Institute for
Development
Research

IDR

Outcomes of Social Capital Strategies of Banks and Community-Based Organizations in the US
The Four Pros: Property, Profit, Processes and Products

By Steve Waddell

IDR Reports
Volume 13, Number 1
1997

Outcomes of Social Capital Strategies of Banks and Community-Based Organizations in the US
The Four Pros: Property, Profit, Processes and Products

By Steve Waddell

Steve Waddell is Program Director at the Institute for Development Research. He holds an MBA and Ph.D. in Sociology from Boston College. This paper is based on a study of nine case of Community-Based Organizations - Bank relationships in the US. The study was done in collaboration with a National Reinvestment Coalition which was financed by the Department of Housing and Urban Development of the US Federal Government.

ABSTRACT

Conflict and confusion are among the most commonly associated outcomes of relationships between banks and activist community-based organizations (CBOs). However, there is an increasing number of examples where their relationship is producing outcomes that are much more beneficial to both parties' goals. Based upon nine case studies of bank-CBO relationships, this paper identifies four outcomes it labels the "four Pros:" products, profits, processes and property. It analyzes these outcomes in terms of social capital, which it identifies as a critical ingredient in production that is just beginning to be understood.

INTRODUCTION

Thousands of banks and community-based organizations (CBOs) in the United States have interacted intensely at some time over the last three decades. However, only since the late 1980s and only within a minority of cases would both parties view their relationships as "successful" with meaningful contributions to both parties' goals--goals that in many ways appear in conflict. The banks want to make money, and the CBOs want to build their low-income communities which are perceived by the banks as high risk and low margin markets. The emerging CBO-bank relationships can be said to be developing social capital inter-organizationally, as a key ingredient in achieving their respective goals. When successful, there is an exchange of resources and information and a substantial amount of creativity with outcomes that would be impossible for either party acting on their own.

The intense CBO-bank interaction was generated from withdrawal of banks from large areas of major urban centers. Often the withdrawal began as the racial and ethnic mix of the banks' market area changed, typically from white middle class to black or Hispanic and lower income. Usually the banks' withdrawal began by making fewer and fewer loans in their traditional geographic area, while continuing to take deposits. The loans were moved to new suburbs where the banks' traditional clients were relocating. In many cases, eventually the bank itself moved to the suburb and the vacated community became "under-served," to use common popular parlance.

This was a scenario that many businesses played out, from corner druggists to delis on the retail side and warehouses and manufacturers on the wholesale side. However, the difference for the banking system was that it was regulated and much more open to political pressures than other retailers. Because of the central role of finance in the economy, and because of the government guarantees provided to deposits in banks, banks were seen as having a different level of accountability to the public than other businesses.

As a result of pressure of community activists, in the early 1970s states began enacting laws obliging banks to interact with their communities in a more direct way.[1] The periodic review of banks by regulators began to sometimes require assessment of the bank on a variety of marketing and socially-oriented factors as well as traditional safe and secure lending assessments. Then in 1977 the federal government passed the Community Reinvestment Act (CRA) which aimed to ensure that banks made every effort to serve their immediate geographic communities appropriately. When banks wanted to merge, close branches or open new ones, community groups were given standing at federal hearings to oppose their plans, and regulators were given power to block banks plans unless they proved they were appropriately serving their base community. Although few protests were successful, in 1977 one in New York effectively blocked an application of an inner city bank to open a new branch on Long Island.[2]

The early years of CRA, however, only had modest--and in most cases not effective--impact upon bank behavior. The reasons are many: the collegial ties between regulators and bankers; the inexperience of CBOs in mounting opposition; the lack of resources available to CBOs, etc.[3] However, as a result of a Senate review of the CRA which was very critical of regulators, the picture began to change at the end of the 1980s. The Senate basically instructed regulators to begin taking the CRA seriously, and to back up their instruction they obliged banks to make public their lending records and for the regulators to make the hearings much more public events.

By this time a few bankers had already begun questioning internally the wisdom of the common traditional banking stance of stonewalling community groups. Moreover, the community groups were becoming much more skilled at sparring with the banks. And to top it all off, in 1986 tax reforms created something called the Low Income Tax Credits which provided tax benefits for investing in low-income communities.

A few bankers began to be persuaded that their organizations' long-term interests might indeed be tied up with the economic well-being of the areas where they held mortgages, and that withdrawal from the areas would not just erode new business opportunities but also undermine the quality of their current loans.[4] And some even saw the CBOs as networks tieing together a vast market traditionally ignored by banks that represented new opportunity.

By this time many CBOs, typically either community development corporations or non-profit housing societies, had amassed substantial expertise in the housing market. In Massachusetts, for example, in the late 1970s and 1980s the state supported the development of a network of 60 CDCs whose major activity was housing development and rehabilitation. This type of development experience built a knowledge base and negotiations ability that was a complement to the more traditional skill set of CBOs of community mobilization.

Where these new skills and attitudes met, the stage was set for development of a new set of services and products (in the banks' language) and a new level of community building (in the CBOs' language).

THE ROLE OF SOCIAL CAPITAL IN PRODUCTION

Social capital has been popularized by Robert Putnam, first with his masterful and compact 1993 book *Making Democracy Work*. In that book he combined studies he had been conducting in Italy since 1970, and basically asked the question: Why have some regions done so much better than others economically? After investigating the traditional key variables offered, such as differing natural resource bases, education levels and physical infrastructure, he concluded that the key variable was something he called social capital. He was taking a term first used in a similar way by Pierre Bourdieu in the 1970s,[5] and developed by other social capital pioneers, most notably by James Coleman[6] and Ron Burt.[7] Putnam offers a concise and illustrative definition of social capital, writing that "social capital refers to features of social organization, such as networks, norms and social trust, that facilitate coordination and cooperation for mutual benefit."[8]

