All along these two avenues is smaller commercial space which houses many small businesses. A major benefit of this area from both a business and residential perspective is its accessibility to downtown St. Paul and downtown Minneapolis. Two other commercial benefits were noted: an abundance of available parking space and relatively inexpensive rent for a major commercial area in the city.

Many interviewees, however, noted that there are misperceptions of the area that distort the neighborhood's true identity. The respondents felt that people outside the neighborhood tend to view Hamline-Midway as a primarily commercial and industrial area, a deteriorating neighborhood and a lower-income area. In addition to the need to combat this negative image, interviewees mentioned several other concerns for Hamline-Midway. Due to the older housing stock there is a need for rehabilitation, not only for exterior improvements but also for interior code work. Another area of concern is the lack of available space for new single-family home construction.

EXPERIENCES WITH FINANCIAL INSTITUTIONS

There are two financial institutions located in District 11: Midwest Federal Savings and Loan and Minnesota Central Credit Union. There is, however, a financial institution located right outside the borders of Hamline-Midway: Midway National Bank. When asked which financial institutions serve the neighborhood, the interviewees mentioned Liberty State Bank, Midwest Federal and Midway National most often. Also included in the list were (in descending order of frequency mentioned): First Bank Midway, Western Bank, First Minnesota Savings and Loan, Commercial State Bank, Norwest-University/Midway branch, and St. Anthony Park State Bank.

The interviewees used a number of different financial institutions for their personal purposes. Midway National Bank was mentioned most frequently.

The others were Midwest Federal Savings and Loan, Liberty State Bank, First Bank East, and First Bank Midway. There was also a wide variety of responses given when asked what factors made the interviewee choose a particular financial institution. The two most common responses were location and convenience. Also mentioned were: free services, small minimums, best rates, knowing personnel at the institution, a pre-established relationship, and community involvement on the part of the financial institution.

When asked about which financial institutions the interviewees used for business purposes, the majority use Midway National Bank and Liberty State Bank. The interviewees also patronize Midwest Federal Savings and Loan, American National Bank, Commercial State Bank, First Bank Midway, First Minnesota Savings Bank, First National Bank St. Paul and Western Bank. The most common factor cited for selecting a financial institution for business use was the institution's involvement in the community, usually via a financial institution's membership on one of the neighborhood organizations. For example, Midway Civic and Commerce Association patronizes the affiliated financial institutions of its board members. Location was also an important factor. Among the other responses were: convenience, good personal service, referral, knew someone at the institution, and the institution's flexibility in granting loans and providing account services.

Of those who had applied for personal or business loans, nearly half of the interviewees went to Midway National Bank. Their two main reasons for applying to Midway National Bank were convenience and a pre-established relationship, either in terms of having accounts there or knowing some of the personnel at a particular financial institution. A couple of the respondents applied to Liberty State Bank mainly because of an already established relationship with the institution. One respondent applied to American National

Bank because of convenience and a desire to cultivate a relationship with the bank. Two other financial institutions were applied to for loans: IDS and Chrysler Credit. IDS offered the interviewee a line of credit and Chrysler had cheap interest rates.

NEIGHBORHOOD NEEDS

When asked whether the neighborhood needs more financial institutions, half of the respondents felt there is no need for more. They explained that the market is saturated, that there are a number of financial institutions nearby which are easily accessible, and that the existing financial institutions are stable and credible. The half responding that there is a need for more financial institutions gave a number of different reasons. One person cited that "additional financial institutions would create more competition which would be beneficial for the consumers of financial services." Another focused specifically on the shortcomings of Midway National Bank, the main financial institution in the Midway neighborhood; this interviewee asserted that "Midway National's loan policies are not oriented to the Midway area; they invest their money principally in the Sunbelt." A couple of the respondents focused on what type of financial institutions are needed. One stated that the neighborhood needs a financial institution that would "meet the needs of people of different income levels," whereas another stated that the neighborhood does need more financial institutions but "only institutions like Liberty State, St. Anthony Park State, or Western." Lastly, an interviewee said there is a need "either for more financial institutions or for the existing ones to do more work toward meeting the neighborhood's needs."

As to whether or not a local financial institution closing or consolidating would have an effect on the neighborhood, most of the respondents felt that it would have a negative effect on the neighborhood. When asked to explain what type of effect, some mentioned it would cause an inconvenience. Others noted that there would be an "especially negative effect on the neighborhood if a financial institution like Liberty State closed or consolidated because it is strongly oriented toward the neighborhood and it would be difficult to find another institution like it." One respondent felt that not only would the neighborhood lose some of the personalized service offered local institutions, but also that it would create less competition, possibly resulting in a monopoly if the institutions joined forces and thus causing an increase in prices for financial services.

When asked if there were any financial services the interviewees wished were offered, the interviewees listed a variety of services. A couple responses, given by the businesspeople interviewed, focused on services for small businesses such as a deposit pick-up and a small business or family consulting bank which would be more willing to give loans to small businesses, not just "good" businesses. One respondent felt there need to be services focused on providing larger business loans for the Midway area. Among the other services mentioned were: more services catering to the needs of senior citizens and low income persons, deferred loans to help people maintain their property, programs with grants or very low interest rates, and short-term certificates of deposit with smaller minimums.

In terms of the neighborhood's commercial, industrial and small business loan needs, half the interviewees felt that financial institutions are doing an excellent job of meeting these needs, whereas the other half thought they are doing an adequate job. Some of the business people felt it was excellent, some felt it was moderate. There was a consensus, however, on the behalf of those affiliated with neighborhood organizations, that financial institutions were doing a moderate job in this area of development.

As for the neighborhood's need for single-family home construction, rehab and purchase loans, most of the respondents felt that financial institutions were doing a moderate job of catering to these needs. One respondent cited the existence of rehab programs in the Hamline-Midway neighborhood as proof that there is a commitment to this type of development. A couple of the interviewees responded "excellent" while one person felt it was minimal, citing that people in the neighborhood "need home improvement loans at good rates rather than home equity lines of credit."

The respondents were more critical in evaluating how well the financial institutions were meeting the neighborhood's needs for multi-family home construction, rehab and purchase loans. Half responded "moderate," with one interviewee stating that "banks do not encourage these types of projects." One person responded "excellent," a couple felt it was minimal, and one felt the financial institutions are not meeting these needs at all.

When asked about affordability of services, only one respondent felt they were affordable for all people. Most interviewees felt services were affordable for many people. Among the people for whom services were felt not to be affordable were: elderly with fixed incomes, new immigrants, low-income persons, new small businesses, unemployed persons and children. When asked what services were not affordable for these groups, the respondents listed checking accounts, savings accounts, minimum deposits, penalty fees, money orders, mortgages and loans.

Only a few of the interviewees were aware of financial counseling services available to people in the neighborhood. The services mentioned were: tax services, Neighborhood Partnership Program services, advice administered through the Midway Coalition, and seminars on financial planning offered through community education and continuing education at the University of Minnesota.

Of those who were not aware of financial counseling services, all agreed that these types of services would be helpful to the neighborhood. Ideas for types of financial counseling were: workshops offered by the banks on how to balance a checkbook and read a bank statement, mortgage brokers who could "shop around" for the best money available, information for new and potential homeowners about investment strategies, an information service for disadvantaged and non-native English speakers, and long-range financial planning for businesses (especially targeted to long-time commercial owners of older buidings in order to inform them of their future options).

