CHANGING THE RULES OF THE GAME: Banks and Community-oriented Economic Development

by

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ABSTRACT

A description of changes over the past decade in the way financial institutions approach banking in urban communities. For the purposes of presentation and analysis, urban banking is described as a game, community-oriented economic development (COED), focused on the economic needs of lower income urban residents. COED is played between two sides made up primarily of banks and urban community-based organizations. Playing consists of a series of moves by each side designed to obtain economic power or greater control over community economic development. Winning for the community means convincing the banks to provide affordable credit in adequate amounts and to help create jobs, business opportunities, and housing. Winning for the banks means freedom to maximize profits with minimal concern for the social and economic costs of their actions, within a stable economic environment.

The rules of COED have changed significantly over the last ten years. Beginning with no community-based participation in the game, COED has progressed through a confrontational mode to one of negotiation and partnership. The rules of each new mode have developed out of the previous bank/community-based interaction.

The principal finding of this study is that planning the role of banks in Boston's community economic development has become a process of bargaining and negotiation around specific initiatives. Planning COED involves designing, discussing, and negotiating the form of new mechanisms for playing the game, using bargaining in implementation. Such a planning process is necessary to insure the development of an accepted set of COED rules that can be adjusted in the future.

This study has been done within a localized framework, and is confined to the playing of COED by banks in Boston and Eastern Massachusetts. Research efforts concentrated on individual interviews with local lenders, government officials, and community leaders. This was supplemented by literature with both a local and national focus, contemporary news articles, and attendance at a number of conferences dealing with bank change.

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New times demand new measures and new men;
The World advances, and in time outgrows
The laws that in our fathers' day were best;
And doubtless, after us some better scheme
Will be shaped out by wiser men than we
Made wiser by the steady growth of truth.

(James Russell Lowell's
tribute to Cromwell)

INTRODUCTION

This thesis describes changes over the past decade in the way financial institutions approach banking in urban communities. Using Boston as a case study, the primary objective of this study is to analyze the transition of the urban bank/community relationship from one of non-interaction to negotiation and partnership between banks and community-based organizations. The study also discusses how planning the role of banks in Boston's community economic development has become a process of bargaining and negotiation around specific initiatives.

For the purposes of presentation and analysis, urban banking is presented as a game. Like any game, it has a set of players who enter into a contest over a prize. These players develop tactics and strategies which are allowed or prohibited according to a set of rules. Winning or losing the game depends upon the skill of the players in using available resources and information to direct the game's outcome.

The game is called community-oriented economic development (COED). It is a game about bank interaction with urban residents around issues of economic development. While banks have always been involved in urban economic development, due to their role as financiers of commercial and residential development and operation in the city, COED focuses on the particular economic needs of lower income urban residents who have historically been denied access to the economic system.

The game of COED is played between two sides made up primarily of banks and urban residents who have formed community-based organizations to act as advocates for their needs. Winning is determined by the amount of economic power and the degree of control over community economic development obtained through playing the game. Playing consists of a series of moves by each side designed to produce more economic power and control. For the community winning means convincing the banks to provide affordable credit in adequate amounts and to help create jobs, business opportunities, and housing. For the banks winning means obtaining freedom to maximize their profits with minimal concern for the social and economic costs of their actions.

The rules of how the COED game is played have changed significantly over the past decade as a result of shifts in both internal and external pressure on the banks to address localized economic needs. This pressure has resulted from changes in bank regulation, publicity around the playing of COED, and self-evaluation on the part of the banks. Banks and community-based groups have played COED in a series of different modes, with the rules of each new mode developing out of the previous bank/community interaction. Beginning with no community-based participation in COED, the game has progressed through a confrontational mode to one of negotiation and partnership.

In every mode of play, the objective of the community has been to maximize bank COED efforts while the banks' objective has been to minimize the requirement to undertake these efforts and their costs. The two are not completely mutually exclusive and have been blended over time. COED has been transformed from a confrontational game about lack of bank involvement to one of negotiated business partnerships for joint bank/community-based COED efforts. These partnerships are designed to ameliorate some of the banks' concerns about cost and risk. As the game changes, it is not the general alignment of the the two sides that is altered, but rather the approaches of the players and the rules of the game that are adjusted.

The objective of this thesis in describing changes in the COED game is to provide an understanding of the present bank/community relationship. The assumption is made that understanding the way that banks play COED and their institutional motivations for doing so will provide insight into possible rules for COED in the future. These rules will ensure the most productive and effective use of bank and community resources for COED.

The playing of the COED game has reached a point at which it can, more than ever before, be a game of partnerships in which all the players win. The game has really moved from a zero sum contest to pareto optimal interaction; from a competitive, winner-take-all game to one that requires a beneficial outcome for all the players. There is now real potential for public-private partnerships on a broad scale; widespread acceptance of a concept for COED that, while popular for some time, has only recently begun to be implemented involving community-based organizations.

Such partnerships must be designed to meet the economic needs of lower income urban residents. The challenge is to create partnerships and undertake initiatives that address these needs while also providing for the institutional needs of the banks. The use of cost free funding available in the public sector in conjunction with profit motivated financing and technical expertise in financial product design and delivery from the banks provides a means for meeting this challenge.

COED can only continue to be successful in a partnership mode by planning the way the game is played through the use of negotiation. It is necessary to design, discuss, and negotiate the form and use of new mechanisms and products for playing COED. A planning mode that utilizes bargaining and negotiation in implementation creates the means for potential partners to investigate the kinds of agreements that should be part of COED without requiring a premature commitment on the part of either side. Such a planning process can insure the development of an accepted set of rules for COED without forfeiting flexibility or the possibility of adjustment in the future.

This thesis has provided the author with an opportunity to step back and take stock of present and future bank involvement in COED. As a regulatory analyst and economic development specialist for the Massachusetts Urban Reinvestment Advisory Group (MURAG), a community-based organization that promotes COED, the author has been provided ample opportunity to observe and review the playing of this game in Eastern Massachusetts.

In addition to personal experience, actual research involved interviewing other local COED participants and observers; commercial and thrift bankers, bank regulators, community leaders, and private consultants. These interviews provided a picture of how the players see, in both economic and political terms, the stakes of COED, the other players, the rules of the game, and the institutional idiosyncracies that determine how particular banks play COED and who they play with. In addition, numerous contemporary accounts of the game were culled from newspapers and periodicals, and a number of conferences on bank change were attended.

The findings of this study are presented in eight sections, and should be read in three parts.

I. The first part consists of Section I which briefly introduces the principal COED players in Boston. The changes over time in the approaches of these players to the game are elaborated upon in the following sections as they relate to the central discussion.

II. The second part consists of five sections describing the transition of the COED game through different modes of bank/community interaction. The first of these, Section II, describes a mode of playing COED without community-based players. This mode of play sets the stage for changing the rules of the game, and is discussed using the Boston Banks Urban Renewal Group (BBURG) program as an example of the original COED game. Section III describes COED as confrontation between the two sides, primarily involving the larger banks and the Massachusetts Urban Reinvestment Advisory Group (MURAG), a community-based organization that uses the bank regulatory process to leverage increased lending by banks in urban neighborhoods. Sections IV and V focus on factors that influence the transformation of the COED game from confrontation to cooperation. Section IV briefly describes the effects of bank deregulation on the specific kinds of activity banks are allowed to undertake and how this relates to COED. Section V focuses on the organizational aspects of individual COED players which affect their reactions to changes in the game rules. More detailed analyses of deregulation and the approaches of individual Boston banks can be found in the accompanying appendices. Section VI describes the COED game that has emerged from confrontation, deregulation, and the influence of player idiosyncracies; a game of negotiated partnerships between banks and community-based development organizations.

III. The final part consists of two sections dealing with the planning of COED and the role of banks in urban economic development. Section VII discusses the planning of COED through bargaining and negotiation about the central game. This planning process is removed from specific COED partnerships, yet is an integral part of the game as a whole. Section VIII presents an overview of the principal points of the thesis and conclusions about planning using bargaining and negotiation in implementation and its applications for COED in other cities.

SECTION I: THE PLAYERS

The purpose of this section is to introduce the principal players in the Boston COED game. The descriptions provided here are limited to identification of the organization and its primary purpose and role in the game. More detail with regard to specific strategies and actions on the part of individual players is included in later sections. The players of COED in Boston include the state bank regulator, the federal bank regulators, the banks, community-based development organizations, and the Massachusetts Urban Reinvestment Advisory Group (MURAG).

The Federal Bank Regulators

A myriad of federal bank regulators creates a system that places Massachusetts banks into numerous catagories, often simultaneously. This results in a regulatory process requiring more than one approval for a regulated action, and also provides more than one point at which approval can be denied. Depending upon the type of bank being regulated, a different federal agency is responsible. For national banks it is the Comptroller of the Currency, a branch of the U.S. Treasury Department. State-chartered banks who are members of the Federal Reserve System and bank holding companies are regulated by the Board of Governors of the Federal Reserve. Banks whose deposits are insured by the Federal Deposit Insurance Corporation (FDIC) are regulated by that agency. Federally chartered savings and loan associations, mutual savings banks, and savings bank holding companies are insured by the Federal Savings and Loan Insurance Corporation (FSLIC) and are regulated by the Federal Home Loan Bank Board. The role of the bank regulators in COED has been to decide if bank involvement in the COED game is adequate to meet regulatory requirements.

The Massachusetts Banking Commissioner

The Massachusetts Banking Commissioner regulates all state-chartered financial institutions operating in the state. This supervision insures compliance with all applicable state banking and consumer protection laws. According to accepted protocol, the state regulator reviews any regulatory issue regarding institutions within his or her jurisdiction and hands down a decision before the issue is reviewed at the federal level. It is generally agreed upon that the support of the Massachusetts Banking Commissioner for COED has contributed substantially to changes in the approach of Massachusetts banks to the game.[1]

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[1]Interview, Donald J. Barry, Vice President, Neworld Savings Bank, March 22, 1983.

The Banks

The financial institutions operating in Massachusetts have all, either directly or indirectly, been players in COED. The principal players, however, by virtue of either their size or need for regulatory approval of a specific action, have been Boston-based commercial and mutual savings banks. These include the First National Bank of Boston, the Shawmut Bank of Boston, State Street Bank and Trust Company, the Bank of New England, the Mutual Bank for Savings, the Provident Institution for Savings, Neworld Savings Bank, the Boston Five Cent Savings Bank, the First American Bank for Savings, and Peoples Federal Savings and Loan Association. Their individual responses and approaches to playing COED vary, and are discussed in the text as they are applicable or in more detail in Appendix B.

The Massachusetts Urban Reinvestment Advisory Group

The Massachusetts Urban Reinvestment Advisory Group (MURAG) was originally organized in 1973 as the Jamaica Plain Banking and Mortgage Committee, an anti-"red-lining" organization. This group became involved in monitoring bank lending in their neighborhood, as well as representing Massachusetts in the national movement for the passage of the Home Mortgage Disclosure Act (HMDA) and the Community Reinvestment Act (CRA). In 1979, the organization incorporated and changed its name to MURAG with the help of a one-time state grant. MURAG is a state-wide non-profit public interest organization.

MURAG's stated purpose has been to promote COED, focusing primarily on stimulating bank involvement in the game through communication and negotiation with lenders, using direct confrontation over regulatory compliance as a catalyst. MURAG also provides assistance to community-based development organizations in approaching banks with projects, helping to structure the financing and suggesting lenders who might be interested. Over the past decade, as the Jamaica Plain Banking and Mortgage Committee and as MURAG, this organization has been the most visible initiator and community-based player of COED in Boston.

Community-based Development Organizations

Community-based development organizations in Massachusetts consist primarily of community development corporations (CDCs). These organizations were originally incorporated as development agents for their particular neighborhoods and communities, often as spin-offs of larger, more politically confrontational civic associations or social service organizations. While MURAG is only one organization with a small staff and board of directors, there are over fifty CDCs across Massachusetts, sixteen in Boston alone, each with its own board of directors and memberships of one to two hundred community residents.

CDCs' role in COED has been to avoid direct confrontation with the banks in favor of MURAG taking on this responsibility. CDCs provide MURAG with information about the banks' activity in their particular community and approach the financial institutions with proposals for COED partnerships. This role was dictated by the CDCs' interest in working with the banks on specific projects, but also by MURAG, who staked out "turf" as the principal opponent of the banks and discouraged other organizations becoming confrontational in order to centralize its power as a COED broker.

The players form into two sides, with the banks on one side and MURAG and the CDCs on the other. The regulators attempt to find a middle ground where community-based concerns can be weighed along with the technical operations of financial institutions and the safety of consumer deposits. As the game is transformed, the importance of these players changes, as does their style of playing COED.

SECTION II: COED WITHOUT COMMUNITY-BASED PARTICIPATION

This section describes the way COED was initially played using the Boston Banks Urban Renewal Group (BBURG) program as an example of both its form and impact on urban communities. The old rules of COED set the stage for change in the way COED was played. While urban banking has changed a great deal over the past decade, COED was not unknown before these rules changes became reality. Banks did do urban lending, and also participated in attempts to address the problems of lower income urban residents in conjunction with the public sector. At this time, however, COED was played only by the banks with the local, state, or federal government, with little participation by community-based players.