The concept of social capital has been developed from several levels of analysis. Coleman, for example, focussed upon individuals and the way structures (most notably private schools) provide access to networks that give different outcomes. In his analysis of Italy, Putnam looked at the way individuals connect to associational groups (using indicators such as voting rates and membership in civil society organizations such as choral groups and bowling leagues) to produce different society-level outcomes. Fukuyama, in his tome simply titled *Trust*, looked at archetypes on a cultural and national basis, comparing social connections and economic outcomes in Japan, China, the U.S. and European countries.[9]

Looking at individuals within corporations, Burt develops the viewpoint further by making an important reference to "structural holes." He emphasizes that the most valuable relationships for learning purposes are those between people who are *unlike*, because the information and resources that they share are more likely to be new than that shared between people which is more likely to be similar, repetitive, confirming and duplicating. When groups are isolated, Burt refers to the absence of linkage relationships as a "structural hole."[10] The classic situation is a ghetto, where contact between the populations inside and outside is by definition highly restricted either through formal or informal means. The ghettoized population over time develops independent culture and knowledge which, because of its separation, is increasingly different from that of outsiders. Ghetto members find different ways to address life issues, and when they do come into contact with outsiders, there is a greater potential for exchange of new or challenging information (and of conflict) than there is within either population on its own. Burt uses the term "webs" as network ties within groups of similar people, and the term "bridges" as ties between unlike webs.

The analysis of bank-CBO relationships follows most closely to the social capital tradition being developed by Brown, who focuses upon inter-sectoral social capital creation through inter-organizational relationships.[11] He looks at the three sectors of the market, the state and civil society and the way organizations from each sector connect to create social capital. To use Burt's terms, between these sectors are structural holes. Bridging the holes between the state and the market are "public-private" partnerships, which are recognized as unusual enough to warrant their own term. Brown looks more directly at the state-NGO bridges. Relationships between banks and CBOs, then, can be thought of as structural bridges between civil society and the market.

AN OVERVIEW OF THE FOUR PROS OF CBO-BANK RELATIONS

In the fall of 1995 and early 1996, nine cases of bank-CBO relationships in the US were investigated for a study with a National Community Reinvestment Coalition being financed by the Department of Housing and Urban Development of the U.S. Federal Government.[12] The relationships were chosen based on several criteria. In all cases the CBOs were "activist" and grassroots--meaning they were direct-service rather than intermediaries with a community, and they had a history of "going to the streets" if necessary. Another criterion was that the relationships were successful, with success being determined by four criteria: lending by banks, mutual feelings of success, evidence that the relationship helped each party reach their objectives, and commitment represented by at least five years of interaction. As well, the cases were chosen to ensure a variety of stories which meant selecting CBOs and banks varying in size, constituencies/markets, interorganizational structures, and geographic location.

TABLE 1: THE STUDY RELATIONSHIPS

State, City	CBO	Bank
San Diego, CA	MAAC Project (MAAC)	Bank of America
Washington, DC	Marshall Heights Community Development Organization (MHCDO)	NationsBank
Denver, CO	Atlantis Community (Atlantis)	Norwest Bank
Chicago, IL	Greater Southwest Development Corporation (GSDC)	Marquette National Bank
Raleigh, NC	Southeast Raleigh Community Development Corporation (SRCDC)	Branch Bankers & Trust
Raleigh, NC	Southeast Raleigh Community Development Corporation (SRCDC)	Triangle Bank
Raleigh, NC	Southeast Raleigh Community Development Corporation (SRCDC)	Wachovia Bank
The Bronx, NY	Mt. Hope Housing Corporation (MHHC)	Chase Manhattan Bank
Pittsburgh, PA	Bloomfield/Garfield Corporation (BGC)	Integra Bank

The final choice of relationships is presented in Table 1. The choice included three banks' relationships with one CBO; this choice was made partly because of the amount of interesting activity occurring in the state (North Carolina) where the CBO was located, and partly to better understand how one CBO built a network of bank relationships.
Looking at the outcomes of the nine case studies, four general categories of

outcomes become apparent. These can be described as the four "Pros:" property, product, profits and processes. First there are the actual property development deals that all of the CBOs are involved in as developers. These are mainly residential, both new housing and rehabed units, both rental and for sale. However, there also are some retail and a few industrial developments. The second outcome encompasses product development and product delivery activities. As with housing, these are products aimed at low- and moderate-income people. They include consumer and housing products, and increasingly small business ones too. These Pros affect a third "Pro" of primary concern to the banks and secondary to CBOs: financial profits. This includes issues of risk, pay back period, traditional measures like return on assets, and other indicators such as impact upon other activities. The fourth outcome category, process, is more nebulous and is closely intertwined with the others. It has to do with the strategies, procedures, policies and structures that produce the others, but also moves beyond these to include actions by one party to support the other to help it obtain some desired goal that does not clearly relate to "community development."

Table 2 presents some of these outcomes; although in the outcome of "property" the list is complete up to the end of 1995, for the others it is more illustrative with samples of key outcomes. Immediately noticeable is that in some relationships outcomes have been developed only certain forms, with only BB&T-SRCDC and BGC-Integra relationship having developed the four categories identified. The great variety of the outcomes in the table demands several qualifications to be understood properly. One qualification is that some of these outcomes result from the work of a CBO coalition rather than the CBO itself. This is true in all cases of the CRA agreements, and these collective initiatives have highly influenced other outcomes by establishing goals, policies and procedures. These outcomes are also influenced by the length of the relationships, which vary between two decades and five years; however, it would be hard to identify a correlation between the current intensity and length of the relationship. The relationship between Chase Manhattan and MHHC is one of the oldest, but the number of outcomes are quite modest (although the dollar amount is substantial); in contrast, the relationship between Integra Bank and BGC is actually shorter but the number of outcomes and the intensity of the relationship is much greater.