OUTREACH AND MARKETING BY FINANCIAL INSTITUTIONS

When asked if any financial institutions advertise their services in the neighborhood newspapers or in brochures targeted to the neighborhood, the respondents most frequently mentioned that Midway National Bank, Liberty State Bank and First Bank Midway have advertisements in the Midway Monitor. One interviewee commented that Midway National Bank used to advertise in the Midway Monitor but they pulled their advertisement for marketing reasons, with one interviewee asserting that this action was done because "Midway National felt they were targeting the wrong market--a middle to low income market." Also mentioned as occasionally advertising were Commercial State Bank, Midwest Federal Savings and Loan, Norwest Bank and Western Bank.

Financial institutions also pursue other marketing activities that are targeted to the Hamline-Midway neighborhood. Liberty State holds seminars on investment strategies and senior citizens' concerns and has an "outside salesperson" who actively solicits businesses. Midway National also holds seminars and is currently doing a survey on community financial needs. First Federal Savings and Loan Association, First Minnesota Savings Bank, and Twin City

Federal Savings and Loan have sent direct mail to people in the Hamline-Midway neighborhood.

In regard to financial institutions' participation in neighborhood organizations, Commercial State Bank, First Bank Midway, Liberty State Bank, Midway National Bank, and Western Bank all have a representative on the Midway Civic and Commerce Association board of directors--an organization that serves the whole Midway area. At present, there is no one on the District Council 11 board who is from a financial institution.

Financial institutions have been active in donating money and providing in-kind support to neighborhood organizations and events. Liberty State Bank provides meeting rooms for community groups and is a sponsor of the annual Horton Park Festival. One respondent stated that "Liberty has made a corporate philosophy out of supporting the community." Midway National has given low interest loans and facilitated loans to neighborhood organizations. They also have had personnel who have been active on neighborhood committees. Also mentioned as contributors were Commercial State Bank, First Bank Midway, Norwest-University/Midway and Western Bank.

When asked whether these activities had been initiated by financial institutions, neighborhood organizations or both, the majority of the interviewees felt that neighborhood organizations had initiated the involvement. A few felt that both groups had been active in prompting participation.

ALTERNATIVE SOURCES OF FUNDING

Nearly all the respondents were aware of government loan or grant programs available for neighborhood development. Most felt that these programs were being utilized moderately. One interviewee noted that one of the programs, a matching grant program for rehabilitation, requires the individual to provide half of the money up front, thereby "limiting the program to those people who have a certain amount of money from the onset." This interviewee also had heard of frustration with government programs because of all the paperwork required. Another limitation of these programs was a communication problem, i.e., getting the information on what is available out to members of the community.

Not as many of the interviewees knew of nonprofit programs available for neighborhood development. Of those who were aware of these types of programs, most felt they were being utilized very well, citing that the "Midway Coalition has actively promoted and used these programs." One respondent, however, felt there was only moderate usage, explaining that there is "good usage of the housing programs but poor usage of the business programs."

DISTRICT 12: ST. ANTHONY PARK

INTRODUCTION

St. Anthony Park is a strong, stable and well-established community located in the northwest corner of the city of St. Paul. Its boundaries are well-defined with Larpenteur Avenue on the north, Interstate 94 on the south, Cleveland Avenue on the east and the city limits on the west. Also included is a rectangular area that extends from Cleveland on the west to Snelling Avenue on the east and from the Minnesota State Fairgrounds and the University of Minnesota St. Paul campus on the north to the Burlington Northern Railroad tracks on the south.

The interviewees expressed that a strong sense of community prevails in St. Anthony Park. Most noted the desirability of the area in terms of its high quality of life, low crime rate, diversity, convenient location, maintenance of the housing stock, and residents' participation in community organizations and activities. There are three active community organizations: District 12 Community Council, St. Anthony Park Association, and St. Anthony Park Merchants' Association. This heavy citizen involvement is not only evidence of the neighborhood's commitment to keep the community vital and strong, but also a means of exerting control over future development in the neighborhood.

Some interviewees noted the presence of two subareas within St. Anthony Park: North St. Anthony Park and South St. Anthony Park. The dividing line between the two is the Burlington Northern Railroad tracks, with a physical link being the new Raymond Avenue bridge. These two areas have different needs and concerns. All of the public housing developments in St. Anthony Park are located in South St. Anthony Park. Furthermore, South St. Anthony

Park has more industrial space whereas North St. Anthony Park is more residential, i.e., it has more than twice as many single-family units, and has a higher median income. South St. Anthony Park also does not have as strong a retail base like the central business district in North St. Anthony on Como Avenue between Doswell and Carter avenues.

St. Anthony Park is not without its problem areas which require specific services. There is a growing elderly population, some of them homebound and some of them low-income. St. Anthony Park also has 57 percent renters, up 10 percent in the last decade, and a contingent of university students. The housing stock is old and in some parts of the neighborhood, particularly South St. Anthony, some of the housing is rundown. There is also an increasing number of single-heads-of-households who have a need for child care.

St. Anthony Park also has large areas of land presently being used for, and other areas planned for, commercial, industrial and office purposes. Examples of current use are Energy Park and Twin City Testing; examples of planned use are the expansion of Twin City Testing and Westgate. It is projected that Twin City Testing will create 600 new jobs and Westgate will add 2,000 new jobs. These projects will continue to strengthen the tax base of St. Anthony Park and the city as a whole. They also will spur the development of services catering to the influx of workers into the area. It is anticipated that these developments, in turn, will make the Midway area an even more desirable location from which to do business.

Also located in St. Anthony Park are two financial institutions: First Bank Midway (formerly First Bank Security) in South St. Anthony Park and St. Anthony Park State Bank in North St. Anthony. Nearly all the interviewees felt that there is active involvement by financial institutions in the neighborhood. It was noted, however, that in terms of major clientele, First Bank

Midway primarily serves the business community whereas St. Anthony Park State Bank tends to serve the residents of the neighborhood.

EXPERIENCES WITH FINANCIAL INSTITUTIONS

First Bank Midway and St. Anthony Park State Bank were consistently mentioned as serving the neighborhood. The respondents identified other institutions that also serve St. Anthony Park such as Como-Northtown Credit Union, Liberty State Bank, Midway National Bank, Norwest-University/Midway, Roseville Bank, State Capital Credit Union, and Twin City Federal Savings and Loan.

In terms of factors which influenced the respondents to choose one financial institution over another for their personal purposes, a wide array of answers was given. The most frequent responses were convenience and proximity to workplace or home. Some mentioned cheaper fees and/or better rates as important criteria. Also included in the responses were factors such as access through a job (i.e., affiliated credit unions), pre-established relationships with a particular institution, referrals, nepotism, a desire to patronize local businesses, and good personal treatment from the staff. In one particular case, an interviewee chose specifically to use a nonneighborhood financial institution because the neighborhood institution did not provide good service.

When asked about reasons for applying to a certain financial institution for a personal or business loan, the respondents listed a variety of answers such as convenience (not only location but also the convenience of already having an account at the institution and thus alleviating duplication of paperwork), good rates, an established relationship with the financial institution, and referrals to the institution by a realtor.

NEIGHBORHOOD NEEDS

None of the respondents felt that St. Anthony Park needs more financial institutions. They noted that St. Anthony Park is a small neighborhood and it is well-served by the existing institutions. One respondent noted that presently there is enough competition and any additional competition would result in the form of higher costs to the consumer. Also noted was that there is easy access to other institutions in the city and that people have credit unions through their workplace. One respondent did express that "there is a need for existing institutions to be more responsive to neighborhood needs."

When asked, however, if there would be an effect on the neighborhood if one of the neighborhood institutions closed, nearly all agreed that there would be. The respondents felt that neighborhood organizations would be hurt, "especially if St. Anthony Park State Bank closed because of its support of neighborhood activities." Additionally, many noted that competition would decrease, resulting in higher costs to the users of the institutions. A third common response focused on the inconvenience a closing would cause, particularly for people without a means of transportation. Another response focused on the resulting loss of personal contact that a neighborhood financial institution provides; it was noted that "officers at a bigger-sized institution have a different view of what neighborhood needs are." A few of the interviewees felt that if there was a closing there would be a negative effect, but if a local financial institution consolidated and remained in the same location then there would be no effect on the community.