During the 1960s and early 1970s a widely held theory of neighborhood change among bankers and other professionals was founded upon a life cycle model that focused on economic transition as a sign of community aging and death. In this model the suburban communities were seen as newly born and in need of assistance to grow, while the older urban neighborhoods were viewed as aging and dying. The city was no longer considered a good place to live, to make sound investments, or to lend money.

Purely economic criteria, however, were not always used to determine progression by a neighborhood from one stage in this model to the next. According to one Boston savings banker, a particular rule of thumb was employed by at least one prominent bank executive, now retired. This banker often passed by neighborhood schoolyards at recess, and when the racial mix of the school children became more minority than white, it was time to stop lending in that neighborhood.[2]

The impacts of this approach to urban lending on urban neighborhoods were significant. The many urban residents who had no intention of moving to the suburbs, either out of preference or economic impossibility, found it difficult to obtain credit. Families who wanted and could afford to own homes found it almost impossible to get a mortgage from banks that were reluctant to lend in many parts of the city, especially in areas that were undergoing transition. Those residents who were already homeowners found the credit needed to repair and maintain their property scarce. Businesses found it harder to obtain adequate working capital because they were located in commercial districts that were no longer considered economically viable.

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[2]Interview,Keith Willoughby, President, Mutual Bank for Savings, April 5, 1983.

Partially in response to recognition that the city was deteriorating, Boston savings bankers, in cooperation with the government, designed urban programs to increase credit for homeownership in the center city. This effort took the form of the Boston Banks Urban Renewal Group (BBURG), today recognized as perhaps the most disastorous intervention initiative ever undertaken.[3]

The basic approach of BBURG was to target an area within the city by drawing a line around it, and to provide credit for minority and lower income homeownership within this area. The unintended result of this effort was that the area's neighborhoods, consisting of Roxbury, Mattapan, and parts of Dorchester and Jamaica Plain, were completely disrupted.

Abuse was rampant in the BBURG program. Real estate brokerage offices blossomed in the targetted neighborhoods. Disreputable brokers played on the fear of the present homeowners that racial and economic change would result in plummeting property values. Long time family homes were often bought up for a fraction of their real worth. In cooperation with the banks, these agents then sold the homes to lower income families who could not support the necessary mortgage payments. The result was a quick foreclosure, usually followed by another

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[3] Ibid., Willoughby, April 5, 1983.

sale with similar problems. This cycle was often repeated countless times using the same house. When BBURG had finally been played out, the original line remained, now encircling an area in which banks were reluctant to lend and the housing stock had deteriorated significantly.

BBURG, begun in 1968, is indicative of the old rules of COED. There was no community-based participation in this game. Partnership between the public and private sectors was limited to use of federal dollars funnelled through the banks' lending operation. Urban lending in a racially changing neighborhood was unheard of unless it was supported by the government.

BBURG continued a long tradition of philanthropy for the urban poor. The program was designed to give lower income residents the opportunity to own a home. Assumptions were made concerning where the poor wished to live, how they wished to live, and the financial capacity and sophistication necessary to own and maintain a home. There was no treatment of the causes of urban poverty through the building of a capacity for further community economic development, only the treatment of a symptom, lack of homeownership, through a one-time grant in the form of a house to a limited number of individuals.

The failure of BBURG as a publically motivated private sector initiative contributed to a passive attitude on the part of urban lenders in Boston toward further involvement in

COED. An attempt had been made to address a social need with few positive results. Although no efforts had been made to create a self-help capacity in the community, BBURG was interpretted as an example of urban residents' inability to help themselves.

To a great extent, this failure had resulted from the top-down, authoritarian approach of BBURG to planning COED. There was little input from community residents, the targetted beneficiaries of this effort. As urban residents became more militant in the early 1970s and began to develop a capacity for economic development at the community level, continued passiveness on the part of urban lenders and the lack of community-based input into COED initiatives became key issues for confrontation in the Boston COED game.

SECTION III: COED AS CONFRONTATION AND NEGOTIATION

This section describes the development of a community-based movement to confront the banks over inadequate credit provision in lower income urban communities. While this movement had a national scope, attention is focused on its impact on the Boston COED game. Through the use of confrontation to force a negotiated settlement in the form of increased COED efforts on the part of Boston banks, community-based organizations were able to become players in the COED game.

The playing of COED by the old rules was paralleled in Boston and elsewhere by a growing grassroots movement to empower the residents of urban communities in order to give them greater control over the economic development of their communities. The civil rights victories of the 1960s had given lower income and minority individuals the confidence and knowledge necessary to begin to fight for what they considered was their right to participate in the political and economic system. Urban residents felt that their only chance to have their needs addressed by outside sources of support was to organize into a united front of dissatisfaction.

As this broad grassroots empowerment movement gathered strength, the COED rules became one issue of confrontation.

"Red-lining"[4] became a buzzword for what urban residents felt was inadequate lending in their communities. Groups organized across the country, especially in cities like Boston, New York, and Chicago, around the issue of "red-lining" and its effects on urban economic stability.

As the holders of significant economic power and a logical point of entry to the economic system for poorer residents through the use of credit, banks were likely targets for community-based activists. While a minority of activists saw confrontation as a socialist/Marxist revolution against the capitalist system symbolized by the banks, the mainstream focused on obtaining access to the economic system in order to correct the inequities of the marketplace. In the words of James Carras, former executive director of MURAG, the new COED game could be summed up as, "creating access to the traditional capitalist system; all we're talking about is expanding the existing system."[5]

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[4] The systematic denial or restriction of mortgages and small business loans in certain neighborhoods because of economic conditions or racial factors not strictly related to loan loss experience. - Andrew Reamer, The Passage of the CRA of 1977: A Case Study, unpublished MIT paper, February, 1982, p.11.

[5] Kirk Scharfenberg, "Popular Regulation: The Community as Bank Examiner", Working Papers for a New Society, September/ October, 1980.

In order to change the rules of COED, community-based groups had to first come up with something that would make them players in the eyes of the banks. Since the financial industry is a regulated one, regulation was considered to be the most effective way to apply pressure for change. Such regulation could be used to force the banks to play the game with the community.

In 1975, the national anti-"red-lining" movement managed to successfully lobby for the passage of the Home Mortgage Disclosure Act (HMDA). HMDA required that banks record, and make available to the public upon request, the number, location, and amount of all mortgages made in major metropolitan areas. Using HMDA data documentation of geographical credit discrimination by banks was possible, allowing a case to be made for the passage of a federal law to discourage such activity.

The Community Reinvestment Act (CRA) was enacted by Congress as part of the Housing and Community Development Act of 1977. CRA stated that "federally regulated financial institutions have a continuing and affirmative obligation to help meet the credit needs of the local communities in which they are chartered... especially with regard to low- and moderate-income neighborhoods."[6] Banks were informed that response to this obligation would be taken into account by

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[6] Op.cit., Reamer, p. 17.

federal banking regulators when granting permission to branch, organize new banks, or participate in mergers.

HMDA was established as the discovery and documentation mechanism of where and how much banks lent for home mortgages in urban communities. CRA was passed to enable the creation of a standard by which this lending could be judged acceptable or not. Whenever a bank submitted an application to a regulator for permission to undertake some action that required approval, community-based organizations could now protest the application on the grounds that the bank was not in compliance with CRA. HMDA enabled these groups to support their protests with acceptable proof of unbalanced lending patterns.

The Community Reinvestment Act was a reaction to a connection being made that there was a direct relationship between passive urban lenders and the deterioration of America's cities. As one savings banker said, quoting a commercial banker collegue, " I can drive down any Main Street in America and, by counting the number of vacant stores, tell how much of a local bank's assets are invested in Treasury bills (a riskless financial instrument)."[7] CRA was aimed at convincing banks that urban economic reality dictated an aggressiveness in developing and

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[7]Keith Willoughby, President, Mutual Bank for Savings, Speaking at a conference, "The Thrift Industry at the Crossroads" at the Boston University Morin Center for Banking Law, quoting Charles Assurmann of Chemical Bank, March 25, 1983.

tapping the potential of the urban market. In the words of Ted Ward, former executive vice president of the State Street Bank and Trust Company, "it (CRA) made us go a little to the basics. After all, that's the business of banking - to provide for the credit needs of the market."[8] The goal was getting banks to play COED with the entire community.

HMDA and CRA were given added weight by laws passed earlier to discourage individual credit discrimination. Forced compliance with Fair Lending and the Equal Credit Opportunity Act had already begun to have an impact on the way banks did urban lending. These laws specifically prohibited the denial of credit on the basis of race, religion, or gender, and required that borrowers be fully informed concerning the nature of their loans. They did not, however, explicitly address geographic discrimination, although these laws possibly had a more significant effect on credit provision in urban neighborhoods than HMDA and CRA.[9] These laws, combined with the twin pressures of CRA; the threat of regulatory action and the perception that "red-lining" was a public issue of great scope with significant negative

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[8] Op.cit., Scharfenberg, 1980.

[9] Interview, Anthony S. Scalzi, Regional Director, FDIC, March 17, 1983.

political consequences if not addressed; provided powerful incentives for banks to play COED with community-based players.

Following the passage of CRA, each federal banking regulator drew up a set of twelve assessment factors by which to evaluate a bank's compliance with CRA. This action is less indicative of the regulators' attitude toward the significance of CRA compliance than the opening sentences of The Community Reinvestment Act: A Progress Report, released by the Federal Reserve Board in the February, 1980 Federal Reserve Bulletin. This report states, "The Community Reinvestment Act of 1977 is intended to encourage federally insured commercial banks, mutual savings banks, and savings and loan associations to help meet the credit needs of the local communities in which they are chartered." (emphasis added). The key word is "encourage", since it indicates that the regulators had interpretted CRA to be merely a signal to banks that community reinvestment was a recognized good, but not legally incumbent.

The Community Reinvestment Act: A Second Progress Report, released in the November, 1981 Federal Reserve Bulletin reveals a record of no denials of bank regulatory applications that had been protested by community-based organizations. Of the nineteen applications submitted to the Board of Governors of the Federal Reserve that were challenged on the grounds of non-compliance with CRA, permission was granted for the proposed bank action in every case. Only one approval was conditional. Six were approved unconditionally, six were approved as a result of commitments by the bank to address the grievances in the future, and six were approved because the challenge was withdrawn due to a negotiated settlement between the bank and the community-based organization.

This record indicates two things. The first is that the federal regulators did not weigh CRA compliance heavily when considering regulatory applications. The second, and more important, is that a lack of knowledge on the part of the banks concerning the actual legal weight of CRA, at least initially, made the threat of possible denial at the federal level very powerful. This second fact resulted in a number of negotiated settlements at the local level between banks and community-based organizations. For MURAG, this was especially critical in confronting banks not regulated by the state banking commissioner.

The legal weight of CRA at the state regulatory level was much heavier in Massachusetts. In the period immediately following the passage of CRA, then state banking Commissioner Carol Greenwald took an active and highly public stance in advocating bank compliance with CRA. Her successor, Gerald Mulligan, had a somewhat less confrontational, yet perhaps more effective, approach. By capitalizing on the more extreme approach of his predecessor, he was able to gain compliance by playing a game of "good cop/bad cop".

During Mulligan's tenure (1979-1983) the federal CRA was made a directive from his office to the Massachusetts banks requiring affirmative compliance with the law. In 1982, CRA was enacted as a state statute by the Massachusetts State Legislature. Mulligan's balanced approach to CRA, while often couched in the more acceptable regulatory language of terms like "safety and soundness", "increased competition", and "public convenience and advantage", sent a clear message to both the banks and MURAG that he considered CRA compliance and COED part of prudent banking practice.

Leveraging the Law

The illusion of regulatory threat at the federal level and the real enforcement of CRA by the state banking commissioner enabled MURAG to use regulation as a stick to beat the banks with during confrontations over lack of urban lending. MURAG realized that leveraging the CRA threat could produce substantial benefits for Boston communities in the form of increased credit and bank involvement in COED projects. It was also realized that a significant effort had to be made in a relatively short period of time in order to capitalize on CRA in Massachusetts before the banks determined how little was really needed for regulatory compliance.

The realities of the post-CRA regulatory environment can be stated as three rules of COED play in a confrontational mode. These rules applied to players on both sides, and disregard for them resulted in an advantage for the other side.

The first rule was never take a confrontation to a regulator unless all other avenues, particularly negotiation with the other side, had been exhausted, unless the negotiated price was too high, or unless you were sure to obtain a favorable decision. This rule applied to both the banks and MURAG, since both had the option of backing off. An unfavorable regulatory decision not only affected the immediate situation, but also sent a message to other COED players with regard to the likely outcome of future confrontations. Every loss by MURAG at the regulator's desk made the next confrontation more difficult, and every loss by the banks made them more likely to negotiate a settlement.

The second rule was to get, and be ready to give, every negotiated agreement in writing as a signed contract, unless you were not bargaining in good faith. Since verbal agreements are difficult to substantiate after the fact, written contracts provided both parties with proof of the agreement. Like any legal contract, these agreements could be used in a court of law if one party did not fulfill its obligations. If your organization did not intend to keep an agreement, it was, of course, unwise to sign a contract.