Another influence on the outcomes is that different banks and CBOs clearly build a variety of strategies and therefore deliver a unique version of the "community development" goals. Some CBOs focus upon their own capacity as product developers, and others act more like an "impresario"--orchestrating and encouraging activity rather than being a direct developer in their own right. GSDC's property development is relatively modest considering its 20-year history because the organization has acted more like an orchestrator to support others' development activities, whereas MHHC with 30 apartments buildings (only three with Chase) renovated has focused more upon direct development. And different organizations have different skills, competencies, resources and capacities, which influence the type of relationship they build and types of outcomes. MAAC in San Diego, for example, has a very independent strategy arising out of a social services priority, compared with BGC in Pittsburgh which emphasizes not just connections with other CBOs to form a coalition, but also formal linkages with major institutions like hospitals, school committees and local government as well as banks. And financial institutions like Bank of America and NationsBank which have full services and national ambitions have a much different range of resources and give a much different priority to building CBO relationships than an organization like Triangle Bank which is clearly local with a special market niche. There is even substantial variation in the way the organizations define community. Some organizations have broad geographic range, others focus upon a neighborhood; and for Atlantis the geographic component of "community" is of secondary importance to personal qualities of people (disabled persons).

TABLE 2: Selected Outcomes of Relationships

Site by State	Property	Products	Processes
CA	▸ a 144-unit low- and moderate-income new construction apartment complex ▸ small business initiative ▸ 10 single-family new units ▸ a $125,000 line of credit	▸ none	▸ none
CO	▸ none	▸ Products for disabled persons, which resulted in: ▸ $ 10 million in mortgages to disabled persons ▸ $100,000 - $200,000 in special lending for disabled persons' purchases of special needs, such as wheelchairs	▸ counseling
DC	▸ redevelopment of, and addition to, a retail site to create a 155,000 square foot shopping center (through a NationsBank acquired bank) ▸ $700,000 line of credit for single family construction ▸ $1,000,000 loan in exchange for $500,000 in tax credits to redevelop an industrial site	▸ Small Business Incubator	▸ counseling
IL	▸ $150,000 line of credit as interim financing for a 47,000 square foot retail development ▸ $1 million in equity in exchange for tax credits for a 60-unit development ▸ $330,000 loan for property assembly ▸ $2,050,000 mortgage commitment, $1 million equity for tax credits and a $272,000 FHLM grant towards 80 unit, 13,000 square foot medical center	▸ none	▸ bank CRA strategy
NC-B	▸ a $1 million loan pool (with three other banks) ▸ development of the first phase of a new subdivision with 21 single family units, predevelopment of second phase of 16 units with 68-72 planned in all. ▸ property acquired for twenty units senior. ▸ 10 scattered site single-family homes (some)	▸ With an intermediary: ▸ lendingproducts for agriculture ▸ home ownership, cosumer, agricultural & business lending delivery	▸ intermediaries for operational support and technical assistance ▸ CRA agreement, achieved in active participation with other CBOs ▸ letters of support ▸ counseling
NC-T	▸ lead in a $1 million loan pool (with three other banks ▸ day care loan ▸ 10 scattered site single-family homes (some)	▸ none	▸ bank Advisory Committee
NC-W	▸ participation in a $1 million loan pool (with three other banks)	▸ none	▸ intermediaries for operating funds and technical assistance ▸ letters of support

NY	▸ investment of nearly $2 million in funding for rehabing three apartment buildings	▸ none	▸ in conjunction with other CBOs, mis. activities such as joint lobbying of City Hall on sewer and water rates ▸ letters of support
PA	▸ six residential units ▸ 53,400 square foot commercial development	▸ With an intermediary: ▸ numerous low- and moderate-income products developed and delivered	▸ intermediaries for operating funds and technical assistance ▸ letters of support ▸ partnership agreements created with other CBOs ▸ loan reviews

** The outcomes refer to ones linked directly to the CBO-bank relationship investigated. Both the banks and the CBOs have many other accomplishments with other CBOs and banks. The study relationships also have other outcomes; this table is designed for general description of key outcomes only.*

In all cases the CBOs and banks have a number of active relationships with each other, and therefore the outcome of the specific study relationships must not be construed to be their full accomplishments; indeed, in some cases it is only a small fraction. For banks of any size, the need to have relationships with several CBOs is obvious for a financial institution of any size. The CBOs generally operate in a relatively small geographic area--even most CBO coalitions cover an area smaller than a medium-sized bank. Moreover, although Community Development Corporations (CDCs) generally do not operate in overlapping geographic areas, other types of CBOs often do operate in the same geographic areas; housing organizations, for example, make legitimate claims to banks of community representation even when a they operate within a geographic area also serviced by a Community Development Corporation. Although most CDCs try to bring together a variety of community groups, other groups undertake separate activities with a narrower agenda.

In most cases of productive relationships, the banks prefer exclusive relationships with the CBOs, where they will be the only or at least the most often selected bank for a CBO to deal with. From a bank's perspective, this means they can generate a larger volume of business with less per dollar effort. It gives them a greater presence in the community and builds a competitive advantage. CBOs, however, resist this strategy of banks and purposefully spread their business around. As Aggie Brose of BGC says "The banks know that we shop the deals." The CBOs are very reluctant to become dependent upon one financial institution, given the unstable nature of bank ownership and policies. Moreover, the CBOs also perceive that a competitive strategy works well for them. A relatively recent phenomenon is that the banks view relationships with CBOs as something that is desirable and therefore they are willing to approach them competitively. This development, of course, supports the theory that "second order change" has taken place, where the banks have had a fundamental realignment in strategy. This allows the CBOs which previously were shunned by banks to engage in negotiations with them to improve terms of their deals.

PROPERTY

Property developments can be thought of as a sub-category of the Pro of "products." However, it is such a large focus of activity and different deals have such different characteristics the outcome warrants a separate category. Moreover, the CBO-bank relationships usually begin with property developments and later produce other outcomes. Within the nine cases investigated, all the CBOs are involved in property development. Among the banks, Wachovia Bank focuses more upon direct consumer mortgage financing than development financing. Of the CBOs, only Atlantis did not produce property developments from the relationship investigated; although Atlantis has produced 54 units of housing in two developments, financing has come from public and quasi-public sources and another bank. For the other CBOs, the importance of the bank financing its developments varies greatly. For MAAC, Bank of America has provided funding for its major development. For Mt. Hope, however, the three properties that Chase Manhattan has helped finance are out of a total of 30 redeveloped apartment buildings--however, this is more that any other single financial institution has invested in.