When asked whether there were any services they wished were offered by the financial institutions all the respondents except one said no. This particular respondent felt there is a need for home outreach activities which would cater to the needs of the homebound, e.g., a service whereby a bank employee would go to the house and conduct financial business from that location.

In rating the services offered by financial institutions serving the neighborhood, the respondents gave answers of both adequate and excellent, with adequate being the more popular response. One respondent expressed concern about minimum deposit requirements, particularly the impact this policy has on low income people and children who are trying to establish accounts. One person, who responded excellent, based his answer on the fact that the number of automatic teller machines in the neighborhood had increased, thus greatly improving the level of services to the neighborhood.

All the respondents felt that financial institutions are doing an excellent or moderate job of meeting the neighborhood's needs for small business, commercial and industrial loans. One interviewee, however, felt that in terms of industrial loans, financial institutions are not meeting these needs at all. This interviewee cited the example of the Westgate site, a space which has been empty for twenty years: "It took stepping in on the part of the Port Authority to get anything done in that area."

As for meeting the needs of single-family home construction, rehabilitation and purchase loans, financial institutions are primarily doing a moderate to excellent job. One respondent asserted that financial institutions were not responding to these needs at all due to a lack of perceived need on the part of the institutions for these types of loans, whereas another mentioned the availability of city programs for rehabilitation as a means of fulfilling these needs.

In terms of multi-family home construction, rehabilitation and purchase loans, there was no consensus on how well financial institutions are meeting these needs. Most of the respondents stated that multi-family development is more difficult to do because of stringent stipulations, lack of available land, and high acquisition costs. Furthermore, some noted that this type of development is "not a money-maker and it is usually done on second- or third-rate land." One person noted that "the neighborhood is already built up and there is no need for multi-family development." Additionally, many of the residents do not want multi-family units built in their neighborhood. With the questions relating to both single-family and multi-family loan needs, many respondents hesitated to give the answer of excellent based on the lack of demand for these types of loans rather than due to the shortcomings of financial institutions.

On the question of affordability, nearly half the respondents felt that financial services in St. Anthony Park are affordable for all the people in the neighborhood. One person felt the services are affordable for some and the rest said they were affordable for many. When asked to characterize the types of people for whom services are not affordable, the respondents listed elderly persons; low-income persons; single-heads-of-households, particularly women; students; and renters. Checking accounts, savings accounts, mortgage loans, home improvement loans and credit card fees were mentioned as the services which are unaffordable for the aforementioned people.

When asked about the availability of financial counseling services in the neighborhood only a few knew of such services; they knew primarily of financial consultants, brokers and certified public accountants--all of whom charge for their services. For the respondents who did not know of any of these services, a follow-up question was asked regarding whether they felt financial counseling services would help the neighborhood. All except one agreed it would be helpful. Listed among the counseling services which would be useful were information on how to: establish and maintain a budget, avoid/pay off debt, put together a package to buy a home, put together loan packages, bring a house up to code, manage money and investments, and a hotline or office where questions could be answered and information provided by a third party who is not affiliated with a financial institution. The respondent who felt that financial counseling would not be helpful in St. Anthony Park explained that residents would not use it because "residents, on the whole, are conservative and they consider themselves well-educated and able to handle financial matters without outside help."

OUTREACH AND MARKETING BY FINANCIAL INSTITUTIONS

Both First Bank Midway and St. Anthony Park State Bank regularly advertise in the neighborhood newspaper The Bugle; Liberty State Bank, Northstar Bank, Norwest-University/Midway, and Roseville Bank occasionally advertise in The Bugle. Another marketing activity targeted to the neighborhood which is pursued by financial institutions is direct mail from First Bank Midway, St. Anthony Park State Bank, and Twin City Federal Savings and Loan.

Neighborhood financial institutions are heavily involved in community organizations and activities. Not only do they participate on the boards of many neighborhood organizations, but they also provide financial and in-kind support to community groups and events. For instance, St. Anthony Park State Bank personnel participate on the District Council Board, the Library Board, the Arts Forum, the Music in the Park Board, and the Block Nurse Program Board. They also have a presence on the St. Anthony Park Merchants Association and the St. Anthony Park Association. The bank has given contributions and provided in-kind support such as meeting rooms, copy machine use, and use of bank personnel for treasury work. St. Anthony Park State Bank was mentioned most often as being the most involved in and supportive of community activities.

First Bank Midway is also involved with community organizations. They are involved with the District Council; currently, the Council's treasurer is a First Bank Midway officer. First Bank Midway also has donated money to community organizations and events. One person explained that "First Bank Midway perceives its service area as being larger and more commercial than that of District 12" and this perception is the reason for its lesser degree of involvement. In a neighborhood effort, however, First Bank Midway formed a partnership with the residents of the University-Raymond area in an attempt to deal with adult entertainment problems in the immediate area.

Norwest-University/Midway has provided some financial support to neighborhood organizations and has recently offered meeting space to the District Council.

A number of banks are presently active on the board of directors of the Midway Civic and Commerce Association: Commercial Bank, First Bank Midway, Midway National Bank, and Western State Bank.

Most of the respondents felt that these activities have been initiated by both neighborhood organizations and financial institutions. One of the respondents who felt that neighborhood organizations were the sole initiators of these activities explained that oftentimes the financial institutions are not aware that there is a need and therefore the onus is on "the community groups to directly ask for their participation and support."

ALTERNATIVE SOURCES OF FUNDING

Nearly all of the respondents were aware of government loan or grant programs for neighborhood development, however, opinions varied on how well St. Anthony Park utilizes these programs. Most described utilization as minimal or moderate, stating reasons such as people not knowing the programs exist and people not wanting to deal with the "red tape." One respondent felt that certain government programs for development are inefficient because the programs' requirement to pay union wages often offsets the programs' low interest rates.

When asked about availability of nonprofit loan and grant programs for neighborhood development, most of the respondents were aware of these types of programs. Similar to government programs, the answers regarding utilization also varied from minimal to very well. One respondent felt that people in St. Anthony Park have an image that they can take care of themselves without outside assistance. Another respondent mentioned that there are a lot of applications from the neighborhood for nonprofit programs but they are rejected frequently. A third type of response was that people are unaware of the available programs.

REPRESENTATIVES OF FINANCIAL INSTITUTIONS

To investigate further the issues which emerged in the neighborhood interviews, representatives from financial institutions, all located in or near the four focus neighborhoods selected for detailed study, were personally interviewed. Interviews focused on defining the institution's service area, general perceptions about the area and its financial needs, knowledge about financial counseling and referral services available to area residents, outreach and marketing by the institution to the service area, and the institution's level of cooperation with government and nonprofit sources of development capital. Of the eleven institutions contacted, nine are banks, one is a savings and loan association, and one is a mortgage company (see Appendix C, page 131, for a list of interviewees). A brief phone interview was also conducted with a representative of a credit union.

DEFINITION OF SERVICE AREA

When respondents were asked what geographic area is served by their institution, responses ranged from a very large area to a very small area. Several defined their institutions' service area as "the seven-county metro area." Others selected a smaller geographic area such as the city of St. Paul and parts of several surrounding counties. Some narrowed the boundaries even further, defining their area of service as the city itself, while several listed very precise areas within the city, naming specific streets or natural landmarks as boundaries.

Not surprisingly, respondents from some of the smaller institutions had identified relatively small and specific service areas. Respondents from other smaller institutions, however, identified some of the largest of service areas. Yet, no matter how large or small the institution's service area, almost all respondents stated that the bulk of their customer base is made up of people who work or live in the neighborhoods immediately surrounding the institution.