The third and final rule was to always claim victory in a COED confrontation, unless admitting defeat was unavoidable. In the latter situation, it was important to avoid public admission of a loss. Admitting defeat was only done by a bank if it was denied by a regulator, and then only if the entire basis for denial was the community's protest. For MURAG, admission of loss was only done if a protested bank got regulatory approval, did not take any COED initiatives, and was not adversely affected by bad publicity. Victory could be claimed by either side in any other case, or if the other side moved to reconcile directly or indirectly, following an undisputed defeat. Saving face was very important in confrontational COED.

Confrontation and negotiation generally centered on specific COED policies in the area of bank lending. These included refusal to make loans on homes with asphalt siding or soapstone sinks, refusal to consider income from rented units in two and three family residential properties when determining ability to service a mortgage debt, refusal to consider a wife's employment as a stable source of income, and the charging of higher rates of interest on loans to certain types of businesses and on certain types of housing. Confrontation over bank involvement in specific COED projects with CDCs occured only after lending issues had been addressed, and only after CDCs began to develop the necessary sophistication to act as COED partners. It is this second area of controversy from which the current mode of COED play has emerged; partnership.

Success on the part of community-based confrontation depended upon winning some decisive battles quickly. These victories were necessary to dramatize the new COED game as one in which the community groups, especially MURAG, were players. The confrontations before the victory and publicity around the entire process served as a catalyst for change, both by the particular banks involved, and other COED players watching and planning their next move.

The most publicized victory for MURAG came as a regulatory decision by Commissioner Mulligan in 1979. An application submitted by the Provident Institution for Savings to open a branch office in Newton was denied for the second time, due in large part to non-compliance with CRA in addressing the credit needs of the bank's Boston communities. The application had been denied a year earlier as a parting shot by lame-duck consumer activist Commissioner Carol Greenwald, and now had been reinforced by the more pro-business Commissioner Mulligan.

The denial of the Provident's application, which was estimated to have cost the bank millions in new deposits, had been closely preceeded by MURAG approaching the State Street

Bank and Trust Company concerning its intention to close an unprofitable branch office in the Fenway. A settlement was won in this less publicized action through negotiation. The bank was presented with a way to operate the branch at a profit, and provide better service to the commercial district around the branch office.

The New England Merchants Bank, now the Bank of New England, beat MURAG to the punch by initiating contact in 1980. MURAG negotiated the drafting of a two year, renewable CRA Compliance Agreement with the bank, outlining in contractual form the commitments of New England Merchants to undertake various COED efforts. This contract was aimed at isolating and eliminating sources of controversy in the bank's approach to COED and specific unacceptable lending policies.

In order to play the COED game well in a confrontational mode, MURAG developed and used an extensive network that tapped both friends and opponents as sources of information about the game. The network consisted of community-based COED players such as CDCs and individual residents, government officials such as regulators and politicians, and even bank employees who were either disgruntled or unaware they were divulging important information. Such a network provided access to valuable information about the banks and their game strategies, as well as to financial resources and political power that could be mobilized for the game.

This network also created a means to disseminate information about MURAG's strategies, victories, and defeats, as well as about the banks' activities. This information was both accurate and inaccurate in order to confuse the banks concerning MURAG's intentions. It also enabled MURAG to begin to trace the paths of communication by seeing who repeated the rumors and comparing this to who was initially given false information.

The banks had similar networks, although these were initially not extended very far into the community and were not used as well as MURAG's. Over time, however, the banks began to use some of the same dissemination and misinformation tactics as MURAG, making it more difficult to discern whether information was true or not. It was also difficult to keep track of who knew who and confided in who, resulting in information being given out mistakenly by both sides to the opposition. As the banks increased their skill at information gathering, the confrontational COED game became both more difficult and more challenging.

In each of the confrontations and negotiations mentioned, MURAG relied on the strategic use of its network. In the Provident case MURAG collected and analyzed available HMDA data, conducted surreptitious surveys and experiments with the bank's lending officers, and mobilized the media and political support. State Street was dealt with in a similar fashion, but with less confrontation. When the Bank of New England initiated the play, MURAG came to the negotiating table prepared with a position from which to bargain.

Confrontational COED did not always result in a negotiated agreement or a regulatory decision favoring MURAG. MURAG ended up in very bitter confrontations with the First National Bank of Boston and the Boston Five Cent Savings Bank. Although these banks technically won by obtaining regulatory approvals, these confrontations left venomous feelings on both sides. Both institutions have since undertaken COED lending and partnership initiatives, however, albeit without MURAG's participation, implying at least partial victory for the community.

The wounds caused by such bitter battles were often long term, perhaps outweighing the short term benefits of publicity and marginal victory.[10] Accusations have been made that MURAG did not "play by the rules" in these confrontations, and that the result is a lack of both respect and trust.[11] It should, of course, be noted that at this stage of transition in the COED game, the rules of the game were being changed and the rules that the banks had played COED by no longer applied.

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[10] Interview, Ann Crowley, Vice President, Shawmut Bank of Boston, March 15, 1983.

[11] Interview, Robert Stearns, Vice President, First National Bank of Boston, March 8, 1983.

The changing rules were dramatized by these confrontations.

Progress

The results of confrontational COED have been numerous and varied depending upon the particular bank. In general, playing COED in a confrontational mode has sufficiently changed the rules of the game to the point where Boston banks have begun to approach COED as a necessary component of good business strategy. Confrontation and negotiation have made Boston's financial institutions more aware of the potential of COED, highlighting the availability of both public and private resources for community economic development and credit delivery. In addition, banks have been made more aware of undeveloped markets that can be profitable if approached correctly. More critical to the COED game, confrontation and the resulting communication has helped to stimulate an examination of the actual risks of COED and ways that public sector resources can be used to lessen this risk.

COED is no longer played only by the banks and government in Boston. It now requires community-based involvement. Unlike under the old rules, confrontational COED allows community-based advocacy of specific economic needs that can be addressed by banks, such as mortgage credit and business or employment opportunities. Under the old rules banks and government were forced to rely on assumptions about what urban residents wanted, or at the very best surveys of public opinion. Through confrontation, the government and the banks have been told what is wanted and needed, and forced to at least listen.

Confrontational COED focused primarily on bank lending activity. In response to this and other regulatory factors discussed in the next section, Boston banks have taken initiatives aimed at increasing their urban credit provision and have also changed a number of specific lending policies. Confrontation is now reserved for those banks that totally refuse to reevaluate discriminatory lending policies or to play in a COED game that includes community-based players.

Confrontational COED provided the catalyst for developing a new set of rules. COED has become a game of negotiating bank/community-based partnerships for specific community economic development projects and of innovative bank lending intiatives often using public sector resources. The purpose of the following two sections is to describe the intervening influences of bank deregulation and organizational personality in the transition of the COED game. Along with the results of confrontation, these factors combine to shape the way COED is presently played.

SECTION IV: Bank Deregulation and COED

In this section, bank deregulation, the loosening of regulatory control over financial institutions, is discussed to the extent that it influences COED by affecting how banks are able to address the local market. Regulation has been central to changing the rules of COED, at least in the initial stage of transition, and any movement to deregulate, by definition weakens community-based leverage over the banks. The critical deregulation issue for COED, and one that is still unresolved, is whether banks will focus any newly won freedoms locally to address community markets, or will they look for more lucrative markets in other states and regions. A brief, but more detailed description of bank deregulation is provided in Appendix A.

The influence of deregulation on COED has been threefold: 1) a weakening of regulations that give community-based organizations leverage in COED confrontation; 2) a weakening of regulations that make COED attractive by restricting geographical alternatives for banks; and 3) a liberalization of regulations that have restricted urban lending. With regard to the first two regulatory changes, community-based organizations like MURAG have been very active in attempting to slow the pace of change and lessen the impact of deregulation on the COED game. The third change is considered by all the Boston COED players to be beneficial for urban communities.

A weakening of regulations that provide groups like MURAG with leverage in COED confrontations has resulted primarily from actions taken on the part of the regulatory agencies. Regulator activism to streamline their approval processes and cut down on bank reporting requirements threatened to undermine what little power the community-based organizations had developed. MURAG and other groups met with the Chairman of the FDIC at his invitation to discuss that agency's proposal to expedite the bank application review process. The result was an agreement to develop a process that sped up review of banks posing no CRA compliance problems, but would require "bad" banks to follow the traditional process involving community-based protest. This process provided the regulator with what was desired, while also providing a mechanism for focusing on banks that were in non-compliance with CRA.

MURAG also mobilized around proposals associated with the Fair Lending Laws, as well as met with the staff of the Office of the Comptroller of the Currency to discuss the possibility of publicizing CRA examinations and initiating contact by examiners of community-based organizations. These actions were critical in preserving the ability of community-based organizations to monitor banks, as well as continuing to provide at least minimal time to prepare a regulatory protest. In the face of deregulation, MURAG and other groups have worked to maintain and even increase the weight of CRA.

Over the past three years there has been a great deal of attention focused on regulations that restrict banks geographically. By limiting the markets in which banks can accept deposits, these laws have made local community banking more attractive. The critical point with regard to these geographical regulations came in September, 1982, when Citicorp of New York was allowed to buy a California-based thrift institution, Fidelity Federal Savings and Loan Association of San Francisco. This acquisition followed an unprecedented regulatory decision by the Board of Governors of the Federal Reserve to allow an interstate, cross-industry merger.[12]

MURAG and other groups across the country protested the Citicorp acquisition both in writing and at public hearings in Washington, D.C. and San Francisco. They felt that allowing interstate banking weakens CRA significantly by enabling banks

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[12]Christopher Conte, "Citicorp Buys an Oakland S&L After Fed's Nod", Wall Street Journal, September 29, 1982.

to focus on non-local markets. These groups maintain that banks have a difficult enough time maintaining an awareness of the specific needs of their local community markets where they have been chartered for over a century. The community-based organizations feared that approval of the Citicorp action would be the beginning of a de-emphasis on COED.[13]

In its own backyard, as well as on the national scene, MURAG has addressed deregulation whereever it affects the COED game. In Massachusetts MURAG played a significant role in the drafting and passage of CRA as a state law in 1982. It has also been advocating for a limited interstate banking experiment in New England using laws similar to Massachusetts' which restrict this activity to other states in the region. The hope is that the experiment will allow for discussion about the problems of interstate banking and provide time to work out how a lessening of regulatory control will affect COED. In addition, MURAG has attempted to keep tabs on bank responses to the new regulatory environment by monitoring new products, for example variable rate mortgages, and has been confrontational

[13]MURAG, Testimony of Hugh F. MacCormack before the Board of Governors of the Federal Reserve concerning acquisition of Fidelity Federal S&L of San Francisco by Citicorp of New York, Washington, D.C., September 8, 1982.

around issues such as conversion from state to federal bank charters and stock conversion of thrifts.

Perhaps more important to the game than the weakening of regulatory pressure to play COED, are regulatory changes that have resulted in new ways to play the game. Deregulation has eliminated a number of regulatory policies that restricted the flow of credit into urban communities. Federal regulatory agencies, particularly the Federal Home Loan Bank Board, have liberalized asset regulations that created barriers to multi-family, mixed use real estate, and home improvement lending, and set maximums on participation in state and local lending programs.[14]

Deregulation has motivated banks to develop an aggressive sales orientation, selling financial products in the community and using whatever public resources are available to target and fill unmet financial needs and market gaps. Public programs and community-based organizations are also being used to improve the banks' delivery systems. Regulatory change has provided the solution to "red-lining" of increased competition through deregulation forcing a change in "red-liner" policies in order

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[14] John A. Tuccillo, Federal Regulation, Housing Programs, and the Flow of Urban Credit, The Urban Institute, Washington, D.C., May 1980.

to capture a share of the local loan market, suggested in 1977 by A.A.Miligram, then president elect of the American Bankers Association.[15] This sentiment was echoed by Garth Marston, then Chairman of the Federal Home Loan Bank Board, now CEO of the Provident Institution for Savings in Boston.[16] Paradoxically, it appears to have taken both increased and decreased regulation to change the rules of COED lending.

The Boston banks' responses to the regulatory change have been varied, and primarily focus on marketing the new financial products they can now offer and on merger and acquisition to gain market position for future competition. These responses have tended to be determined by the size and type of institution. As mentioned earlier, continuing fears on the part of the community-based organizations like MURAG are that the banks' new aggressiveness will be refocused as geographical restrictions are eliminated, or worse, that banks that have been COED innovators will be acquired by institutions with no local interest.

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[15] Op.cit., Reamer, 1982, p. 30.

[16] Ibid., p. 36.

SECTION V: The Players Revisited

Confrontation and deregulation have altered COED and its rules. In order to better understand how COED is presently played, it is first necessary to understand how the players have changed their organizational approaches to address this transition. This section briefly describes adjustments in organizational strategy for playing COED by both sides, and the idiosyncracies that affect these changes.

In a non-confrontational COED game, the regulators are no longer directly involved in the game and therefore they are not reviewed. The banks, MURAG, and the CDCs are reconsidered, along with new COED players such as government agencies and private sector initiative support organizations. A more detailed description of individual banks is presented in Appendix B.