There are at least five features of the CBO-bank social capital property development that distinguish it from traditional for-profit developers: (1) the role of government; (2) the coordinating role of the banks with government; (3) the integration of capacity building with deal production; (4) the presence of collaborations with banks and non-profit funders; and (5) the relationship of individual developments to a broader community development strategy.

In all cases the financial involvement of the government and quasi-government agencies was viewed as critical. This includes support through tax credits, land acquisition, direct subsidies and indirect ones such as with public bond issues. Mitch Thompson goes so far as to describe the Bank of America's CDB's purpose as "...to provide joint venture gap financing with public sector partners that respond to identified community development needs; we fill the gap (between government and traditional lenders)." In direct investments the government in almost all cases takes the most risky position with the banks providing financing that is best secured by the property. While undoubtedly some involvement of government is necessary today, the appropriate level is wide open for debate. At one time the amount of financing that private institutions are currently providing to support public housing objectives was thought of as impossibly risky and expensive. However, after experimentation and building of new capacity within both the banks and communities, some banks have developed housing finance strategies that make the business appear progressively more attractive.

In traditional real estate developments the developer has the primary responsibility for putting deals together. In the CBO deals, however, usually the bank has a major role in putting together the entire financing package. "What we do is a very highly specialized service," says Dan Nissenbaum at Chase's CDC. "We're developing financing projects that have as many as eight different sources of financing, and that's why we rely upon the team we have." At BB&T bank, Brian Coyle guarantees 100 percent financing and then takes responsibility for organizing any government funding available. Sometimes the support is not quite so direct; for example, in a deal that GSDC was putting together in Chicago, Marquette National applied to the Federal Home Loan Bank and obtained a $272,000 grant which it passed on to GSDC.

One major reason for the banks to take the lead is that they have more experience and ability to buy the needed experience. They can afford to hire Coyle who is a licensed developer as well as a financier on a full-time basis, to help CBOs build their own experience; at the end of 1995 Coyle had committed to 1500 units. A CBO typically is involved in a wide range of activities, with property development only being one. Total property development production of any single CBO is relatively small, and it does not have the volume to justify hiring the specialized financing skills that are needed. At the Bank of America's CDB Thompson explains that "MAAC had never closed a tax credit deal. The take-out lender had never done an affordable housing project, and the City Redevelopment Agency had never closed an affordable housing deal, and we were the only ones who had ever done one so we ended up...MAAC did plenty and performed very well, but there was a lot of transfer of knowledge along the way just by going through it. There was a training exercise as well as a deal."

Property development is complicated, not just from a financing point of view but also in terms of the actual building process. A large number of trades and professions must be organized, with many subcontracts. Budgeting and production coordination are sensitive to delays. In working with the CBOs the banks also are much more involved in the actual property development than with for-profit deals. "...you have two or three people at the table negotiating, and the developer (the CBO) may be the weakest of those," says Willis at Chase's CDC. "The person who is supposed to be driving the deal in the community group may never have done this before... community development lending is very complex deals, where there's a huge amount of hand-holding." The support can be direct, through staff at the bank or its affiliate. Or the support can be indirect, through a third party. In Pittsburgh banks are major funders of a technical assistance agency to help non-profits be developers; LISC provides these services in many of its operating locations. In San Diego MAAC supplemented these two forms of support by hiring a developer on a fee basis; in Chicago GSDC's Capraro is hired by other groups to help in their development plans.

As well as city, state and federal agencies, deals can involve private sector consortia like the Local Initiatives Support Corporation (LISC) and other financial institutions. To develop MAAC's 144-unit deal Thompson explains that it involved, in the end, four major financial partners in the deal. "Some people ended up dropping out--we had a take-out lender who was a small S & L, a local one, and they went into financial trouble. We (the CDB) were a construction lender for about $4.75 million. CEF (California Equity Fund) was the equity partner--part of LISC, the City Redevelopment Agency put in about $2.5 million. The City Housing Commission put in maybe a million dollars, something like that, through the Housing Trust Fund."

Banks' direct financial support for CBO's property development programs comes through lines of credit, loan pools, mortgages and equity. When lending pools are created and lines of credit are extended, almost always they are specifically associated with property development. For example, the line of credit Marshall Heights has with NationsBank is tied to single family housing acquisition and redevelopment. And the four-bank consortium that Triangle Bank put together to provide Southeast Raleigh CDC with a $1 million pool is specifically for its scattered site housing developments.

Whereas a traditional developer's primary goal usually is profit, the objective of property development in the CBO-bank relationship is part of a larger community development agenda. "We view housing as an economic development activity," says community entrepreneur Abdul Rasheed in North Carolina. "It's a housing delivery strategy, but it is an economic development activity. It can be, particularly if its home ownership, the number one economic development strategy for poor people, because it is about asset accumulation and asset development. So for a CED practitioner we're not just trying to respond to housing delivery as (most) housing non-profits are generally trying to do. We are trying to build an economic development activity using housing as a catalyst for that. Because we view the jobs associated with that housing development as important as the housing." In Southeast Raleigh, for example, Frazier aims to produce housing along with training opportunities; other CDCs have a similar strategy.

The community development strategy integrated into property development means new processes that can actually reduce costs. Rich Juarez reports that MAAC " ...built a project that has tremendous community support. We hired the local gang to be part of the development process--we created the first step of a youth build program and hired kids and trained them. There was no damage during the construction. We used one of the largest construction firms in town and they'd never done a protect anywhere in the country where they didn't have damage or vandalism."

The community development agenda of the social capital enterprises also means that the goal is something other than the traditional landlord-tenant or even the traditional homeowner-bank relationship. The MAAC development has taken care to structure a residents council with a broad range of activities to actually create a community with pre-school, jobs programs, Youth Build programs and other resident-led services integrated into the development's structure along with residency. The organizations that are Coalition members in The Bronx like MHHC make sure they have on-going control of their buildings, rather than just develop them and sell them back to landlords who may simply recreate a cycle of decay. And many of the CBOs are also involved in pre- and post-purchase homeowner counseling and make it a condition of purchase of their for-sale units, to reduce the defaults (described in more detail under "Process").