When asked how their service areas were selected, respondents gave a variety of answers. Some said that their service areas were determined because of their institution's focus on a particular type of services, such as meeting the needs of commercial or industrial clients. Others said that they had made a conscious decision to serve their immediate neighborhood because they feel it is important to contribute to the neighborhood's economic development. One interviewee mentioned that his institution defined its service area according to both natural geographic boundaries and distance and convenience issues. Another respondent said his institution had selected a service area based on "where there seemed to be opportunities," meaning where there were few other banks operating.

Two exceptions to this general characterization were found. The first was with the credit union. This particular credit union is an associational one; persons are eligible for membership through their jobs or through affiliation with a particular group or association. By definition, this credit union does not choose a specific geographic area to serve, but rather a specific group of people. As a result, its membership is spread across a wide geographic region.

The second exception is the mortgage company. Today's mortgage companies break from the traditional model of lending where the amount and number of loans an institution can make are determined by the amount of capital taken in by the institution in the form of savings from its customers. Instead, mortgage companies seek investors who are willing to provide the capital with which they can make loans. As a result, mortgage companies do not necessarily think in terms of servicing a specific geographic area. The interviewee representing a mortgage company noted that loan officers at his firm are allowed to select their own service areas. Often these choices are based on the areas the officer is familiar with personally or in which he has already established contacts. Mortgage companies, in general, tend to market their products primarily through realty companies, and thus good relationships with realtors are important to a mortgage company loan officer. In addition, a loan officer may base his service area decision, in part, on home values. In general, mortgage companies receive 1 percent of the value of each mortgage they issue. The higher the mortgage value, the more money the company receives.

GENERAL PERCEPTIONS ABOUT SERVICE AREA

In general, most of the representatives of financial institutions had perceptions of their service areas that agreed with the neighborhood representatives' perceptions. Both the neighborhood interviewees and the financial institution representatives defined similar problems and issues as being prominent in their neighborhoods. In a few cases, financial institution representatives had more detailed knowledge of their area's commercial and residential sectors than did the neighborhood respondents. But even with similar perceptions about a neighborhood's character, some of the financial institution representatives tended to be more pessimistic about the neighborhood's potential for improvement than were the neighborhood representatives. Neighborhood representatives were generally more hopeful about their neighborhoods' capacity to improve.

Again, the exceptions to this generalization were the credit union and the mortgage company. Because these two institutions do not have a geographic focus, the representatives interviewed did not have clear perceptions of any of the four focus neighborhoods selected for this study. It should be noted, however, there is another type of credit union which is established to serve a specific geographic area. Though none currently exist in the metropolitan area, it is assumed that this type of a credit union would have detailed knowledge of its service areas. It should also be noted that some mortgage loan officers do work in particular city neighborhoods and would presumably have more detailed perceptions of these areas.

PERCEPTIONS ABOUT AREA'S FINANCIAL NEEDS

When asked what their service areas' greatest financial needs are, interviewees responded both in terms of broad sectors in need of capital--such as commercial, industrial, or residential--as well as specific financial services that could help meet these larger needs. The need most frequently mentioned by all respondents was for more funds for home rehabilitation or improvement. As one respondent said about his service area, there is a need for a "steady supply of home improvement or real estate monies." Others cited the need for home mortgages, home construction loans, and opportunities for "borrowing against home equity." Several respondents suggested that there should be more subsidized home loans from government sources, and that these sources should fund the more risky loan requests. Also mentioned were needs for basic consumer loans, and for basic checking and savings account services.

In the realm of commercial sector needs, respondents cited the need for funds for commercial area rehabilitation and improvement, and more specifically for small business working capital loans. Also mentioned were funds for new commercial development, parking facilities, and small business start-up and equipment purchase loans.

Some representatives noted that their institutions had made formal attempts to assess the credit needs in their service areas. A variety of processes were used, such as surveys of neighborhood residents or current institution clients; periodic market research surveys; interviews with community leaders and groups, and focus groups with existing consumers and businesses; and a roundtable discussion involving institution employees in analyzing neighborhood credit needs. Other respondents noted more informal means of assessing credit needs. These respondents said their institutions make a conscious effort to keep in close contact with neighborhood organizations and residents, and to stay aware of and involved in neighborhood issues and concerns. One interviewee noted the importance of maintaining this connection because it helps the institution to be ready to react quickly to neighborhood needs with suitable financial services. Several respondents did not have any formal or informal means of assessing the credit needs of their service areas.

FINANCIAL COUNSELING AND REFERRAL

When respondents were asked if their institutions provided any financial counseling to customers who are inexperienced with financial services, most mentioned the one-on-one counseling that a loan officer provides when someone seeks a loan. The loan officer's job, they noted, is to help a customer through the process. Some also noted that they tend to receive a wide variety of financial questions from customers--related to loans, checking and savings accounts, and other matters--simply because "people generally turn to their bank first when a question involves finances." In these cases, questions are handled by whomever has the most knowledge about the question. As one respondent said, "If we know the answer, we are happy to share it." In almost all cases, the financial counseling that institutions mentioned providing tended to be informal, and primarily for people who were already customers of the bank.

When asked if they knew of any financial counseling services offered by other institutions, respondents showed varying levels of awareness. Some knew of no such services. Others mentioned local CPAs or financial planning services. Also noted were various city and county services, and several programs by nonprofit organizations. All of those who knew of other financial counseling services were willing to refer people to them if they were in need of such help. Several respondents also said that they would refer a customer to another institution if that institution would better meet the individual's needs. For instance, one respondent's institution regularly refers individuals who don't qualify for any of their loans to a nonprofit program that offers grants and low interest loans for low income individuals. Another respondent mentioned occasionally referring individuals who did not qualify with them to a small loan company nearby. The loan company, the respondent noted, generally would not have as strict standards for qualifying, or would be willing to take more risk on a loan if the recipient paid a higher interest rate.

A major difference between the responses of financial institution representatives and those of neighborhood representatives was found in this area of financial counseling. While neighborhood representatives focused on preventive measures--such as educational programs to help people on limited incomes avoid financial difficulties and be more aware of their options--none of the representatives of financial institutions, with only one exception, mentioned this need. Financial institution representatives tended to focus more on the counseling needs of those who are already aware of and use financial services.

OUTREACH AND MARKETING BY FINANCIAL INSTITUTIONS

When asked if their institutions target any marketing efforts specifically to their immediate neighborhoods, all interviewees mentioned some sort of specialized advertising. The most frequently mentioned tactic was to advertise in neighborhood newspapers or bulletins. One respondent mentioned specifically targeting the Hispanic community in the neighborhood by running a series of ads on home improvement and property loans in Spanish. Others mentioned direct mail campaigns and ads on bus benches and billboards. The mortgage company was an exception, doing most of its marketing through local realtors.

When asked about their institutions' involvement in neighborhood events or organizations, almost all representatives mentioned a variety of activities. These generally focused on helping sponsor neighborhood festivals or celebrations; donating money, staff time, meeting space, or services to a neighborhood organization; or having staff members participate on the boards of directors of neighborhood organizations. Several institutions went further by actually assigning staff members to keep in close touch with specific neighborhood organizations as part of their jobs, or making it institution policy to encourage staff to volunteer or become active in neighborhood activities. Respondents cited several reasons for this involvement. One stated that the "idea of giving something back to the community" is important. Another noted that "being a good citizen doesn't hurt business." A third respondent mentioned that it is in the institution's best interest to help the neighborhood around it grow and improve.