Boston Banks

The way that banks have reacted to confrontation and deregulation is the result of a number of often idiosyncratic factors. These factors also affect how they have changed to handle the new COED rules. The size and type of industry affect the approach of a financial institution to COED, as do institutional history, traditions, pride, the philosophy of of the Chief Executive Officer (CEO), and even past experience playing COED. In playing the game, some banks only go so far as to comply with regulation or minimally conform to the new environment in order to survive; others aggressively fight back, initiate change, or approach COED as a business opportunity with an ample number of willing partners available.

While speaking at a Harvard Institute of Politics Study Group, Renee Berger, consultant to the President's Task Force on Private Sector Initiatives, presented a model of corporate involvement with the public sector. In this model, public-private interaction ranges across a four point spectrum: 1) adversarial; 2) philanthropic; 3) privatization; and 4) partnership. The adversarial relationship centers on regulatory issues and forced compliance is the extent of such a corporation's initiative to address the public interest. Philanthropy can take a number of forms,including money, advisory council participation, technical assistance, or loaned manpower and facilities, but is always one way, and generally provided in a "downward" direction to the recipient. Privatization involves the private corporation in the provision or administration of services or goods desired by the government because they serve a public purpose, and is done on a contracted fee for service basis. Partnerships, by definition, consist of corporations and public sector agents structuring cooperative working arrangements for a common goal in which they both share the risks and the benefits.[17]

This model is well suited for analyzing the approach of Boston banks to COED. It should be noted that banks are more intertwined with the public sector through involvement in COED and local politics than the typical corporation, due to the nature of their business and location of their investments.

Boston banks are all major players in the COED game, and have been in the past. Institutional approaches to COED have included strategies that range from adversarial, which has already been discussed as confrontation, to partnership. These strategies depend upon the given situation and the community-based organization or public sector program involved.

The large commercial banks, given their size and market, focus primarily on business lending, using strategies for COED that involve philanthropy, privatization, and partnership. Some, like the First National Bank of Boston and the Shawmut Bank of Boston, have developed extensive technical assistance networks to provide informational services to community-based

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[17]Renee Berger, Study Group on Public-Private Partnerships, Harvard Institute of Politics, James Carras, Instructor, October 11, 1982 - December 6, 1982.

development organizations. These networks are philanthropic since the service is free and often not project specific, as well as partnership-oriented when used to develop and implement a particular project that the bank is involved in. Other banks, like the State Street Bank and Trust Company and the Bank of New England, have focused more on COED as business opportunities to be realized through partnerships that provide the bank access to public sector resources. These institutions have restricted philanthropy to charitable giving and fundraising for organizations such as the United Way. The Boston commercial banks also use privatization agreements with the public sector extensively, especially as a means of expanding their mortgage or business market. Popular programs include SBA loan guarantee programs and mortgage generation initiatives such as the old Massachusetts Home Mortgage Finance Agencies' programs.

Each of the four large commercial banks have instituted structural changes in order to play COED under the new rules. These changes range from the development of entire departments that are locally oriented and attempt to integrate COED into the bank's institutional personality to the hiring of a single lending officer whose primary responsibility is to act as the bank's COED contact person. Similarly, levels of support for

COED from the bank's top management ranges from visible employee encouragement and reward for COED involvement by the CEO in the case of Shawmut, to reliance on locally oriented departments with little direct CEO involvement in the case of First National.

The COED approach of the larger thrift institutions, specifically the mutual savings banks has been clouded by the economic environment. Significant changes in strategy are resulting from deregulation, primarily focusing on internal financial problems through more aggressive COED. Traditionally mortgage lenders, thrifts were confronted by MURAG over inadequate provision of housing credit in Boston neighborhoods. This has resulted in COED play under the new rules centering on new mortgage lending initiatives, often using privatization agreements like the commercial banks, with less emphasis on partnerships with CDCs.

Like the larger commercial banks, savings banks have made structural changes for playing COED. These changes have generally been limited to single designated officers, however, due to the size of these institutions. Similarly, due to thrifts' smaller size, savings bank CEOs tend to be more directly involved in their institution's COED strategy and involvement in the game.

The Massachusetts Urban Reinvestment Advisory Group

In order to play COED in a partnership mode, MURAG must shift gears and adjust its organizational personality. While playing confrontational COED, the organization adopts an advocacy perspective. As a potential partner, however, MURAG must focus on being a cooperative player willing to abide by negotiated agreements.

The transition from an advocacy organization to a developer is difficult, and a change in which a number of similar community-based organizations have become trapped. As an advocacy organization, it is necessary for MURAG to do battle with institutions that it must work cooperatively with under the new COED rules. While this is not inherently inconsistent, it is often difficult to assure the bank players that a group with a confrontational past, such as MURAG, and a record of changing the rules during play, will abide by a set of rules in a partnership situation.

As a partner in COED, MURAG has the capacity to undertake joint ventures with other players for business, housing, and commercial real estate development. It can also provide development assistance to other community-based players in designing a project plan, packaging project financing, or brokering a project, as well as serving as a referral and community-based feedback agent for bank and government lending programs.

Community Development Corporations

Just as in COED confrontation, the primary role of CDCs in COED is to approach banks concerning possible deals through partnerships. Although many of these groups have yet to develop specific expertise, CDCs have exhibited the same potential capacity as MURAG for acting as a COED partner. By virtue of their number and diversity, CDCs are now more critical to the COED game than in COED confrontation. MURAG's attempt at transformation into a development organization is indicative of how crucial the CDCs' traditional role has become in the game.

Since many banks are only now becoming familiar with CDCs, these organizations have special problems as COED players. As much of the COED game now revolves around bank/CDC interaction, these problems are better presented in terms of how they affect the game in the next section. In general terms, these problems can be summed up as concern on the part of the banks over a lack of sophistication about the financing process, inability to contribute monetarily to an initiative, and in many cases a lack of successful track records or evidence of long term stability on the part of the CDC management beyond the next state government funding cycle.

Government Programs

It is not necessary to ennumerate the many local and state government vehicles that have been developed in Massachusetts and Boston for the COED game. In general they fall into two catagories, privatization arrangements and agencies that support partnerships, although the list presented is by no means exhaustive.

The first catagory consists of agencies the use banks in the privatization mode to distribute specialized financial products such as low cost mortgages and business loans. Examples of these are the Massachusetts Housing Finance Agency (MHFA) and the Boston Neighborhood Commercial Development Bank. MHFA uses its bond floating authority to issue bonds backed by lower rate mortgages originated through the banks. The Development Bank enables banks to provide business development and improvement financing for commercial real estate rehabilitation and upgrading at a rate of 2/3 the prime interest rate through the use of compensating balances deposited by the City of Boston in the banks in non-interest bearing accounts.

The second type of government COED players are agencies that provide public and quasi-public resources for COED projects, usually in addition to private sector financing. These agencies include the Community Economic Development Assistance Corporation (CEDAC) which provides technical assistance to CDCs, and organizations like the Community Development Finance Corporation (CDFC), the Massachusetts Land Bank, Massachusetts Business Development Corporation (MBDC), Massachusetts Industrial Finance Agency (MIFA), and the Economic Development and Industrial Corporation of Boston (EDIC), all of which provide financing for projects through equity contributions, debt, or issuing tax-exempt bonds, depending upon the agency.

All of these public sector COED players use specific criteria to qualify other COED players for eligibility in a cooperative venture. These are often more restrictive than those of the banks, focusing on the type of organization, specifics of the project, financing necessary, and other COED players already involved. This restrictiveness is often compensated for by their public purpose focus and an ability to provide equity rather than only debt financing.

Private Sector Initiative Support Organizations

In addition to community-based and government COED players, Boston has a number of private sector initiative groups that are also COED players. These include such organizations as the Private Industry Council (PIC) which focuses on employment training efforts; the Local Initiatives Support Corporation (LISC), a Ford Foundation spin-off that helps to finance COED efforts; the newly formed Boston Housing Partnership, that brings together Boston banks, local government, CDCs, and Greater Boston Community Development (GBCD), a community-oriented housing development consulting firm, to moderately rehabilitate five hundred units of deteriorated housing in the city; and Goals for Boston, a group of Boston's private and public sector leaders that focuses attention on the future of the city. These organizations are strongly tied to the financial institutions by virtue of bank participation on their Boards of Directors and their private sector orientation on employment and economic growth.

SECTION VI: COED as Partnership

This section describes the new COED rules that have emerged from confrontation, deregulation, and organizational change, and the way COED is now played under these new rules. COED is today a game of negotiation and deal making between banks and community-based development organizations around specific initiatives aimed at addressing problems in the urban marketplace. The new rules of COED are simple and straightforward guidelines, the specifics of which are worked out as the game is played. There are only four rules, prescribing 1) what constitutes a willingness to play, 2) what is allowed as a move, 3) the structure of play, and 4) what constitutes winning.

The first rule concerns willingness to play the game. Whether a player becomes involved in COED for reasons of regulatory compliance, philanthropy, or in search of business opportunities is irrelevant to the game, provided there is some initiative taken or attempt made to forgo confrontation and cooperate with the other side. Lack of a willingness to play by either side results in confrontation, or worse, COED by the old rules.

The second rule covers what is allowable as a move in the game. In general anything goes that makes business sense, is allowed by the bank regulators, and is workable. Play may involve only a single lending institution, or a combination of players in a partnership, privatization agreement, or philanthropic exchange. General rules with regard to bank lending activity and involvement in COED are determined by deregulation.

The third rule prescribes the structure of play. Except in the case of market activity on the part of a single bank in the competitive arena, the structure of play in negotiated. Any COED partnership or privatization agreement should be formulated as a business contract and should follow the same rules as other binding legal agreements. Such arrangements should clearly set out the roles and responsibilities of the different players.

For the sake of fair and productive dealing, the agenda and motivations of the other partner in entering into a deal should always be kept clear to avoid confusion of roles, purpose, or expected benefits. This is critical to keeping a realistic perspective on the nature of any public-private partnership agreement. Misrepresentation is not allowed in cooperative business dealings and should be reserved for playing COED in a confrontational mode. Players negotiating a set of COED moves are expected to bargain in good faith and to fulfill their obligations barring intervening circumstances that make fulfillment impossible.

The fourth and final rule concerns winning. Put simply, winning for both sides is production of jobs, credit, homeownership, bank deposits, profit, new businesses, general economic growth and increased stability, or other benefits that are realized through aggressive urban banking and community economic development. Winning in COED is now determined by meeting preset goals such as developing a piece of urban real estate, financing a CDC-owned small business venture and running it successfully, or marketing a new kind of mortgage instrument on the scale projected. Losing is failure to meet the objectives of a specific COED initiative to such a degree that nothing of value is produced, either in profit, social benefit, or increased knowledge, or worse, the initiative negatively affects other future COED efforts.

The rules presented serve as basic groundrules for productive COED. Their vagueness allows for flexibility in playing the game, enabling COED players to undertake a variety of projects from a bank's efforts to expand into small business lending a CDC, two banks, and state and local government programs jointly creating two hundred new mixed income townhouse units in Roxbury. Who initiates play is undetermined, and new ideas and mechanisms can be introduced into the game at anytime.

Undertaking COED Initiatives

The COED game is now played in two ways; 1) the developing and marketing of financial products in urban communities by individual financial insititutions, and 2) activities requiring either a partnership or contractual agreement between banks and at least one public sector entity. As mentioned in describing bank approaches to COED, such public-private interaction covers a spectrum including mere compliance under regulatory pressure, philanthropy, privatization, or partnership. COED under the new rules involves one of the latter three modes of interaction.

Individual bank initiatives revolve around mortgage and commercial lending. The new money market accounts allowed due to deregulation have flooded the banks with deposits that must yield their depositors interest. Having to pay this higher interest has forced the banks, especially thrift institutions, to aggressively develop and market new loan programs in order to obtain the returns necessary to pay depositors interest.

In addition to new lending programs, banks have changed their lending approach. Rather than focusing on why loans cannot be made, banks now tend to look for ways to make lending possible. Credit provision is viewed in terms of what the borrower needs and can afford, rather than simply on the basis of what is requested. Alternative actions that can be taken by the borrower to make a loan possible are investigated in order to meet bank lending criteria and regulatory restrictions.

As mentioned earlier, banks have also changed the types of loans they make and what they consider when evaluating risk and ability to service debt. The definition of income has been altered by a number of lenders to include other steady income in addition to primary salary and wages, for example rental revenues and guaranteed overtime. Other criteria have also been changed, including a shift to requiring less collateral in favor of using ability to repay as a measure of risk, and abandonment of the notion that a neighborhood must be both ethnically and architecturally homogeneous in order to make prudent loans. Banks are also beginning to cooperate more with local realtors to place mortgages and to use local community media for advertising.

Individual bank initiatives in providing financial products have blended well into privatization agreements with federal, state, and local government. Banks have been educated to the number of government programs available and have begun to use them with fervor for COED as a source of fee income.

Popular examples include the use of SBA loan guarantees that allow the guaranteed portion of a business loan to be sold on the secondary market, origination of mortgages which are pooled in a mortgage backed bond and issued to investors in the capital market, and public sector interest writedowns to make a loan more affordable, lessening the risk of default. For many banks, involvement in such programs as tax-exempt industrial revenue bonds (IRBs), bonds floated for economic development projects, and those already mentioned, is dictated by the fact that it results in positive increases in their "bottom line" through increased fee income or foregone taxes.