The property developments, being complicated, require a different degree of commitment and expertise than more routine ones. They often also demand lower rates of financing and some imaginative actions--what SRCDC's Frazier refers to as BB&T bank's Coyle giving the deal "a little twist.". Integra Bank in Pittsburgh, for example, sometimes transfers to community groups properties it has foreclosed on and cannot sell From the perspective of Integra, the transfer not only builds good will at little cost, but also ensures it will be developed to the best advantage of the community and hence help strengthen the viability of its other investments there.

The closer the relationship and the greater the trust, the more unconditional the support. In a way this mimics a close relationship between a for-profit developer and its banker, but the range of supportive actions is different. In Chicago, Capraro says most of his deals have involved Marquette National Bank which has come through even when government bureaucracies seemed to hold up the deals. In one development GSDC needed $150,000 for 90 days when other financing was due, and the bank came up with the interim loan without a lot of questions. "That's what Marquette is strategic for," says Capraro. "We can walk in the door and they will help us out when problems like that arise. We can walk in and say 'It's almost there, but we need a little help to get from here to there.' And they say 'Okay.'" Although many of these actions are common in relationships with traditional for-profit developers, with non-profit ones they are highly unusual.

PRODUCTS

A second "Pro" of outcomes of the CBO-bank relationships is "Products", which includes product development and delivery. On the one hand, these social capital products are about reducing risk and delivery costs, to make a new range of products more affordable. On the other hand, the social capital products are about banks seeing new needs and developing new ways to reach people who have those needs. In both cases, social structures and the social capital relationships between banks and CBOs are providing a critical ingredient.

The classic example of a reducing costs by incorporating social structures into product design is with micro-enterprise peer lending;[13] although the lending product was not developed by the study relationships, its obvious impact upon costs makes it a useful illustration for the products the groups have jointly developed. The micro-lending products in third world countries were first documented in the late 1950s, and popularized with Grameen Bank in Bangladesh in the 1980s and ACCION International since the 1970s. The product itself literally builds new communities of entrepreneurs. In its current American form, the micro-enterprise strategy provides business loans in the $500 to $5000 range, something not traditionally offered by banks because of the high cost of traditional bank branch product delivery structures. Instead, people needing this amount of capital relied upon their own savings or money they could raise from friends and family. For people from poor communities and/or with few personal relationships, this was not a real option.
In the micro-enterprise model, previously unassociated entrepreneurs are brought together in groups of five to 10, and they must work out a strategy to collectively support each others' business development. Rather than have a bank officer approve loans and review their performance, the group does it. This cuts bank administration costs substantially. As well, the entrepreneurs support each other's development through help and advice in ways that banks never could, and the default rates on the loans are extremely low. This cuts the risk for banks enormously. Typically, an intermediary skilled in putting together the groups and with a low cost-structure itself works with banks to deliver the product. One of the best known, *Working Capital* in Cambridge, Massachusetts reports default rates of around one percent, in comparison to traditional bank small business default rates which are often around three percent. The product not only provides financing, but also creates social capital by connecting entrepreneurs who previously were unconnected. Some of the members of the groups report that their need to connect with similar-size entrepreneurs is their only reason for joining such a group; they do not actually need financing, but simply someone at a similar stage and size of business development to talk with and work through issues. The creation of this social capital first of all required the relationship of the bank and intermediary.

In terms of product development and delivery, the communities that the CBOs represent also represent classic niche markets that can be seen in the context of growing market differentiation and specialization. The communities have unique characteristics that, on an aggregate level, represent considerable buying power that has traditionally been beyond the market of banks. The CBOs brings specialized knowledge and expertise, and access to a market that is difficult to reach. They represent a structure that can help deliver the products more effectively. For

Pittsburgh CBO leader Stanley Lowe, building a good relationship "...is just expanding through a partnership what is the normal function of a bank: providing access to capital, and helping them see in a broader way how they can do that better."

Product issues are the entire focus of the relationship between Atlantis and Norwest Bank, which developed and delivers new banking services to disabled persons rather than to Atlantis or a geographic community. When Susan Ferber, Norwest Vice President, says Atlantis "helped us identify things we needed to do that we couldn't see ourselves," she was referring to physical structures of the building. The initial relationship was established through the bank's need to respond to the Americans With Disabilities Act, which demanded physical changes to buildings to facilitate their use by disabled persons. However, Ferber's comment is equally applicable to the subsequent relationship which developed a new line of products for disabled persons. "The credit needs (for disabled persons) really are different, just putting out something for low-income people doesn't cut it," says Atlantis' Tamley. "Seventy-two percent are unemployed and on fixed disability income. It's a very stable income, but not typically recognized by banks as a reliable source. They pay 60 to 70 percent of their income for rent and survive. Down payment is an issue, because you can only have a small amount of money in cash and assets (to qualify for some disability benefits)--although a house doesn't count to the total. The credit needs are different. And there are stereotypes of people with disabilities." Atlantis convinced Matt Lynett, who is both Director of Marketing and CRA Officer for the bank, that disabled persons' characteristics make a special product structure appropriate. "For disposable income they don't have the same ability to spent it or go on vacation. Their whole life is spent on getting to and from work, and living. So the disposable income was different," says Lynett. The two parties met over a period of four months to develop the key product, the Disabled Community Home Ownership Program (DCHOP). That program features a mortgage distinguished by no down payment, $250 closing costs, a rate one percent below market, no points or fees, and a 55 percent gross debt/income ratio. The product also provides for counseling by Atlantis (described under "Process").