When respondents were asked what they feel their institution's role is in the economic development of their surrounding neighborhoods, many said that they see their institutions as contributing to neighborhood economic development through the loans they make. As one respondent said, "We have a legal mandate to reinvest in the community, and we uphold that mandate....There is a need [in the neighborhood] and we are interested." Several respondents characterized their institution's role as not only putting money back into the neighborhood through loans, but also getting involved in efforts to stabilize or improve their neighborhood by helping formulate and implement new development strategies or projects. As one respondent said, "our role is to be as active as possible and to be as aware as possible of opportunities to implement, assist, or plan development." Giving advice on neighborhood business and economic matters, one interviewee felt, was another specific way of contributing. In some cases, one respondent said, an institution can help get grants or subsidized loans for individuals in its area.

COOPERATION WITH GOVERNMENT AND NONPROFIT FUNDERS

When asked whether their institution cooperates with any government programs to provide low-interest or subsidized loans to customers, several mentioned having participated in the SBA loan program. One interviewee noted, however, that the SBA loan package is "voluminous and complex," and that many applicants tire of the process before completing it. Another respondent stated that his institution generally refers customers to the city's Department of Planning and Economic Development (PED) when they are interested in an SBA loan. "The staff at PED," he said, "do an excellent job of walking a person through the process." Respondents also mentioned loan programs that PED sponsors itself, programs offered by the Minnesota Housing Finance Agency (MHFA), and a variety of other county and state programs. Though some reported easy and successful experiences with government programs, many felt that paperwork for these programs is time-consuming, complex, and frustrating.

When asked whether their institution cooperates with any nonprofit programs to provide low-interest or subsidized loans to customers, very few respondents mentioned participating in or knowing about any such programs. The only nonprofit program that was mentioned was the Neighborhood Housing Service (NHS). Several respondents mentioned being involved in the organization's board of directors. They also noted that they frequently refer customers to NHS for loans when the customer does not qualify for a loan from them.

SUMMARY AND CONCLUSIONS FROM INTERVIEWS

Table 13 compares in summary form the differences by districts of attitudes about financial service issues. As expected and consistent with the first round of surveys, issues were identified as more problematic and widespread in District 7 than District 3, substantially moderated in District 11, and nonexistent or totally different in District 12. For example, respondents in Districts 7 and 3 saw more difficulty in obtaining development financing in their districts than other parts of the city, District 11 respondents reported the same level of difficulty as elsewhere, while in District 12 there was less difficulty obtaining financing but more difficulty obtaining community approval of projects.

One anomaly to the pattern in Table 13 concerns the need for financial counseling. The counseling suggested seemed very different in District 7 ("how to use a bank; how a bank operates") compared to District 12 ("how to buy a house, a third party information hot line"). Nevertheless, the number of respondents in District 12 indicating that financial counseling was a good idea is only slightly less than the nearly unanimous opinion in the other three districts supporting the need for financial counseling services.

By combining resident responses about financial service issues with the responses from representatives of financial institutions serving the four districts, important distinctions emerge between "daily" services of checking and savings accounts and the occasional need for large loans or mortgages.

In terms of "daily needs" for checking and savings account services, respondents seemed to prefer convenience and friendliness over cost savings. Thus checking and savings accounts tend to be location specific--near either home or work. In this regard, an institution's "community" activities do seem to play a role in drawing in or keeping customers.

Table 13. Differences by Districts of Attitudes about Financial Service Issues

ISSUES:	DISTRICT 7 Median family income: (adjusted to 1986 $) $20,673 Minority percent: 23 Median value of owner-occupied units: (adjusted to 1986 $) $53,019	DISTRICT 3 Median family income: (adjusted to 1986 $) $26,031 Minority percent: 22 Median value of owner-occupied units: (adjusted to 1986 $) $61,650	DISTRICT 11 Median family income: (adjusted to 1986 $) $28,307 Minority percent: 5 Median value of owner-occupied units: (adjusted to 1986 $) $59,184	DISTRICT 12 Median family income: (adjusted to 1986 $) $26,356 Minority percent: 5.5 Median value of owner-occupied units: (adjusted to 1986 $) $89,735
Factors for choosing a financial institution for loan	Pre-established relationship; sought institution which held on to loans--didn't sell them off.	Primarily interest rates and service fees. Sometimes went to institution where there was a pre-established relationship.	Convenience and pre-established relationship.	Convenience; account already there; established relationship.
Are there enough financial institutions in your neighborhood?	Need for more active involvement by financial institutions in the neighborhood. Need for services tailored to the low income.	Need for financial institution on the lower west side. Need for more money for neighborhood development. Need for a "community-oriented" bank.	Some felt more were needed in order to increase competition. Need for more responsive institutions.	No need for more. There's enough competition. Also, easy access to other nearby financial institutions.
Effects if neighborhood financial institution closed or consolidated	Negative effect. Inconvenience--many people do not have cars. Would be especially detrimental if Western Bank closed because of its support of and activity in the neighborhood.	Range of answers. Would lose a sense of stability and identity a neighborhood institution provides. Would lose personal service, special outreach services. Would be particularly bad for neighborhood if Cherokee State Bank closed because it is very supportive of neighborhood organizations and activities.	Inconvenience. Would be particularly bad if Liberty State Bank closed because they are very neighborhood-oriented. Would also result in a loss of competition which would lead to higher prices for services.	Loss of competition which would result in higher fees. Would create an inconvenience. Loss of personal contact. Would be especially bad if St. Anthony Park State Bank closed because of its support for the neighborhood.
Home mortgage and improvement loans--how well are these needs being met?	Moderate to minimal job. One person noted that it is especially difficult to get a loan to completely rehab a house. Others noted that many of the residents in Frogtown are low income and thus do not "qualify" for loans and many of the houses are substandard, which makes it more difficult to get a loan.	Moderate job. West Side NHS fills some of the gap but there are a number of people who don't quality for NHS but cannot afford a market rate loan.	Moderate job. One person noted the need for home improvement loans rather than home equity lines of credit. Many noted the existence of rehab programs in District 11.	Moderate to excellent job. Problem may be the perceived lack of need for these types of loans on the part of the financial institution. Interviewees also knew of city programs for rehab.
Difficulty in selling a house in your neighborhood as compared to other neighborhoods	More difficulty selling a house here than in other neighborhoods.	More difficulty selling a house here than in other neighborhoods.	Same amount of difficulty selling a house here as elsewhere.	Less difficulty selling; houses here are in high demand.
Business loans--how well are these needs being met?	Some noted that the emergence of new small businesses in the neighborhood may indicate that these needs are being met by financial institutions.	Moderate to minimal. More money is definitely needed on the West Side for commercial development.	Adequate to excellent job. All the community/non-business interviewees felt that financial institutions were doing an adequate job.	On the whole, excellent or moderate job. Only one person had a complaint--noting the long vacancy of the Westgate site as an example of financial institutions not meeting industrial needs at all.
Difficulty in financing development projects in your neighborhood compared to other neighborhoods in St. Paul	The same or more difficulty obtaining development financing here than elsewhere in St. Paul.	The same or more difficulty obtaining development financing here than elsewhere in St. Paul.	Same amount of difficulty obtaining development financing here as elsewhere.	Less difficulty obtaining financing. More difficulty though in trying to gain community approval of projects.
Affordability	Answers ranged. Listed as types of people for whom services are unaffordable were low income families who can't afford minimum balances, service fees and market rate loans; lower middle income people who can't afford market rate loans. Check cashing services, particularly for AFDC recipients, are used in lieu of a bank.	Many cannot afford market rate loans. Some cannot afford the basics (checking, minimum balances, service fees). Types of people include lower income families, single parents, newer immigrants, elderly people on public assistance.	Affordable for many people--but not for low income, new immigrants, new small businesses. Services not affordable are: checking, savings, minimum deposits, penalty fees, money orders, mortgages, loans.	Half felt services were affordable for all. The rest felt services were affordable for most. Services not affordable are checking, savings if fees are charged, loans. People for whom services are not affordable are: low-income, elderly, single heads of household, students, renters.
Need for financial counseling	Some knew of counseling services: Ramsey Action Programs, Family Services of St. Paul. All felt counseling would be helpful. Need for people to not feel intimidated by a financial institution, thus they require information on how to use a bank; how a bank operates. Also, there is a need for money management.	Listed a variety of programs but not available for all the people in the neighborhood. All felt there is a need for financial counseling--to teach people about alternatives to check-cashing services and high interest rate loan companies. Need for basic money management, to prevent the crisis situation. Need for informing businesses about marketing strategies.	Few aware of services. Mentioned NPP, Midway Coalition and community education. All felt counseling would be helpful, ranging from the basics (how to manage a checking account) to investment strategies, planning for the future.	Few knew of financial counseling services. Most felt these kinds of services would be helpful. Ideas for services: budget maintenance, how to put together a loan, how to buy a house, a third party information hot line.
Financial institutions' outreach and marketing to the neighborhood	Western Bank is very active in advertising, involved in community organization and activities, and economic development of the neighborhood. Summit National Bank also advertises and provides in-kind support to community organizations.	Cherokee State Bank advertises and is involved with neighborhood organizations. Minnesota State Bank advertises. First Bank St. Paul provides in-kind support. Also mentioned as doing outreach in the neighborhood were Signal Hills Bank and First National Bank of West St. Paul.	Liberty State Bank is very involved in neighborhood organizations and they provide in-kind support to groups. Also mentioned were Midway National, First Bank Midway, Commercial State Bank and Western Bank.	St. Anthony Park State Bank is very involved in the neighborhood--advertisements and involvement, in-kind support for neighborhood organizations. First Bank Midway also does outreach to the neighborhood through advertisements and involvement in neighborhood organizations.
Awareness and use of other sources of capital	More aware of government programs, particularly URAP. Area west of Dale takes better advantage of programs.	Good usage of both government and non-profit sources of capital. Neighborhood organizations know about programs and how to take advantage of them.	Moderate usage. More aware of government programs. Some frustration working with these programs. Lack of communication to neighborhood about what is available.	Minimal to moderate usage. Lack of knowledge that programs exist. Too much "red tape." Residents do not qualify for some programs. St. Anthony Park residents feel they do not need outside assistance.