Banks have been very active participants in government mortgage lending programs and will probably become involved in similar programs for commercial development as these are developed and implemented. Many banks are making efforts to improve their contacts and referrals to business development agencies like EDIC Boston, MBDC, and CDFC. As their "comfort level" has increased with community-based organizations, banks have also become more interested in programs like small business revolving loan funds run by MURAG and Inquilinos Borincuas en Accion (IBA) in the South End. These funds provide solid business deals for bank participation that would otherwise go unnoticed by lenders. They also serve as community-based delivery and referral agents for business credit and feedback of merchant response to particular new initiatives by banks in commercial lending. CDCs have also been used to provide more general market information.

Bank/CDC Partnerships: Doing COED Deals

Belden Daniels, principal of the Council for Community Economic Development (CCED), a private consulting firm, is fond of saying that the word "bank" is derived from the Italian word used to identify the table or bench used for making financial deals in the Middle Ages.[18] It is this aspect of COED, the doing of deals around specific economic development objectives, that has become the most central in the game. Although COED lending is critical and should by no means be de-emphasized, the principal issue of COED is no longer merely the quantity and location of urban credit, but rather focuses on who the recipients of COED benefits are. COED partnerships between banks and CDCs address this issue as a result of CDC activity being explicitly targetted to lower and moderate income community residents.

As mentioned when describing idiosyncratic bank approaches

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[18]Belden Daniels, The Changing Structure of Financial Markets and Its Community Impacts: A Conference, jointly sponsored by the Massachusetts Institute of Technology and the Bank of New England, January 24, 1983.

to COED, doing business with CDCs is generally done in either a philanthropic mode or as a partnership. Philanthropy tends to be in the form of technical assistance related to a particular project, but not necessarily one that the bank providing the assistance is financing. This assistance is viewed by most CDCs as a valuable resource, but only so long as it is not entirely substituted for doing actual deals.

As the banks begin to view themselves as recyclers of the community's assets[19], doing deals with CDCs as a partner becomes more viable. It is a shaky partnership at best, and is problematic from the start. Despite an increasing amount of development expertise at the community level, banks are very cautious, unless they are totally philanthropic in their approach to COED with little concern whether the project succeeds or fails.

The primary concern for banks in COED partnerships is the potential for mismanagement. As with any business deal, there is a desire that the manager be qualified, have a track record of success, and be around over the life of the project. The relatively rapid turnover rate of CDC staff, as well as government officials, does not help to alleviate bank concerns in this area.

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[19] Op.cit., Willoughby, April 5, 1983.

Similarly, lack of strong track records on the part of many fledgling CDCs increases bank discomfort with COED partnerships.

Concerns focused on management are alleviated somewhat when the reputation of the CDC director is known to be solid, or the bank has had previous positive experience with the organization. Personal relationships between bankers and CDC directors, sometimes resulting from serving on the same community-oriented organization's Board of Directors, serves to establish a familiarity and belief in the stability and competence of a CDC in the eyes of a bank.

Bank/CDC partnerships are labor intensive due to the time required by difficult COED projects. This is often exacerbated by a lack of sophistication with regard to the financing process on the part of CDC staff. Frustration is contributed to by a lack of easily bankable deals being developed by CDCs before they approach a bank. The end result is a stereotyping of CDCs as unsophisticated about the nuts and bolts of urban economic development, unless proven otherwise on a case by case basis with individual banks and CDCs. Even more detrimental to the progress of the COED game is a tendency fo banks to rely on the same organizations to be partners and to undertake projects with, concentrating productive COED in particular urban communities. Such activity increases the difficulty faced by a CDC that has yet to prove itself in the COED game.

In addition to management and track record concerns, banks have a more fundamental problem with CDC partnerships stemming from a consistent lack of equity to contribute to a project, adequate collateral, or corporate net worth on the part of the CDC. From experience, banks know that the more vested an entrepreneur is in a project, the less likely he or she is to let the project fail. Given that a CDC's primary motivation generally comes from a social objective, combined with their non-profit orientation, banks often question the ability and interest of these organizations to manage a project that will produce a financial return. This uncertainty results in a greater risk being placed on these CDC deals by the bank, and greater requirements for debt coverage margins and mandatory public sector financial participation to cover some of the bank's exposure.

It is well known among COED players that a bank/CDC partnership generally requires public sector capital that is subordinate to the bank's financing. As pointed out earlier, many public sector financial sources also require a private commitment for financing. The obvious result is a COED catch 22; a game of "you first".

This situation requires the CDC to first secure letters of interest from all the potential partners. The next step is to procure agreements of tentative participation dependent upon the other partners being committed. Eventually, if all goes as planned, one partner jumps in and the other follow. The trick is to get the first one to jump and to work out an agreeable subordination schedule.

As a result of both the difficulty in packaging deals and the hoops unfamiliar CDCs are forced to jump through, CDCs tend to feel the banks are less than responsive to their special situations and needs. Banks seem to lack a sensitivity to the fact that these are organizations set up to develop opportunities for low income individuals and families, in the opinion of some CDC directors.

In order to circumvent some of these problems CDCs sometimes violate one of the rules of COED and lie about their development project's financial projections. Of course, every developer "pads" project estimates to make a venture seem more viable, and this is generally accepted practice. CDCs must become aware, however, that banks are not easily fooled, and once questioned about project numbers, CDCs should be straight with their potential partners. Failure to do so, or failure to maintain committments to agreements that have been negotiated out and approved by the bank, only serves to create distrust.

There is also less likelihood that partnerships will be formed between the particular CDC and the bank in the future, as well as a greater reluctance for the bank to get involved in any bank/CDC partnership.

Banks were initially, and still are, somewhat sceptical and nervous about dealing with CDCs as part of COED, but pressure from good media coverage and praise for such activity was effective. As one commercial lender explained it, "Banks don't like their competitors to receive public praise any more than they like to get bad reviews themselves."[20] As a result, banks do not hesitate to publicize their COED efforts.

Limited success in COED CDC partnerships has contributed to individual bank efforts with slightly more stable local and state government agencies. In Massachusetts, these agencies tend to minimize CDC involvement. Many banks are also expressing an interest in mechanisms such as bank-owned CDCs and leeway corporations that allow for cooperative ventures between banks and community-based CDCs with an equity investment contributed by the bank. These vehicles also enable banks to undertake direct investment and real estate development without accountability to or need for public sector partners. Since

[20]Interview, Robert McAlear, Vice President, Bank of New England, February 8, 1983.

these vehicles have not yet been introduced into actual play in the Boston COED game, they will be discussed in more detail in the next section on planning the COED game.

The possibility of banks forsaking the community-based CDCs as a vehicle before these organizations really have a chance to prove their worth in the COED game will undoubtedly result in confrontation. Such confrontation is less likely to be as productive as it was initially in getting banks to play the game with community-based organizations. There is much less regulatory pressure now that banks have decided to become involved in COED that meets local community needs. There is also much less regulatory leverage due to a better understanding on the part of the banks of how much weight is given to COED participation by the regulators and of how little is really necessary to be in compliance with community-oriented regulations.

The possibility of a bank approach to COED that excludes community-based participation as it did under the old rules indicates the need for a mechanism allowing for planning the COED game. This planning process should use limited confrontation and negotiation around COED issues without disrupting any existing partnerships or damaging groundwork that has been laid for future COED deals. New ideas and mechanisms are being developed and introduced into the COED game that must be brought into public focus, allowing for discussion and examination of their form and possible use. Lacking regulation, a means must be developed for maintaining accountability of the private sector to other COED players.

SECTION VII: Planning COED

This section outlines how the future COED game is to be planned. A separate set of rules for planning COED through negotiation is described. In addition, mechanisms for COED planning already in existance in Boston are discussed, along with the present focus of COED planning in Eastern Massachusetts.

As playing COED in a partnership mode becomes more the rule than the exception, it is necessary to create a means for planning the general form of these partnerships and other kinds of COED play. COED, as a cooperative game, lacks a built-in mechanism for designing and implementing the use of specific types of COED vehicles and products, with the exception of deal specific negotiation. It is necessary to address this need in a mode of COED for planning the game that involves all of the current players. This additional mode of COED interaction, COED planning, is an appendage to the larger game, providing a way to develop, introduce, and advocate specific new approaches to playing the game while maintaining some degree of control over implementation of these new COED moves.

COED planning sets up a mechanism for discussing COED while the game is being played. Such a mechanism does not disturb the play, especially any transactions in progress. COED planning is a modification of the confrontational mode that is concerned with new ideas for the game, rather than a willingness to play COED. Participation is voluntary and does not rely on regulation to create an incentive for banks to get involved. COED planning is made attractive by publicity pressure to participate as well as self interest on the part of all the players to affect the way COED is played in Boston.

Planning COED is done through the development and introduction of new ways to play COED by any of the players. Confrontation and negotiation around these new strategies occurs in a public forum. COED planning involves coalition building and the manipulation of public discussion and sentiment around specific COED tactics and strategies. The objective of COED planning is to influence the way other players play COED, in order to serve the interests of one's own organization or corporation. Through a process of lobbying and dissemination of information, the messages that are conveyed in COED planning forums reflect the desires of particular players. The impact of these messages on the game depends upon the skill of different players at playing COED in a planning mode, and on their status as a voice of leadership for their peers.

Planning brings together the COED players in order to benefit from shared ideas and address common concerns. This ensures that the form and structure of COED is never set in stone, providing an arena for the interaction of forces to shape and mold the game. Through continued discussion of the COED rules, the banks and the community-based organizations are able to engage in a learning process about why and how they should play COED.

There is a need for this planning function for the future. Through open discussion about the tactics and strategies used in COED information can be exchanged about new ways to play the game that benefit both sides, and attention can be focused on tactics that create tension in already fragile partnerships. COED planning allows for a process that cannot occur within the partnership mode, since discussion may be too close to the specifics of an existing partnership. As banks spend greater amounts of time reexamining how they play COED and adjusting their strategies for the game it will become necessary to hold them accountable to the public sector COED players through an inclusive planning process.

COED planning takes the Berger model of public-private interaction one step further. It expands the universe of COED interaction to include rational efforts to structure the environment in which partnerships take place. COED planning shifts part of the responsibility for economic and social planning to the private sector, requiring more than just reaction to public sector initiatives or economic factors. It should be noted, however, that the public sector is by no means absolved of its responsibility to insure that the public interest is addressed by private sector initiatives.

The Rules of COED Planning

The rules of COED planning are simple and strict. Continued violation inhibits participation, as well as adversely affecting the COED game. There are three rules, dealing respectively with 1) the need for a formalized process, 2) the focus of discussion, and 3) fiduciary responsibility to partners.

The first rule requires a formalized public structure for discussion in a neutral environment. Such a structure sets up a forum process, making participants aware of its existance and establishing consistency. Surprise attacks by one side against the other are minimized through formalization.

The second rule requires that the discussion focus on COED strategies and mechanisms, not on individual or groups of players. This rule protects participants from being put on the spot while playing COED planning. The objective of negotiation in COED planning is to convey a subtle message to perpetrators of unacceptable tactics in the COED game that particular strategies should be changed or abandoned to avoid confrontation. More serious disagreement is relegated to confrontational COED, where the focus is on willingness to play by the rules of partnership and negotiated agreement.

The final rule of COED planning establishes fiduciary responsibility with regard to specific partnerships and projects, prohibitting partners from "going public" with priviledged information available only to partners. Discussion of project specifics in a public forum in order to pressure a change in agreements or commitments made within a partnership is not sanctioned. Negotiation of project specifics is confined to dialogue between potential partners and their advisors outside the COED planning arena. While projects may be discussed as examples of a particular type of strategy, this anti-mudslinging rule protects the fiduciary relationship between partners, allowing problems to be resolved privately between the involved parties. Violation of this rule undermines the entire concept of a COED partnership, breaking down trust and mutual respect.

There has been no shift in approach necessary in Boston to play COED planning. Since participation is fairly voluntary, albeit induced by public pressure and self-interest, community-based players are required to be cautious in reacting to bank initiatives, even when a specific tactic is clearly not in their interests. Care must be taken not to stifle new bank approaches through harsh criticism motivated by uncertainty or fear of change. Restraint is critical to the success of a public COED planning process, and to continued efforts on the part of banks to be innovative. It should be noted that by remaining reluctant to participate, the banks maintain an advantage in the COED planning arena. They are able to introduce new mechanisms that serve their own interests with less initial criticism from community-based COED players hesitant to drive the banks out of the COED game.

COED Planning Arenas in Boston

Partially in reaction to bitter confrontations, MURAG has helped to set up two formalized processes for playing out COED controversies and planning the game: the Boston Mortgage Review Board and the Community Banking Forum. The Boston Mortgage Review Board is a formal appeals process for mortgage applicants who have been denied credit by a Boston lender. Local banks participate voluntarily both in referral of rejected applications and in review of appeals. Any bank with a mortgage denial being contested before the Board does not attend that session.