In these types of products, banks are experimenting and changes are inevitable. An on-going relationship between a bank and CBO like the one between Norwest and Atlantis also provides a mechanism to avoid some potential embarrassments such as the disabled persons' activist organization ADAPT (closely affiliated with Atlantis) protesting declines, foreclosures or changes in product structure. This was apparent in the case of DCHOP, when the bank decided to change its mortgage debt service ratio from 70 percent of net income to debt, to the current 55 percent gross income to debt. "At 70 percent (debt to income ratio) we were certainly pushing the boundaries," says Ferber, "but it was still hard to communicate to customers who were declined." The product's availability was also interrupted, but eventually the program was reintroduced with lower debt to income ratios. "It was very frustrating, particularly for people who had already begun the qualification process," says Tamley who is active with ADAPT. However, because she was in regular communication with the bank and made part of the process, ADAPT did not make any high-profile protest.

Product development and delivery are also important in other relationships, although more often through a CBO-controlled intermediary than through the CBO itself. For example, in North Carolina where SRCDC is an active member of CRA*NC, new products are developed with the help of CRA*NC. That organization has members who have specific expertise in particular development issues, and CRA*NC provides them an important collective forum where they can meet to identify their needs and work with banks to address them. CRAN*C's Andrew Foster explains that "We (CRA*NC and the bank) might talk about a loan program to small and minority farmers and so we have some folks on the (CRA*NC) board whose organizations do that and that's their expertise and we would ask them to come to those meetings." Traditionally banks would survey and interview potential clients to create a new product for them. However, CRA*NC provides a forum to collectively work with the bank to make sure the product structure is "right," since it is developed through an iterative process with the bank coming back for comments on its product.

This product development and delivery relationship between banks and CBOs is particularly developed in Pittsburgh. BGC is active in the Pittsburgh Community Reinvestment Group (PCRG), an activist intermediary that provides on-going consulting services. One product that was developed with PCRG and banks was a mortgage targeted to single African American women. The potential market was hard to reach through traditional marketing vehicles, partly because of the lack of trust between the potential buyers and banks. Consequently, after the product was jointly developed PCRG organized with the banks a seminar in a basement of a church with PCRG leader Stanley Lowe who is a well-known community activist. "About 200 women showed up, just to find out more," explains PCRG's Dan Holland. "We got together some women from our neighborhoods and discussed the program. We told them 'You've got to do this for yourself, and these two banks are here.' On advertisements it said the event is co-sponsored by PCRG. Banks had a minor role in the presentation. Stanley stood up and said 'Look: we'll provide testimony. We've got these women who'll tell their story.' And a woman went up and said 'Look. I was scared, and thought I couldn't do it.' It gave the rest of the audience the confidence. Some of these people are living in public housing paying $800 a month, more than a mortgage program."

The role of CBOs in consulting and marketing remains controversial on both sides. On the CBO side issues of co-optation and exploitation arise; for the banks the issue is value. Bert Wayne of Wachovia Bank is skeptical about the value that the CBOs bring, and has found that sometimes CBOs simply do not bring out the hidden market that he is after. He has found that some meetings organized by CBOs succeed in getting people out to the meetings, but not people who are really interested in the products of the bank. In terms of business loans, Wayne recounts that a community person recently raised the issue: "He said 'We would like to help you make small business loans.' My response to that was, 'We've been making small business loans for a hundred and twenty years. We've got experienced loan officers out there. How can you help us?'"

PROFITS

"There're a lot of banks out there that break the rule of safe and sound lending," says Chase Manhattan Bank's CDC's Joe Reilly. "A lot that are throwing money out the door. In the long run we're not doing anyone a favor if we do not maintain the standard that will encourage people to do more of this. It's critical to the long-term success." Although Reilly and many others at both banks and CBOs emphasize "safe and sound" lending and the quality of the assets rather than the rate of return, the Pro of "profitability" is a key way to encourage more banks to work with low- and moderate-income people and small businesses. The issue of profitability is a source of tension in the bank-CBO relationship--both sides agree the relationship should be profitable, but the key question is "*how* profitable?" and the related questions of "over what time period?" and "in relationship to what risk?"

When banks blatantly refused to lend to communities, they did so claiming that lending in the communities was tantamount to losing money. Today the role of government and CBOs in influencing banks' investment policies is still criticized by some as a subsidy by banks. Reviewing the PCRG agreement with Integra Bank after National City Corporation the bank in 1995, Bert Ely, an Alexandria Virginia nationally-known banking expert called the deal "essentially blackmail: 'If you don't give us what we want, we'll oppose the deal.'"[14] Recalling an experience with a bank that refused to do deals under $1 million, Jim Buckley in The Bronx presents the CBO perspective: "They were money hungry. It was pure greed."

Today, most CBOs would agree with Abdul Rasheed of The Initiative in North Carolina when he says "They (banks) all will say that the transaction costs are much higher to do business in these environments than others. And that is true. But, they are making money, as opposed to loosing money. They are making 7 cents on the dollar as opposed to 22 cents somewhere else. I don't think you can expect to maximize profit in these situations because it is a different kind of business environment; it's not the one that they would want to do all their business in, but it is one they are obligated to do business in, and at least we have figured out how to help them do business in this environment without it having to be a give away, or a write off. They are making money."

Although people interviewed treated profitability issues as proprietary information, banks' "community investment" activities (the definition of the products themselves is unclear) appear to currently produce somewhere between one and two thirds the rate of aggregate bank profit. These ranges are not out of keeping with ranges of other bank business units. For example, in 1995 although Bank of America made nearly 15 percent aggregate return on equity, this varied between five business units from 11.5 percent to 26 percent;[15] of course the way the business units are defined has a major impact upon the figures. There is general acceptance within the banking community that although profitability in community development lending (often described as "CRA lending") should improve with more experience; nevertheless according to traditional accounting procedures the portfolios will continue to be less profitable. There is also universal agreement that for property development, government subsidies are essential to make even this more modest profit.