Though very low income individuals and households, ironically, do have some options regarding loans, they have <u>no</u> real options for meeting these "daily" financial service needs. These individuals tend to rely on check-cashing services (which charge a minimum of 10 percent to cash a personal check) and money orders to meet daily needs. They either cannot afford minimum balance requirements and service fees, and/or they are unfamiliar or uncomfortable with financial institutions. This group of people seems to need both checking and savings accounts that are affordable (essentially <u>free</u>) and educational programs to help them see the benefits of using such services (i.e., how to budget with a fixed/limited income, how to write checks, etc.).

For larger loans and mortgages, however, the pattern is different. The most important factor to people in getting a mortgage seemed to be cost, i.e., securing the lowest interest rate, fewest points, and lowest fees. Many people seem willing to trade convenience and personal attention/friendly service for the best deal possible. In this case, an institution's "community" activities probably do <u>not</u> have as much an effect on consumers' decisions about whether or not to use that particular institution. Nevertheless, some respondents also cited the importance of a pre-established relationship with the institution when applying for a major loan.

For very low income individuals, some options <u>do</u> exist for grants or low interest loans, or even guaranteed loans from government or nonprofit sources. These options sometimes are provided directly by the government or nonprofit source to the person in need, <u>or</u> are sometimes used by private financial institutions so that they can be more flexible and make a loan in what would otherwise be a very risky situation.

A problem exists in that information gaps prevent these programs from being used as fully as they could be, and often from reaching the people who need them most. In some cases money is sitting idle because people are not seeking it out, presumably because they don't know the option exists. If no information gaps existed, it is doubtful that the resources available through these special programs would be sufficient to meet the need.

Another gap in services exists for people who make slightly too much money to qualify for the low income loan and grant programs, but who cannot afford loans at market interest rates. This group generally can afford to use private financial institutions for "daily" needs (checking and savings), but do not have viable options for loan money. There were indications that these people may qualify for bank loans, but they themselves rule out this option because they don't feel they can afford the market interest rates a bank would charge.

There are also other barriers in addition to lack of information. Because mortgages are bought and sold on secondary markets, they now must conform to certain standards of uniformity usually set by the government bodies that insure the loans. Financial institutions have become less flexible in their lending--unless it looks like all the other loans, the institution can't sell it. As a result, institutions are making less and less of the "riskier" loans that take into account characteristics like working hard and being honest. All that matters is whether the applicant meets formulaic income and credit criteria, and whether the property meets certain standards. If any of the criteria or standards are not met, the loan is generally not made--there is much less room for trade-offs or decisions based on intuition. Though this standardization obviously has more of an effect on lower-income areas, it also has consequences in parts of St. Anthony Park. Because of the condition and age of the housing, standardized mortgages are not available and contracts-for-deeds are being used.

The importance of convenience for daily banking needs and price for major loans and mortgages did not seem to apply as clearly to neighborhood business people as it did to residents. The former tended to have both their personal accounts (checking, savings, and even home mortgage) and their business accounts at the closest, most convenient financial institution. Business loans were also applied for here because of pre-established relationships with a particular bank officer and all the "paperwork" was already on file, enabling expedited applications. Special loan programs and the lack of standardization in business loans also make the judgment of the loan officer and personal relationships more important for approval of business loans than home mortgages.

Finally, the reputation among bankers of special governmental and non-profit financing programs for residential and business loans needs to be noted. Most considered that these programs involve too much paperwork and were unnecessarily cumbersome. Given that most of these programs require the participation of local financial institutions, this attitude may be a contributing factor for the frequent comment of residents that these programs are neither well known nor well utilized.

V. GENERAL SUMMARY AND OBSERVATIONS

GENERAL SUMMARY

From analysis of the numerical data and information gained through two rounds of personal interviews, certain general conclusions are warranted. Both data and surveys testify that St. Paul has financial institutions committed to serving the needs of the neighborhoods in which they are located. Some of these institutions are located in and specifically targeted to lower income areas of the city. Representatives spoke knowingly of the characteristics and needs of neighborhood service areas. Most of these, though not all, are family-owned banks and have a long history of service to the neighborhood. Cherokee State Bank, Liberty State Bank, and Western Bank are examples.

Those surveyed evidenced that St. Paul banks enjoy a reservoir of good will. Respondents in all districts noted approvingly the support for and involvement in community affairs of the financial institutions in their district. In each district, respondents identified one bank which, if closed, would be a particular loss to the area because of the bank's especially strong support for the community. And more generally, a number of respondents noted that because banks are private, for-profit institutions "they can only do so much." Loan terms and limitations were justifiable even though, as mentioned below, this meant problems in securing loans. This understanding did not extend to realtors, appraisers, and insurance companies whose operations in lower income areas were characterized in much more negative terms by some respondents.

Data and surveys also testified, however, to limitations in the response of financial institutions. Lower income census tracts do not receive the same number of mortgages as higher income tracts even when the turnover rate of housing in the areas is comparable. As county data verify, these lower income areas rely on contracts-for-deed at a much higher rate than upper income areas. MLS data show that selling properties in low income areas takes twice to three times as long as in other areas and that over half of the properties do not sell at all within the time (usually 180 days) listed.