The Community Banking Forum is a monthly opportunity for bankers, government officials, and community-based developers to hear presentations on issues relevant to COED and participate in discussion around these issues. Each forum is hosted by one of Boston's four large commercial banks and is organized by MURAG, with a new panel of speakers and designated respondents each month. The forums are followed by a cocktail hour that creates an informal environment for continuing discussion and initiating COED deals. The press are not invited or allowed to attend the Community Banking Forums.

In addition to these COED planning arenas, conferences, seminars, and study groups are constantly sponsored by area universities, government agencies, and private sector industry organizations. Topics relevant to the COED game include bank change, new mechanisms for planning and implementing COED, and issues around community-based involvement in the COED process. Examples of these include the conferences attended by the author in researching this thesis, study groups at Harvard's Institute of Politics, and the recently revived Wednesday Morning Breakfast Group at the Massachusetts Institute of Technology. Like the forums already discussed, these conferences and seminars are generally formal in structure, although some are more relaxed than others. They all present information about the game and allow for interaction between the many COED players.

The Present Focus of COED Planning in Boston

COED planning in Boston is focused on a number of issues that involve new ideas, mechanisms, and highlight concerns emerging from the changes institgated by confrontation and deregulation. Many of these new concepts have been introduced in other cities, and are now being discussed for use in Boston. The particular ideas discussed here include the use of direct bank investment vehicles for COED, new COED credit products and delivery systems, the inclusion and involvement of new COED players, and clarification of the roles of current COED players in the game. What follows is a detailed description of COED strategies being considered in Boston by a number of players and currently being discussed in the COED planning arenas.

Direct Investment Vehicles

Direct investment vehicles for COED include bank-owned CDCs for commercial banks and leeway or service corporations for thrift institutions. These vehicles have yet to experience widespread use in Boston, but have begun to be discussed and negotiated around in public forums over the past year.

Under Interpretive Ruling 7.7480 of the Office of the Comptroller of the Currency (OCC), national banks, including most commercial banks, are allowed to make equity or debt investments in projects that are deemed "of predominantly civic, community, or public nature, and not merely private and entrepreneurial" by working with or setting up a CDC. The Federal Reserve Board has issued a similar ruling with regard to bank holding companies, but with less stringent requirements than the OCC with regard to classification of an investment as civic in nature. So-called bank-owned CDCs can make loans and equity available to small firms, increase the organizational capacity of local community-based organizations, provide consumer and business counselling, do market research, and undertake the acquisition, rehabilitation, or construction of commercial or residential real estate. Under OCC regulations, bank-owned CDCs must be designed with a community controlled Board of Directors and can invest no more than two percent (2%) of a bank's capital in a single project, with an aggregate limit of five percent (5%).[21]

There are currently twelve bank-owned CDCs in nine states

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[21]James Viterello, "Bank-owned CDCs: A New Direction for Community Revitalization Programs" in The Entrepreneurial Economy, Corporation for Enterprise Development, Vol. 1, #4, October, 1982, p.7.

across the country. These CDCs include the First Rockford CDC in Illinois which is a for-profit developer of two commercial properties in a central business district, the CDC of the First National Bank of Fayetteville, Arkansas, which is a limited partner in a local shopping mall and office development creating two hundred jobs and forty new shops, and the Southeast Bank of Miami CDC in Florida which invests equity in minority-owned small businesses in the Liberty City area of that city and promotes educational workshops around housing and finance.[22] Local attention in Boston is being focused on the development and use of such a vehicle to undertake joint ventures and equity participations with existing community-based CDCs by the Shawmut Bank of Boston and the Bank of New England.

These mechanisms are not unlike so-called leeway or service corporations that have been used by thrift institutions in other regions of the country to do investment not allowed on the legal list of investments issued by bank regulators. Thrift institutions have used these vehicles in the past to undertake COED investment on their own, with a focus on postively affecting their earnings. Activity has primarily been in real estate investment and development, and is likely

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[22] Ibid., p. 8.

to increase as the economic outlook brightens for the thrift industry. The one example of its use in Boston was in 1981 when the Mutual Bank for Savings used its leeway to renovate and sell a three decker house in Dorchester.

The promulgation of this new mechanism for COED nationally has stimulated concern on the part of local community-based COED players. The principal tension is between control over the COED process and the need for more COED activity, whether in a partnership mode or not. A serious concern is that these vehicles may be used to preclude the need for community-based CDC participation in the COED game. This fear is made more realistic by knowledge of the frustration felt by many banks over a lack of CDC sophistication about financing and financial returns. On the other hand, bank-owned CDCs and leeway corporations provide a mechanism for greater COED investment in urban communities. A concern which falls between these two perspectives is that bank-owned CDCs will allow banks to buy control of COED in Boston by supporting community-based CDCs on a limited basis in order to quell any dissatisfaction. The test may become whether the community-based CDCs can get a fair price for giving up the little control they have over community economic development.

New Credit Products and Delivery Systems for COED

The design and implementation of new COED credit products is also a focus of COED planning in Boston. Discussion has been active around new housing finance instruments such as variable rate mortgages, balloon payment mortgages, and home equity loans being introduced by the banks. Total dependence on the secondary mortgage market and lack of portfolio lending is also an item of discussion.

Concerns around housing finance focus on a lack of understanding and sophistication on the part of consumers regarding the risks of new instruments. Some mortgage lenders, especially less than reputable mortgage corporations which are unregulated, have a tendency to mislead consumers, possibly resulting later in default on the loan and the loss of a home. Dependence on the secondary mortage market is discussed in terms of limitations placed on certain types of COED lending, although the liberalization of loan criteria by the mortgage guarantee agencies like FNMA and GNMA has enabled lenders to become more flexible in their lending.

A great deal of discussion has been generated around the formation of a secondary market for small business credit, expanding the capacity of vehicles such as the SBA guaranteed loan program. Such a debt mechanism could be complimented by the development of a large scale program for small business participating debentures, an investment mechanism designed to funnel risk capital into non-high tech industries. In addition, discussion has been focused on the use of community-based organizations such as revolving loan funds to refer business credit customers to banks, as well as develop loan packages that lenders can participate in as partners.

Inclusion of New COED Players

One of the functions of COED planning is to strategize the inclusion of new COED players. While the COED game in Boston has primarily included banks, thrifts, government agencies, and community-based organizations, there are a number of potential players who can bring valuable resources to the game. These include major non-profit institutions that have a visible presence in Boston, less-regulated financial corporations, major commercial banks that operate so-called Edge Act lending offices in Boston, as well as local and national philanthropic foundations that can provide financial support for COED projects.

Major Boston hospitals, universities, and religious institutitons such as the Christian Science Mother Church in the Fenway and the Roman Catholic Archdiocese of Boston control resources that can be directed toward COED. Unlike banks, they are allowed to invest in real estate development projects and they control large investment portfolios for their institutions that can be directed toward socially beneficial investment.

Like the non-profit institutions, insurance companies and money management corporations control resources that can be used as equity in COED projects. Insurance firms also extend all types of credit using the whole life policy as security, making them COED lenders as well. Money managers administrate the nation's pension funds and also are allowed to do direct investment. Although these institutions have traditionally been tapped for participation in large scale real estate development, there is currently a great deal of discussion around getting them involved in smaller projects.

Unfortunately, unlike banks, large non-profits and less-regulated institutions cannot be induced to participate in COED through confrontation and for the present at least, involvement is completely voluntary. This is not the case for large out-of-state commercial banks that lend in Boston under the Edge Act. This act allows loan origination offices to be set up across state lines in order to take advantage of commercial lending opportunities. Recent regulatory interpretation has enabled these banks to participate in local COED efforts. Discussion in other cities is currently being focused on ways to increase this non-local bank participation. Boston is the base of operations for a number of these Edge Act offices, especially those headquartered in New York City, such as Citicorp.

Greater involvement of both national and local foundations in local COED efforts is a constant focus of COED planning. Corporate foundations, especially large national organizations, tend to focus more on large scale efforts and projects that are national in scope. Like other institutional COED players they are often reluctant to get involved in project specific local initiatives. One solution has been the Local Initiatives Support Corporation (LISC), described earlier, which assists with local COED efforts and is sponsored by the Ford Foundation.

Clarification of COED Player Roles

Besides providing for discussion of new strategies and resources for the game, COED planning stimulates public and self-examination of players' roles and responsibilities. Self-examination leads to the designing of COED strategies that address the particular player's organizational needs, and negotiation in a public forum allows other players to comment on and influence the use of these strategies. Since much of COED involves partnership, it is critical that the general desires and expectations of different types of COED players are made clear.

The role of the public sector as an educator and broker is promoted in COED planning forums, as it the importance of private sector institutions as only one of many COED players. Primary focus by the public sector is on the utilization of financial institutions in their areas of expertise, such as product development and delivery, and financial managment and evaluation, rather than total dependence on banks to plan the COED game.

Clarification of COED partnership roles highlights the divergent ideologies of the two sectors. The public sector's ideology motivates the initiation of efforts that address a public need. Private sector ideology focuses more on corporate strategy that takes into account competitive factors having an impact on either long or short term earnings potential. Negotiated planning helps to emphasize these differences, steering the COED game away from too heavy a reliance on private sector initiatives without public sector accountability. The private sector should not be relied upon to design efforts that serve the public interest.

The COED planning structure that has been presented is a workable mechanism for determining the future form of the COED game. It continues the tradition of negotiation focused on bank involvement in COED begun with the first COED confrontation. Such an approach allows for flexibility and change in the COED game, a factor that is critical for addressing the newly developing problems of an urban environment constantly in transition.

SECTION VIII: Conclusion

Before presenting the conclusions of this thesis, it is helpful to review and summarize the central concepts that have been presented. Such a summary serves to re-emphasize these points, as well as focus thought for critical analysis. It also provides a context for understanding the conclusions that are drawn from this study.

Summary

The central theme of this thesis is one of COED as a game played by financial institutions, government, and community-based organizations in order to affect the urban economic and social environment. The principal tools of this game are the provision of financial products for community level uses, especially credit for small business and homeownership, and the formation of COED partnerships between banks and various public sector COED players.

The rules of the COED game have been significantly affected by confrontation and bank deregulation. These have both influenced the COED game by altering the environment within which the game is played, especially the rules of COED. The results to date have been a heightened awareness of the profit potential in the urban marketplace and significant changes in bank regulation that has affected the pursuit of this profit.

In addition to being affected by confrontation and deregulation, changes in the way banks play COED have been influenced by a number of often idiosyncratic institutional characteristics. These include the personal philosophy of the CEO about the game; the size, type, history, and corporate traditions of the institution; and previous experiences playing COED.

In order to ensure that COED can continue in a cooperative mode, planning for the game is being done through a public process of bargaining and negotiation. This process significantly influences the playing of COED. COED planning is done through coalition building and postured negotiation around game strategies and mechanisms designed and introduced by either side. The interaction of the public and private sectors in a formalized setting to discuss the nature and form of COED is central to determining how COED is to be played in the future.

Conclusions

The principal conclusion of this thesis focuses on the usefulness of negotiation as a planning tool for urban community economic development. In an economic and political environment that requires planners to draw upon various resources and often consider divergent perspectives, the COED game provides a useful example of negotiating the design and implementation of urban change. Future study and research focusing on new COED initiatives and on designing new mechanisms for the exchange of information among COED players is crucial to the success of COED planning in the future.

The COED game highlights the importance of both confrontation and negotiation in instigating institutional change. These have been critical in bringing about changes in bank behavior that affects Boston's neighborhoods and communities. The development of a cooperative COED game has enabled Boston's financial institutions to use newly developed knowledge in ways that are beneficial, both to the banks and the communities as a whole. Planning that uses negotiation as an implementation tool guarantees that this learning process can continue, even in the absence of confrontation.

COED is dependent upon communication and negotiation between two or more players. This interaction ultimately combines different quantities of expertise and resources from each party to allow for completion of a successful COED venture. Since this process provides for common agreement on the direction of movement, it can be considered a useful planning method, however labor intensive or painful. In an arena filled with special interests, such a process may be the only way to insure at least partial satisfaction on the part of all COED players with the outcome. Negotiation may be the single means available to obtain the Pareto optimal solutions necessary for workable COED partnerships.

The present applicability of the Boston COED experience to other cities is questionable. Over the past decade COED in Boston has been transformed due to a number of factors. Many of these factors, such as the passage of CRA and deregulation, are time specific opportunities for inducing institutional change. Many are also organizationally specific, such as the presence of individual COED personalities and leaders in Boston's banks and community-based organizations, creating the human chemistry needed to bring about significant change. If a similar learning experience has occured on both sides in other cities, it is possible to develop a COED game around partnerships between banks, CDCs, and government agencies. Given the necessary sophistication about the game and a willingness to participate on the part of all the players, the Boston COED experience can be replicated. It is forseeable that a city that does not have some of Boston's political and racial tensions could surpass the accomplishments that have been made in the COED game described in this thesis.

In summation it should be noted that through the playing of this game over the past ten to fifteen years, the foundations have been laid for real movement forward in revitalizing Boston's communities. To paraphrase comments made by a lending officer of the Shawmut Bank of Boston with regard to the process of change around the COED game in Boston, "The confrontational past is often too close and too painful to dwell on. It is instead more important and useful to deal with today and consider tomorrow. The time for rhetoric is past; the needs of today and tomorrow are real access, communication, and mutual respect. It is time that we understand it is neither necessary to look at the world through the same lens, nor even to be friends, in order to do business. It is only necessary to stop talking about it and get down to doing it."[23]

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[23] Interview, Kate Armstrong, Vice President, Shawmut Bank of Boston, March 11, 1983.