The community organizations in the study cases all accept that their development proposals must be able to generate a positive return financially for the bank. However, defining the community development common ground has meant negotiating the amount of the return and the period for calculating the return, rethinking the traditional approaches to risk, and taking a "systemic" rather than deal-by-deal strategy. These ways of thinking about the business make determining the profitability of community development in a traditional sense difficult. One problem is lack of clarity over assignment of costs. For example, some could argue that donations made to CBOs and intermediaries should be included in product development costs. Another problem is agreeing upon the definition of products--should all property development lending be thought of as one category because of synergistic qualities, or should different types of property development investments be analyzed separately? And then there is the problem of defining an acceptable risk/return target; community activists claim--and some experience supports the claim--that if done properly the lending they want is actually less risky than traditional lending to higher incomes.[16] Any calculation of profit can be challenged because most of the products have such a short history that they have not experienced a full business cycle to fully assess their profit on a longer term.

Some claim that the issue of profitability is raised more often for products developed for low- and moderate-income communities than for other bank products. "Profitability is really tough because we don't really isolate a lot of our products, on a product by product basis to give you profitability," comments Bert Wayne, a long-time retail banker at Wachovia. "We did a study on this because many people in the bank were saying these (low- and moderate-income) loans are not profitable. I said, 'Come on.' I had a hundred million (dollars in mortgages) at the time. I said, 'You can't tell me we got a hundred million dollars out there and we're not making any money off of it. I don't believe that.' So, we decided to do a count study and you know when you do a count study, you load every cost you can think of onto something. I had to go over there and say, 'Get that out of there.' We got to the point that we are profitable. Not as profitable as our other lines, but it is profit."

This difficulty for assigning costs and segregating products also arises for BB&T. That bank has made substantial donations to CDCs, and is involved in a number of product initiatives with them. For at least one, where the bank works with the CBOs more like a developer as well as a banker, the financial returns appear attractive. BB&Ts Brian Coyle is astonished that more banks have not followed BB&T's lead to mix developer and financing expertise. He recalls that Henry Williamson, Executive Vice President and Chief Administrative Officer for the bank's parent holding company, called him into his office after reviewing the lending history of no defaults. "'Brian, it's okay to take a risk on some of these!'" However, Coyle says it is because of the quality of the deals rather than any conservative strategy of his that there have been no defaults on the loans that are made at competitive lending rates.

Fellow North Carolina banker Larry Barber at Triangle Bank describes profitability from the perspective of many bankers, who see the CBO business as well outside of their bank's preferred market. "We have not made money on the project that we'd like to make, but we looked at other things as well--a contribution to the area. We're making money, but the interest rate for the construction loan was prime and we don't make any prime rate loans." There was almost universal recognition among both bankers and community representatives that the banks' "community investments" on the short-term, aggregate level do not produce as large of a return on investment as the rest of the bank. Profit perspectives ranged from Chase Manhattan CDC President Mark Willis' description of a "non-loss" goal to Matt Lynett's at Norwest Bank who says the community development products should reach the average profitability of other products in the longer term. In Chicago, the impression is given that the deals with GSDC are just as profitable as other commercial business.

When asked if the community development lending is as profitable as other lending, Stephanie Cipriani at Integra Bank replies: "Not immediately, because we give half a percent off, we don't have any PMI. It's not as profitable right away, but if you hold it long term--and most of our mortgages have been portfolioed--it will be profitable. Maybe not as profitable, but it is a mortgage you wouldn't have been doing." And Integra Bank/Pittsburgh President Gayland Cook emphasizes that banks do not just look at return, but also at risk and that the bank has lowered its defaults by working with PCRG and its members to both understand risk differently, and establish systems to limit it. "If you give somebody the previously unrealizable opportunity to own a home, you'll never have to worry about delinquency or charge-off. Charge-off of all residential mortgages in low- and moderate-income neighborhoods is almost non-existent. And the delinquency is considerably lower than the rest of the portfolio." Through the PCRG network, Integra Bank now has more information on which to assess risk, and new tools such as the Community/Lender Credit Program to work through problems when they arise. In that program the community representatives and bankers work together to review loans and work with people who have defaulted on their loans.

The Bank of America's profitability is described by Don Mullane: "We design programs and products that solve problems and at the same time are safe and sound, make money for the corporation--maybe not as much money as some other things we may chose to do. But we have run our CRA programs like a business. We have been the torch bearer for Community Reinvestment Act kinds of programs, we've had the Chairman speak out on that issue, we have shared our numbers with people, yet other people share their numbers and they're the complete opposite of what we do--now, I can't tell you why because I'm not them. But I can tell you from our point of view, this is appropriate business for us, it's safe and sound and it's smart. And we win friends, and we allow people to achieve the great American dream--own your own home." Mike Mantle who heads the Bank’s Community Development Bank (CDB) subsidiary claims that banks should have been in the business of the CDB long ago simply because of the profitability in comparison to the risk, but attributes the banks’ inactivity at least in part to the fact the government was so involved in financing low- and moderate-income housing.

To obtain Bank of American's rate of return, Mullane emphasizes that the bank has to do a large volume. "It takes more applications to do the same amount of business as with the wealthy. On the cost side, you have to originate more. The cost side drives it. But if you can do enough volume....say it takes five applicants to get two loans. If you only have five, it probably isn't worthwhile to do the two. However, if you get 500 and do 200, then you're doing some volume and can build an apparatus to process those loans efficiently. We've tried to do sheer volume of those lower income mortgage loans and we've been very successful.”

Devaney at NationsBank stresses that the Community Development Lending Unit is a profitable cost center and includes all operating costs. He explains that although the unit makes less than the total bank's target 18 percent return on equity, its profit nevertheless is substantial. Catherine Bessant, heading the Community Investment Group at NationsBank which is separate from the CD Lending Unit, also emphasizes that all of the Group's costs are included in product costs, but profitability must be thought of in the aggregate. "In Chris's (Lopiano, at the bank's CDC) work some make a profit and some don't--but you use the profit to do other deals. What's important is that we pay attention to it, monitor it. We've don't have a specific target return. It's managing the strategy," she says. While the community development activities fit within the profit values of the company, the unit is allowed to make a variation of the larger organization.