One data set, HMDA, showed that the distribution of home improvement loans was not skewed to higher income neighborhoods as were mortgages. The FLBB data, however, showed an income skewed rejection rate for both mortgages and home improvement loans. Survey respondents in lower income neighborhoods spoke of the difficulty of selling homes. More frequently cited, however, were difficulties in obtaining home improvement loans at affordable rates and sufficient for the amount of work that needed to be done. Representatives of financial institutions also mentioned the need for home improvement loans more frequently than the need for mortgages.

Public subsidies and loan guarantees in certain areas of the city were seen as necessary if private financial institutions were to stay involved. The necessity for this public-private cooperation was tacitly recognized by surveyed residents in lower income areas as well as representatives of financial institutions. Where the former saw this as a necessity to make involvement in their areas sufficiently profitable, however, the latter tended to see these programs as cumbersome and the paperwork burdensome. This latter attitude was shared by both seekers and sources of credit in more affluent areas.

In addition to the terms and cost of mortgages and home improvement loans, the surveys identified other barriers to the services of traditional financial institutions. Survey respondents in lower income areas spoke of residents being priced out of checking and savings services and having to rely periodically on more expensive check cashing and money order services. Knowledge of special programs from financial counseling to interest rate write-downs varied from district to district and within all groups of survey respondents.

The numerical data showed that blacks, people of Hispanic origin, and Native Americans are denied mortgages at rates twice those for whites and Asians; this holds whether looking at area characteristics or at individual applicants. For home improvement loans the situation seems considerably better, though amounts requested and rejection rates are still not equitable when controlling for race.

Finally, surveys in all four districts evidenced an interest in information about financial institutions, their services, loan rates and charges for checking and savings accounts. In the lower income neighborhoods the emphasis fell on general information about how checking and savings accounts work, how to apply for a loan, and other basic information about services available through financial institutions. In other neighborhoods the type of information desired was third party comparisons of fees, rates and charges; comparative information on availability and terms of mortgages and home improvement loans; and financial counseling about savings and investments.

OBSERVATIONS

These observations are not conclusions based directly on the numerical data and survey information contained in this report. Rather, they are reflections on the authors' experiences in completing this report. The first concerns the availability and usefulness of the data. The second concerns the availability and accessibility of capital for community reinvestment. Finally, there is a concern about the adequacy of the response to date to the problems of community reinvestment.

DATA AVAILABILITY AND USEFULNESS

It is axiomatic that an adequate flow of flexible capital is critical to the economic health and vitality of any neighborhood. And yet data on this capital flow are difficult to obtain. As of January 1, 1990, regulated financial institutions, including mortgage companies, will be required to keep and disclose data by census tract on the race, gender, and income of all residential loan and mortgage applicants. This promises to improve the completeness of publicly accessible financial data. This federal data, however, serves more as a check on bank performance than as an index of the economic health of neighborhoods. The data do not themselves address the issue of adequacy of the response of financial institutions to neighborhood credit needs.

As the current report demonstrates, the lack of clear cut geographic patterns of financial disinvestment does not necessarily indicate the absence of unmet need for additional capital at the neighborhood level. The need for other data sets, such as property transfer data and information from the Multiple Listing Service, are critical to begin to get a general outline of the financial needs of the neighborhood. Even an index such as the ratio of loans to property transfers cannot be put together without combining federal and county data sets.

Further, as the first round of surveys in this project made clear, while the performance of neighborhood financial institutions is important, banks are by no means the only institutions upon which the economic health of a neighborhood depends. Real estate, appraisal, and insurance services each play critical roles in a healthy neighborhood's economy and in the multi-issues of neighborhood reinvestment. Appraisal data and other data from the Multiple Listing Service are now available. Insurance data, comparable to HMDA, would be very useful for an adequate overview of neighborhood economic health.

Finally, no one report can do justice to the variability over time in the credit needs of a neighborhood. Any number of factors may significantly alter neighborhood credit needs. Also, what is adequate in one neighborhood is not necessarily adequate in another. Trend data for each neighborhood would be important for identifying early changes in traditional patterns of market transactions.

CAPITAL AVAILABILITY VERSUS ACCESSIBILITY

No one interviewed suggested that financial institutions did not have on hand an adequate supply of capital. In this sense, adequate capital is available for community reinvestment needs. Moreover, it was also clear from both the data and surveys that St. Paul has several neighborhood-oriented, family-owned banks, some of which are operating in and concentrating on the lower income areas of the city. Financial institutions have not abandoned large areas of the city as has happened in other metropolitan areas of the country.

As the surveys demonstrated, officers at these institutions were not only well aware of the requirements of the Community Reinvestment Act (CRA) but knew, albeit to varying degrees, about the needs of their service areas and seemed genuinely interested in and committed to dealing with the problems of community reinvestment. It was heartening to learn that St. Paul seems a "best case scenario of community reinvestment" for what financial institutions are capable of on their own initiative. It was not as heartening to learn that major problems still exist in areas being served and that major areas of the city have unserved needs.

While there did not seem to be glaring geographic inequities in the distribution of capital, there were signs that capital accessibility differed greatly depending on the income and race of the applicant. Not only was capital denied (based on FHLBB data) along racial patterns, but capital demand was never developed in many cases because of widely differing information needs. It seems reasonable to conclude that someone, no matter how much they might need or qualify for a loan, is not going to apply for one if they do not understand the terms and conditions. The surveys would seem to suggest that this situation is commonplace in some areas of the city rather than exceptional. Information about financial services and how banks operate is not widespread. In upper income neighborhoods information is channeled through a variety of formal and informal networks including real estate agents, bank officers, financial advisors and brokers, peers and associates. These opportunities frequently do not exist in lower income areas or, if the information exists, the "entrance fees" in the form of minimum balance requirements, per check charges, and so forth are perceived as exclusionary. Ironically, the information needed in lower income areas is more complex than in upper income areas in the sense that loans and mortgages in the former areas are frequently special programs combining public and private monies with limited eligibility requirements. The banks are not always aware of the latest programs or, even if aware, perceive them as burdensome; an attitude that would not seem likely to lead to enthusiastic recommendation of a program to prospective beneficiaries.

The widespread evidence of lack of knowledge about financial institutions and how they work would seem to indicate that availability of more capital through a higher level of lending activity will be of limited success in stimulating community revitalization in certain areas. Even if more monies are available for community reinvestment "in low and moderate income areas," as the recent federal legislation also mandates, this will have limited impact by itself. This in no sense is to minimize the critical role played by community development corporations and other community-based economic development organizations. Nor is the intent here to slight the importance of a community-based development plan. It is only to conclude that lower income neighborhoods will never enjoy the same level of financial services that upper income areas do until there is a comparable level of information and accountability. Programs for reduced fee checking accounts, micro savings and loan programs are important, as is education about how personal bank accounts work, household budgeting, how to apply for a loan, how banks work, and what one has the right to expect from them. These are all community reinvestment needs. Evidently financial institutions also need educating by the communities of color. While it may be arguable that a particular loan application was or was not affected by racism, a racial pattern to the overall lending activities of St. Paul financial institutions is clearly present. Even language is a problem in some areas of the city. Community reinvestment is also a process of communities educating financial institutions.

The graciousness of financial representatives to "answer any questions residents might have," so evident in the interviews, will not be tested as long as these financial and informational barriers remain in place. Nor does it seem likely, or perhaps even appropriate, for financial institutions to take the initiative. Community-based organizations that might well play valuable roles here include community development corporations, neighborhood housing services, district councils, community service and education programs, and the advocacy organizations of the communities of color.