APPENDIX A: Bank Deregulation

Inflation, rising interest rates, and changing demographics and consumer preferences over the past twenty years have had a dramatic effect on the treatment of money in this country, and as a result, on American financial institutions and markets as well. As savings accounts became less economical due to regulatory limits on the interest that could be paid on deposits, consumers abandoned saving in favor of low risk investment. Finding themselves unable to compete for investment dollars, the banking industries began to instigate change in the form of lessening bank regulation. This appendix briefly outlines the factors leading up to deregulation and its progress over the past decade both nationally and in Massachusetts.

During the early 1970s the deposit to investment shift was primarily into appreciable durable goods such as real estate, especially single family homes that also served as shelter. As interest rates and housing costs increased, homeownership became more costly as an investment. Unprecedented high interest rates in the late 1970s, partially stimulated by a drastic shift in the monetary policy of the Federal Reserve, led to investment in money as a commodity.

The disintermediation of the 1970s, the shifting of money from savings accounts managed by financial intermediaries such as banks and thrifts to investment, caught the financial institutions off guard. Historically able to rely on large pools of low cost liabilities in the form of savings, banks were now forced to depend more heavily on sources for these funds in the financial market, paying a much higher cost for them.

The disintermediation situation was further aggravated for the thrift industry by the fact that, as the primary provider of housing credit, thrifts' assets were mostly thirty year, fixed rate mortgages written at rates as low as six percent (6%). While they had benefitted from a growth in assets during the early 1970s as disintermediated funds flowed into homeownership, thrift institutions were faced with a serious liability/asset mismatch in the late 1970s when their remaining low cost liabilities were spirited away into money market investment accounts.

The flood of funds into money market investment increased the attractiveness of mutual funds. Corporations such as Merrill Lynch and Fidelity provided this mechanism to pool the limited resources of small investors unable to afford the high amounts necessary for entry into the financial markets. This popularity allowed the so-called money market funds to accumulate, within a five year period, a wealth equivalent to the financial resources built up by banking institutions over the past century.[24]

Eager to compete with their new rivals, the lending institutions found their way blocked by a system of regulation designed fifty years before. This regulatory system was developed following the last great financial panic in this country, the Crash of 1929. Regulations implemented in the 1930s addressed the fears of a different world and attitudes about the use and control of money that had lost much of their applicability by 1980.

Deregulation was instigated by the commercial banks in order to break down restrictions that they felt hampered their ability to compete with the less regulated non-banking sector. To this end, the commercial banks targetted four principal regulatory acts that barred interstate branching, required a separation between retail and investment banks, and allowed the federal regulators to place a ceiling on the interest rates that could be paid on savings deposits.

The commercial banks had already begun to apply pressure to these laws by drawing public attention to the crisis created

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[24]Wallace Sellars, Vice President, Merrill Lynch, The Changing Structure of the Financial Markets and Its Community Impacts: A Conference, January 24, 1983.

by disintermediation. The blame was placed on Regulation Q, the deposit interest rate ceiling, putting commercial banks in direct confrontation with much of the thrift industry. Thrifts had enjoyed the guarantee of low cost funds for almost fifty years, having not been required to borrow from the capital markets as the commercial banks began to do in the late 1950s.

As interest rates reached incredible heights in 1979, the insanity of Regulation Q became more apparent and its long overdue demise became fait accompli. In addition, a crisis had struck the thrift industry. Unprepared after fifty years asleep at the wheel, many thrifts found they had to pay more for the money they used to make loans than their old mortgages were yielding. The high rates coupled with disintermediation had put the thrifts into a situation where they were losing money even when they were closed. This crisis refocused the entire progress of the deregulation movement.[25]

In 1980, the Depository Institutions Deregulation and Monetary Control Act was enacted by Congress. This act set up the Depository Institutions Decontrol Council (DIDC), made up of the federal regulators, to phase out Regulation Q. It

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[25] Ann M. Reilly, "Derailing Bank Deregulation", Dun's Business Monthly, July 1982.

also allowed NOW accounts, which had been restricted to New England, to be offered nationwide, gave thrifts commercial lending and trust powers on a limited basis, and allowed for supervisory takeovers and mergers of failing thrift institutions by the federal regulators.

Not having gained much from the DIDC, the commercial banks left the thrifts to deal with their problems and continued to apply pressure around the issues of cross-industry activity and interstate expansion. As mentioned in the text, the critical juncture came when Citicorp of New York was allowed by the Federal Reserve to buy a thrift institution in San Francisco. Following Citicorp's coup, Congress enacted the Garn-St. Germain Act, a law that was being drafted during the Citicorp controversy.

Garn-St. Germain was primarily designed to provide additional aid to the still faltering thrift industry. This act increased the commercial powers of thrifts and provided federal assistance to keep failing institutions afloat until interest rates were lowered. It also outlined priorities in supervisory mergers that allowed interstate, cross-industry activity only if no in-state or like industry merger partner could be found; a situation that was not the case in the Citicorp acquisition. In addition, Garn-St. Germain authorized state-wide branching for federally chartered institutions, allowed the offering of a new, unlimited interest deposit account, and provided a grandfather clause enabling banks to take advantage of any state laws that are more liberal, even if the institution is no longer state chartered.

Earlier in 1982, the Massachusetts State Legislature had enacted the Omnibus Banking Act which gave banks in the state many of the same powers provided for in the Garn-St. Germain Act. In addition, it allowed for cross-industry mergers, provided for stock conversion of mutual and cooperative thrift institutions, and enacted a state version of the Community Reinvestment Act. The State Legislature went on to further liberalize Massachusetts banking law by allowing interstate banking within the six state New England region, provided there is reciprocity with the other state. This law was enacted in December, 1982.

As mentioned in the text, these regulatory changes have had a significant influence on the way banks in Boston approach COED. Further deregulation will undoubtedly affect the COED game in the future.

APPENDIX B: Institutional COED Players in Boston

The purpose of this appendix is to describe the major Boston financial institutions and their approaches to COED. The descriptions result from a blending of comments made during interviews with both employees of these banks and individuals who have dealt with them as COED players, television and newspaper advertisements, and public presentations by institutional representatives at public forums and conferences. The author has tried to present the institution as it seems to a wide variety of COED players. It should be noted that unfortunately no interviews were done at the First American Bank for Savings or the Boston Five Cent Savings Bank.

The First National Bank of Boston

The First National Bank of Boston is the largest financial institution in New England. Like other large financial institutions, the First's size means that COED is only a small part of its banking activities. This bank is an international lender with a presence around the world, especially in South America. Of the four major Boston commercial banks, with the possible exception of the State Street Bank and Trust Company, the First is the most representative of the so-called Boston Brahmin elite that relocated to the wealthier Boston suburbs in the early part of the century.

As a result of its size and history, the First feels that it has a special responsibility for its city, Boston. Its activities in COED center on the provision of technical assistance to CDCs for specific ventures, participation in government initiatives to develop the city's economy, payroll management and gap financing for social service organizations dependent upon government contracts that creates cash flow problems, and grant contributions to COED organizations.

The First also participates in community development projects through the provision of financing if the project is bankable, the organization presents long term projections for the project, and a solid work plan has been developed. General policy requires a one to one leveraging of the bank's dollars with those of another private sector financing source, combined with fifty per cent (50%) public funding of the project.

The First has always been active in ways that contribute to the social good because it was the right thing to do, the bank had a vested interest in the city and healthy urban communities, and because many First National employees are Boston residents. During the 1960s and early 1970s, the First provided shelter for the homeless and also became directly involved in the Boston Plan, including an Urban Development Action Grant (UDAG) package to revitalize the Blue Hill Avenue Corridor in 1980. Such activity has increased as the city's needs have changed. A greater number of sophisticated community-based organizations have also contributed to an increased ability to undertake COED partnership initiatives.

CDCs who have been helped by the First give it high marks for its internal technical assistance network. This system draws on the expertise of all its departments and provides officers from relevant areas of the bank who have the needed knowledge and an understanding of CDCs. These groups note that due to its size the First can absorb any losses associated with COED projects and is somewhat more insulated from political pressure to appease the community.

The First's size tends to mean that its CEO is removed from the bank's COED activities. The bank, like most large corporations, is a bureaucracy with a departmental structure. Special departments have been created to handle the bank's COED activities: the Community Lending Department, to communicate with other COED players, and the Urban Marketing Department to address COED lending and financing in Boston.

The Community Lending Department analyzes credit proposals for other bank departments and provides the expertise and support necessary for packaging COED deals. Although it has lending authority, the department does not make loans due to a belief that the other departments might "dump" non-standard credit proposals. This policy is aimed at forcing the rest of the bank to address COED proposals where they are the most relevant in terms of the type of assistance desired, with the Community Lending Department serving in a support and advisory role.

In terms of its COED lending activity, the First has a great deal of experience. Although, like other banks, it has not changed its credit and risk criteria, the First has set up an Urban Marketing Department that focuses on lending in the city. This department handles all SBA and government urban lending programs, especially those targetted to lower income and minority residents and small businesses. The Urban Marketing Department has also become the base for urban commercial lending since the First centralized this function and began using travelling lenders, shifting from the old model of having qualified business lenders in each branch office.

Like other large commercial banks, the First only recently entered the mortgage market, but due to its size and ability to undercut the competition's price, it has secured a large share of the Boston market. The First has also begun to do more mixed commercial and residential real estate loans, until recently a lending nightmare due to their half business, half real estate character. This type of loan is crucial to COED efforts around commercial revitalization and dealing with the prevalence of such properties in Boston's neighborhood commercial centers.

The First is responsive and aggressive in playing COED. It has developed a CDC call program that contacts community-based groups regularly. As was mentioned, its size allows it to walk away and absorb the project loss if necessary, enabling it to undertake a COED deal without being overly concerned whether it will work or not. This ability to take greater risk is common to the larger commercial banks and beneficial for marginal COED projects that would otherwise be impossible.

The Shawmut Bank of Boston

The Shawmut Bank of Boston is the second largest financial institution in Massachusetts. It is the center of a holding company that controls subsidiaries across the state. Its Chairman of the Board and CEO, John LaWare, currently serves as the head of the Boston Coordinating Committee, also known as "The Vault", a group of financial institution and utility corporation heads who meet to address some of the major problems faced by Boston.

Mr. LaWare brings years of urban banking experience to the bank, and his expertise fosters an approach to playing COED that views the game as good business. This attitude is refered to by Mr. LaWare as "elightened self-interest", since it has come about due to better understanding of urban banking and Shawmut's credit exposure in Boston dictates some self-interest in the city's economic health.

John LaWare has been a catalyst for action on the part of the Shawmut. Building on the bank's Community Affairs Committee of the 1960s, he initiated the Urban Action Team program in 1980. This program set up the Community Affairs Department to intiate the bank's COED programs and screen specific project proposals. In addition the program identified key officers within the bank's departments to provide the expertise necessary to package COED deals such as cash management, real estate lending, and business lending, over and above their primary responsibility in these areas.

The Urban Action Team approach is not unlike that of the First National's in that it identifies a structure by setting up a referral network and highlights COED activity. Unlike the First's approach, however, it provides high level support and status for these activities, as opposed to merely the support of a special department. The okay and encouragement of the CEO to put in time on COED efforts creates a management incentive for such activity. It also promotes an integration of a positive approach to COED as opposed to creating a fully staffed department. In addition to serving as an intake point for special COED projects, the Community Affairs Department earns its keep by stabilizing and stimulating the bank's community branch markets.

In terms of its COED activities in lending, Shawmut, like the First, has not changed its credit criteria. Like a number of other banks, Shawmut devotes more time to making a loan request or project proposal fit the criteria, rather than simply rejecting it out of hand in its original form. Shawmut has increased its use of SBA assistance and become involved in a number of public sector programs for both commercial and mortgage lending.

Shawmut has expanded its line of products for general economic reasons with an impact on its community. An example of a new product is an equity loan program instead of the old home improvement loans, freeing homeowners from being tied to specific uses of credit obtained through refinancing a home. Energy conservation loans are also done, in conjunction with the Citizen's Conservation Corporation, increasing the scale of potential financing for low and moderate income rehabilitation of small housing units.

In its urban lending, Shawmut has been aggressive in promoting credit for COED projects as a financial product rather than "social investment". Shawmut likes to see at least short term organizational objectives, a marketing plan for the CDC or signs of long term stability and good management, along with a business plan for the project. The bank will also provide technical assistance for developing some of these project components.

Shawmut is undoubtedly a leader in the partnership catagory among Boston banks. There is also a great deal of interest in privatization on the part of this bank, using its expertise to develop and deliver financial products to serve the goals and objectives of the public sector. This outlook has stimulated participation in government mortgage programs, as well as interest in setting up a bank-owned CDC that would allow the bank to directly initiate its own COED projects in a privatization mode or undertake joint ventures with community-based CDCs in a partnership mode.

The State Street Bank and Trust Company

The State Street Bank and Trust Company is similar to the First in its history as a Brahmin stronghold. Its strength is in money managment and it has branches in the international money center cities such as London and Hong Kong. Full page advertisements in the Wall Street Journal trumpet State Street's expertise and a recent move to sell its two subsidiary banks in Lowell and New Bedford may signal an exit by this bank from the COED game.

Despite its non-COED focus, State Street does play the game. Its CEO, William Edgerly, is the president of the Council for Economic Development and also of Goals for Boston, two private sector groups organized around initiatives for COED. This leadership role does not translate well, however, into the playing of COED at the street level.

The bank has virtually a one man COED operation. Although he has direct access to the CEO and monthly reports are made to management and other key department heads, the institutional support does not seem to be there. Except for a few very responsive and innovative individuals, there is little knowledge or understanding of the COED game on the part of bank employees.

In response to regulation and community-based pressure, State Street has become more aware of its local market and how to serve it. The bank now makes mortgages and, unlike other banks, does not charge points for origination. Their urban business lending is so aggressive that the SBA refuses to guarantee some of its loans. The bank also aggressively markets its products through the use of local community newspapers due to lower costs and better market penetration.

Like Shawmut, State Street strives to package COED deals, often going beyond the call of duty in order to see a project through. A recent example of this extra effort is the holding of a non-productive CDC project loan on the books for over a year until the project could get off the ground. This was done rather than begin foreclosure proceedings, despite regulatory pressure to write off the loan as a loss. This bank has been a major participant in the MURAG Community Reinvestment Revolving Loan Fund (CRRLF) and also in programs for business development designed by the City of Boston.

The Bank of New England

The Bank of New England (BNE), formerly the New England Merchants Bank, is perhaps the most aggressive of the larger commercial banks in the area of small business and commercial real estate lending. It is also known for its high level of service for small business customers in managing accounts and business strategy. The bank has a COED approach that focuses on this game as a profitable business proposition and a necessary component of corporate strategy.

Like State Street, the general knowledge of the COED game is restricted to a few top level bank officers and select lenders, but management support is more substantial. The approach is one of high interest in COED around business development, especially small business, due partially to the particular focus and interests of BNE's principal COED contact person. BNE has developed and implemented the Metropolitan Group, targetting small business lending as a profit center for the bank. With only one hundred million dollars to work with, this group has become one of the most profitable BNE divisions.

Coincident to establishing the Metropolitan Group, BNE initiated contact with MURAG and began to extend its network to include other community-based COED players such as CDCs. Like State Street, BNE has been a principal participant in the MURAG CRRLF and is constantly searching for public-private partnerships around business development. Partially out of frustration over a lack of CDC business development proposals, BNE, like Shawmut, is investigating the feasibility and usefullness of a bank-owned CDC.

BNE primarily fits the partnership mode of Berger's typology due to its aggressiveness in seeking out deals. Like other banks, it also plays COED in both a philanthropic and privatization mode. As an example of its philanthropic efforts, BNE just finished raising a record amount in contributions for the United Way in 1982.

The Mutual Bank for Savings

The Mutual Bank for Savings is the largest mutual savings bank in Massachusetts. Like many thrifts, it is currently seeking new ways to address its traditional market, the small depositor and mortgage borrower. It is also large enough to be concerned about its competitive position in the region at some future point in time.

The present Mutual Bank for Savings is the result of a merger in 1981 between the original Mutual, headquartered in Newton, and the Suffolk Franklin Savings Bank, based in Boston. Due to the Suffolk's extraordinary COED record this merger was strongly supported by the community-based COED players.

Accounting for the thrift industry's economic situation, Mutual's COED activity since the merger has been lackluster. Its mortgage lending in Boston has been almost non-existant compared to the old Suffolk's activity. In response to deregulation Mutual is considering concentrating on providing banking services to small businesses that are locally-oriented and may be too small to be interesting to the larger commercial banks. The bank intends to shift its attention from its traditional role as a mortgage lender to involvement in commercial and real estate development lending.

Unlike many banks, Mutual has no designated CRA officer, instead making compliance and COED activities the responsibility of department heads. The bank is small enough that the CEO can be involved directly in COED activities. Such involvement is critical to Mutual's COED approach.

With the exception of public mortgage programs, Mutual has not been overly active in specific COED projects involving CDCs and the public sector. Through specific changes in policy and the use of new mechanisms, it is changing its COED approach. In addition to the kinds of changes made by many banks in the type of loans the bank will make, Mutual has instituted policies regarding rental property that give the bank the right to call a loan if the property is not maintained in compliance with the building code and is being "milked" by its landlord. Through its leeway corporation, Mutual intends to become more active as a direct investor, buying and rehabilitating two and three family properties.

As a large savings bank, Mutual has an eye on expansion in the future and has investigated mergers with other local savings banks that would preserve mutuality. This bank is also considering interstate activity through the use of a "non-bank" holding company consisting of mutual savings bank subsidiaries across New England. In undertaking such activity, Mutual intends to use COED as a marketing tool in new areas as well as a means to expand the market share of its new subsidiaries.

The Provident Institution for Savings

The Provident Institution for Savings is infamous as a result of the attention if received as a test case for CRA compliance in Massachusetts. Since the denial of its Newton branch application it has done a great deal to improve this image, but only recently has made progress in actual increased lending. It has begun to change and is currently developing a new lending initiative.

Provident's initial approach has had significant financial repercussions for the bank. In addition to the potential deposits that were lost in Newton, the Massachusetts Banking Commissioner recently disqualified the Provident as a recipient of state controlled pension funds. This provided an incentive for the bank to enter into an agreement with the Commissioner's Office outlining the Provident's strategy for improving its COED activity. As a result of its slow improvement in the area of COED, the Provident has often been used as MURAG's "bad bank" whipping boy in confrontation, rather than the bank being approached to create COED partnerships.

The Provident's principal play after the Newton branch confrontation was to establish a Community Reinvestment Officer with lending authority at the suggestion of MURAG. This officer is responsible for designing COED programs for the bank. He has direct access to the CEO, but, like State Street, there is little substantial institutional support.

COED activities are focused on finding ways to increase the Provident's share of the mortgage market as a result of this area being the central issue in its COED confrontation with MURAG. These efforts involve the innovative use of available HMDA data from all the bank's competitors to discover market gaps. Using this analysis, new mortgage initiatives are designed to fill the gap with Provident loans. Like other banks, Provident has also changed a number of its lending policies that excluded certain kinds of housing and locations from consideration and also excluded the Provident from much of the local mortgage market.

The Provident, like the First, has instituted a CDC call program, attempting to improve its image in this area of COED. The bank likes to see a solid business plan and evidence of organizational capacity and reliability. Provident recently finalized a financing package for a CDC school reuse project and is considering participation in a number of additional ventures with other community-based groups.

The Neworld Savings Bank

The Neworld Savings Bank, formerly the Charlestown Savings Bank, is similar in its COED approach to Mutual, although much more aggressive. Within the past two years this bank has abandoned its old name and its image of geographic limitations, expanding more than it has in its entire one hundred and twenty five year history. With the recent acquisition of the Bass River Savings Bank on Cape Cod, Neworld has expanded its service area outside Boston for the first time.

Neworld has played COED as a business game, using its activities to increase its market presence and stabilize its branch neighborhoods. Its record in Boston is one of an aggressive community mortgage lender, closing its lending window only during the peak of unprecedented high interest rates. In response to deregulation, Neworld has expanded into commercial lending, making unsecured loans and strengthening its commercial real estate department. It has also, like other banks, developed an aggressive sales orientation toward marketing its financial products and has built up a strong sales force. Neworld markets itself in Boston through the use of neighborhood marketing seminars that present new bank products, such as direct payroll deposit and credit tied to savings deposits, directly to the community residents who will use them.

The bank's COED initiatives are strongly supported by the CEO and COED is looked upon as a senior level responsibility. Neworld's officers are directly involved on a number of CDC Boards of Directors, particularly those based in neighborhoods with Neworld branch offices. These officers provide necessary technical assistance for financing as well as easier access to the bank. Neworld sees the emergence of sophisticated CDCs as a vehicle that the bank can participate with to develop the business districts around its offices.

In addition to its CDC involvement, Neworld, along with a number of other Boston savings banks, plays COED by supporting the Boston Neighborhood Housing Services programs in Dorchester and Roxbury. This program counsels homeowners and buyers about credit, enabling more urban residents to become property owners and maintain their homes. Neworld's CEO has taken the lead on the bank's involvement with NHS, and this year was its most successful fundraiser.

<u>The Boston Five Cents Savings Bank</u>

Unfortunately due to oversight, no interviews were done at this bank.

The Boston Five was forced into a bitter COED confrontation with MURAG over its lending policies when it applied for a regulatory approval to expand. Using charges of "tokenism", issue was taken by MURAG with the bank's selectivity in making mortgages in minority neighborhoods. The threats and curses from both sides have still not been forgotten and no love is lost between the two sides. The bank was successful in its regulatory action and, whether as a result of the confrontation or not, has since become an innovator in the area of COED financial service provision. One certainty is that this bank and MURAG will never be COED partners.

Under the leadership of its CEO and top management, the Boston Five has been a driving force in deregulation in Massachusetts, with direct impact on the COED lending of itself and other Boston banks. This bank led the parade of state chartered savings banks that converted to federally chartered institutions in order to take advantage of new powers. It was the first Boston savings bank to start a mutual fund in order to compete with the less-regulated financial corporations for deposits. It has also begun to provide discount brokerage services.

Perhaps as an effort to improve its image after the mudslinging during confrontation, the Boston Five is now the largest mortgage lender in Boston. It offers competitive rates and has apparently changed its lending policies to allow this aggressiveness to create the desired volume.

Boston Five's approach to COED is summed up best in its two television advertisements. The first shows Robert Spiller, the bank's president, walking through a house being built, telling the viewer about the importance of a home and how his bank can help make it a reality. The second focuses on the effects of bank regulation, showing Mr. Spiller setting the bank's mascot, an American bison, free, symbolizing Boston Five's response to deregulation and its new freedom to address the financial service needs of its community.

The First American Bank for Savings

Unfortunately due to oversight, no interviews were conducted at this bank.

The headquarters of the First American Bank for Savings, formerly the Dorchester Savings Bank, are located in Uphams Corner, Dorchester. The bank also operates branch offices in downtown Boston, Quincy, and other Dorchester commercial centers. As a direct result of confrontation and negotiation, this bank is now one of the principal mortgage lenders in Dorchester.

When the Jamaica Plain Banking and Mortgage Committee first approached First American in 1976 the bank did little mortgage lending in Dorchester and had placed a 1.6 million dollar cap on annual housing credit due to a perceived lack of demand. In fact it had recently changed its name, like Neworld, to cast off the image of geographic limitation and expand outside its traditional community. The rationale for this refocus was a lack of demand for the bank's services in Dorchester.

The Jamaica Plain Banking and Mortgage Committee initiated contact, and First American officers suggested a three million dollar set-aside in a Dorchester Fund for local mortgages. The fund generated a demand for nine million dollars in mortgages in the first year of operation and thirteen million dollars the second year, far outstripping the original set-aside.

These phenomenal results had a significant impact on the bank's approach to COED. The CEO, recently retired Arthur Shaw, became what MURAG calls a "born-again banker". The bank refocused its attention on Dorchester and began marketting its services as the community's bank. Such aggressiveness in Dorchester was considered foolhardy at the time, giving First American a real competitive edge in a developing market. The bank captured a sizable share of both the borrowing and low cost deposits in Dorchester, which it has retained.

In addition to its aggressive mortgage lending, First American adopted an open door policy toward CDCs, especially those based in Dorchester. The bank officers are willing to look at anything the CDC has to offer, and go from there. Like Neworld, First American is looking for partnerships that will benefit the community and the bank's business.

The Peoples' Federal Savings and Loan Association

The Peoples' Federal Savings and Loan Association is a single office thrift institution located in Brighton Center. While other thrifts have suffered from disintermediation, this tiny bank has experienced growth in deposits. Peoples' Federal is considered by many COED players to be the last of a breed in Boston, the local community bank.

The president of Peoples' Federal, Maurice Sullivan, was Brighton's City Councilor in the 1940s, and he understands the community and its residents. The bank's employees are all local residents and every depositor and borrower is recognized on a first name basis. The bank tends to be somewhat provincial, by the admission of its Treaurer and CEO, Tom Leetch, but it meets the special financial needs stemming from it's community's ethnic and immigrant roots.

Unlike many other banks, Peoples' Federal was an aggressive COED player even before efforts were made to change the rules. Despite the scoffing of other banks about Brighton as a prudent lending area similar to reactions about Dorchester, Peoples' Federal has always defined its community as its market niche. The bank matches its market by providing bilingual tellers in as many as seven languages.

As a small bank with limited resources on hand, Peoples' Federal learned earlier than most thrifts to effective utilize the secondary mortagage market and public sector housing programs to meet the mortgage needs of its community. True to its stated approach, Peoples' Federal has also been involved with its local CDC. Its little services endear this bank to its community, like opening its entranceway in the winter for residents waiting for the bus to get warm, and the glass walled offices of the two top bank officers on the main floor so that they can greet and be greeted by the bank customers as they come in to do business. In every way Peoples' Federal strives to be a community bank.

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