ADEQUACY OF THE RESPONSE TO DATA

Both the numerical and survey data gathered for this report testify to the good faith effort of St. Paul's financial institutions in meeting both the letter and intent of the Community Reinvestment Act. The data also testify, however, that real estate markets in central neighborhoods operate very differently from those in upper income areas and that traditional financial institutions are not as involved in these markets. Contracts-for-deed are used by necessity, not by choice, at a much higher rate for property transactions in central compared to outer-ring neighborhoods. And there are many individuals who cannot afford personal checking and savings accounts, yet occasionally must use even more expensive check cashing and money order services. In addition to financial barriers, there are informational ones as well that constrain residents of central neighborhoods in their use of traditional financial institutions.

The limits of community reinvestment in St. Paul depend, in part, on the amount of money made available by local lending institutions. There are serious economic and racial inequities here that need to be addressed. Local financial institutions need to be challenged, educated, and monitored on these issues. With the major exception of insurance activity, the data for doing this are increasingly available; the organizational resources for regularly assembling and disseminating the data have not yet been developed.

Demand denied, however, is only one of the constraints on reinvestment activity. There are also issues related to what might be called demand deferred or undeveloped. Information and economic barriers prevent residents in many neighborhoods from learning about financial services available, the terms of these services, and so forth. Similar information and economic constraints limit community development corporations and other community-based economic development organizations from expanding their loan demands on the financial system. Developing the "demand" side of the issue can be assisted through neighborhood-driven financial education programs, through the increased support for neighborhood-based community economic development organizations, and through providing neighborhood organizations with regular data on not only lending, but insurance, appraisal, and property transfer activity in each neighborhood. Community reinvestment is also an issue of community development.

VI. REFERENCES

The following illustrates the diversity of studies examined for this report.

Art, Robert C. 1987. "Social Responsibility in Bank Credit Decisions: The Community Reinvestment Act One Decade Later." *Pacific Law Journal*, Vol. 18, pp. 1071-1139.

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National Training and Information Center. 1979. "A Guidebook: Home Mortgage Disclosure Act and Reinvestment Strategies." For the Office of Policy and Research, HUD. Washington, D.C.

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Office of the Comptroller of the Currency. 1989. "Community Development Finance: Tools and Techniques for National Banks." Washington, D.C.

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Rolland, Keith. 1988. "Lenders' Profile of Wilmington." Community Affairs Department, Federal Reserve Bank of Philadelphia.

Rosen, David. "Community Credit Needs Assessment City of Oakland." 1989. For the Office of Community Development, Oakland, California.

"Where Credit Is Due: A Study of Small Business Access to Capital." *Interface*. June 1988. New York.

VI. APPENDICES

APPENDIX A

SOURCES OF DATA

1. HMDA (computer readable data listed by tract and financial institution)

   Federal Institutions Examination Council
   1776 G Street N.W., Suite 701
   Washington, D.C. 20006
   (202)452-3141

   or

   Charles Finn, Director
   Banking and Community Economic Development Project
   Humphrey Institute of Public Affairs
   University of Minnesota
   209 Humphrey Center
   Minneapolis, MN 55455
   (612)625-8302

2. FHLBB (computer printouts covering a six-month period, summarized for Standard Metropolitan Area)

   FHLBB System
   801 Seventeenth St., N.W.
   Washington, D.C. 20006
   (202)785-5400

3. Ramsey County Tax Department (individual property records available; summarized for a fee when staff time is available)

   Michael Blaeser
   Assistant Research & Statistical Analyst
   Ramsey County Dept. of Taxation and Records Administration
   113 Court House
   St. Paul, MN 55102
   (612)298-4208

4. Multiple Listing Service (summary data available in printed form, some computerized, by MLS district and sub-district)

   Thomas Harvey
   City Planner
   Department of Planning and Economic Development
   25 West Fourth Street
   St. Paul, MN 55102
   (612)228-3371

5. Small Business Administration (listings of individual loans by category, race, zip code, names of lender and borrower)

   Beverly Linden, Chief

Freedom of Information/Privacy Acts Office
U.S. Small Business Administration
Washington D.C. 20416
(202)653-6460

APPENDIX B

FIRST ROUND INTERVIEWEES

Dwight Dahlen, Dahlen and Dwyer, Inc., 1260 Norwest Center, St. Paul, MN

Susan M. Ecker, President, Focus Financial Consulting, Inc., 141 Century Plaza, 1111 3rd Ave. S., Minneapolis, MN 55404

Joe Errigo, Executive Director, Westminister Community Development Corporation, 328 W. Kellogg Blvd., St. Paul, MN 55102

Paul Fate, Director, Local Initiatives Support Corporation (LISC), 23 Empire Drive, St. Paul, MN 55103

Tom Fulton, President, Minneapolis/St. Paul Family Housing Fund, 222 S. 9th St., Suite 3801, Minneapolis, MN 55402

Ed Johnson, Director, West Seventh Local Development Corporation, 265 Oneida Street, St. Paul, MN 55102

Bobbie Megard, Director, St. Anthony Park Community Council, 890 Cromwell Ave., St. Paul, MN 55114

Karl Neid, Executive Director, Twin Cities Neighborhood Housing Services, Inc., Liberty Bank Bldg., 1573 Selby Ave., Suite 313, St. Paul, MN 55104

Ron Pauline, Director, Aurora-St. Anthony Block Club, 770 University Ave., St. Paul, MN 55104

Charles Reisenberg, Managing Vice President, First Bank Community Development Corporation, 1100 First Bank Place East, Minneapolis, MN 55480

Susan Sands, S and B Properties, 413 Wacouta St., Suite 550, St. Paul, MN 55101

Mike Temali, Director, North End Area Revitalization Inc., 926 Rice St., St. Paul, MN 55117

David Van Landschoot, Justin Properties, 405 Sibley St., St. Paul, MN 55101

APPENDIX C

SECOND ROUND INTERVIEWEES

DISTRICT REPRESENTATIVES

Individuals were frequently connected with a district as a business-person, resident, and/or community volunteer. Because of these multiple roles, names are listed without affiliations or addresses.

District 3

Richard Aquilar, Judy Brown, Zona Butler, Jill Danner, Gail Merriam, Brian Miller, Rafael Ortega, Chuck Prentice, Dave Ross, Maria Silva, Ronald J. Stevens, Patti Totozintle

District 7

Kate Anderson, Steve and Trish Flannigan, Dawn Goldschmitz, Rev. Tim Kernan, Pearl Marshall, Manuel Melendez, Mary Ellen Roxin, Kate Severin, Doug Strand, Robert Vance

District 11

Sharon Anderson, B.L. Bomberg, Triesta Brown, Dave Haugland, Steven Kufus, Susan Marschalk, Charles Neve, Richard Parranto, Sr., Paul Schersten, Elin Malmquist Skinner

District 12

Ann Copeland, Roxanne Freese, Katherine Furry, Steve Garfield, Andrew Jenks, Charles McCann, Stew McIntosh, Roberta Megard, Carol Osip, Joan Styve, Steve Townley

REPRESENTATIVES OF FINANCIAL INSTITUTIONS

District 3

Michael Brennan, President, Minnesota State Bank
Jim Gezell, President, Cherokee State Bank

District 7

Jim Bacigalupo, Senior Vice President, Summit National Bank
Bill Sands, Chairman, Western State Bank

District 11

James Bergstrom, Neighborhood Improvement Specialist, Liberty State Bank
William Patient, Compliance Officer, Midway National Bank
E.J. Wetschka, Assistant Vice President, Midwest Savings

District 12

W. Andrew Boss, President, St. Anthony Park State Bank
Willard Rohde, President, Norwest Bank, University-Midway Office
Gerald Thole, President, First Bank Midway

OTHER REPRESENTATIVES INTERVIEWED

Bruce Davis, Vice President, Commercial State Bank
Kevin Doyle, St. Paul Area Manager, Margaretten and Company Inc.
William Milon, Vice President for Retail Banking & Marketing, Midwest Savings

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