The approach to thinking of profit in the aggregate allows for some substantial variation on NationsBank's target return on equity. On the bank CDC's Kenilworth light industrial park equity investment with Marshall Heights, the deal provides for a secure six percent return over ten years, and potentially greater benefit in terms of equity enhancement. However, Lopiano is cautious about the latter and aims for capital preservation. More profitable business can be generated through mortgages and other lending activity that will follow successful development of the light industrial park.

Although the CBOs are non-profits, the difference with for-profits is becoming blurred as they become more involved in business. Comparatively in terms of profit objectives, Marshall Heights and NationsBank can be seen as the inverse of one another. Marshall Heights has three for-profit subsidiaries, and the issue of "profit" is one that is of interest for both sides. These subsidiaries include two which do not make money, and a third which is a classic "cash cow" and supports other activities both financially and by the image it creates. "We do a lot of projects we don't make a dime off of," says Smith. "But you have to do both. You've got to do some money projects to survive and have credibility." Smith promotes a capital-building strategy like a for-profit developer, but with non-profit motives. "We're doing economic development projects to create new businesses, bring new opportunities in that eventually may throw off some cash flow, that may come back to the organization and assist it to do more projects--you develop a project and experience. If it's successful you can generate the next project."

Jim Capraro in Chicago paints a picture of the complementary nature of a non-profit CBO's relationship with the bank. Being a non-profit, it can do things a bank can not do, and do them at a lower cost. It can, in fact, undertake activities that will generate profitable opportunities for others. "I can look to another developer to make profit at our expense, because it'll cause something to happen that's positive," he says. Marquette National Bank benefits from that relationship with GSDC directly and indirectly. Directly it undertakes deals which others might perceive as risky compared with the rate of return, but because of the bank's intimate knowledge of GSDC it views the deals as much less risky and making a competitive rate of return. And indirectly the bank benefits by the CBO strengthening the community and therefore the quality of the rest of its portfolio, which is about 40 percent invested in GSDC's operating area. "The biggest factor in our area is employment," says bank President George Moncada, "and without that we can't get the dynamics we need, people can't buy houses, or have follow through to what we can contribute. Greater Southwest was instrumental in keeping Sears (department store) on the street and the Jewel/Osco shopping center, and there're plans for a new shopping center. Walgreens (a pharmacy chain) has come in, some fast food chains, and they've done a lot to keep the area economically viable which benefits us--when there're businesses here people work in them and the property is maintained."

PROCESS

To achieve the outcomes of property, products and profits, specific strategies, policies and structures have evolved between the CBOs and banks. In other words, the processes to achieve these outcomes are in themselves outcomes of experimentation. Therefore, the Pro of process is added as a category of its own. In these processes, the issues of accountability, power and control are addressed. This includes the creation of intermediaries which help achieve property and product development. It includes joint bank-CBO procedures for reviewing and supporting loans. And it includes lobbying and joint support vis-a-vis government and regulators.

Many intermediaries have been produced by the struggle of banks and CBOs to work together. The intermediary structures that have evolved are so important and complex that a separate article is devoted to them. To briefly review, their functions can be broken into in five categories: (1) technical assistance and capacity building for CBOs, (2) provision of CBO operating funds, (3) provision of investment funding (debt and equity), (4) a CBO-bank decision-making forum for (a) exchanging information, (b) reaching formal agreements, © monitoring and implementing agreements. The other intermediary function is (5) CBO coalitions working to establishing a "reinvestment environment"; these are the intermediaries which have the highest profile, since they are involved in public confrontation designed to force/encourage banks to take specific actions.

Through these intermediaries, banks provide funds to develop capacity of CBOs, including direct operating support and technical assistance. Traditionally this would be viewed as "aiding an enemy," "philanthropy," or "co-opting hush-money," but in the emerging view of social capital enterprise it is seen more as both key to CBO's community building goals, and as building an infrastructure to help banks achieve an emerging goal of servicing low- and moderate-income communities. The traditional bank structure of branches and centralized control simply do not work in such an environment, because it is too costly, and low- and moderate-income people do not have the same level of trust or openness to use of branches, nor do they receive the same welcome as higher income people do. Through the intermediaries a more decentralized strategy with shared control is being developed. Of course for CBOs this raises the issue of co-optation, and for the banks it raises the potential of being taken advantage of or "blackmailed." In most intermediaries one side is in clear control, but there is increasing inter-mingling. The Local Initiatives Support Corporation (LISC), for example, has a national board that is clearly accountable to banks and other funders in the organization which provides training and technical assistance as well as investment funds. However, in each area LISC operates there is a local office with a local advisory committee that has an active role. "We don't give them the fiduciary responsibility of liability," explains Anne Wilson at the San Diego office. "But everything we do gets approved and blessed by our local advisory board. So 50 percent of the advisory committee need to be donors to our fund, and the rest can be public sector, community, philanthropists, whatever." In many locations that includes activists. Lloyd Smith of Marshall Heights is active with LISC in Washington, DC, for example.

The processes around lending often involve a CBO in a type of counseling capacity that is financed at least in part by the bank. The counseling is generally for home buyers, and includes both pre-purchase counseling and support after the purchase for people who run into difficulties meeting their payments. The counseling provides purchasers with a community network to work through and avoid payment problems, in contrast to traditional bank mortgage services which provided little or no support. For example, NationsBank has made renewable annual grants to Marshall Heights to counsel home buyers. At The Initiative in North Carolin, Lori Jones says low-income people need a different approach and the non-profits have an important partner role. "If you are low-income, and moderate-income, and you have run into some problems, you are not going to go to the bank on the first try, and be ready to qualify for a mortgage. So you need a partner to take you through the steps, who says maybe 'You are a year away now. You need to restructure your budget and if you do this, this and that within six months you should be ready to at least approach the bank and start talking about an average dollar amount of mortgage you might qualify for.' I think that nonprofit CDCs have a responsibility to tell a perspective borrower the truth, that they are ready or that they are not ready."

In Denver, Norwest pays $20 for each pre-applications counseling session, and $50 for each post-application one. One reason to have Atlantis provide the counseling is simply because it is a non-profit run by the community, which means it can present the issue from a disinterested perspective. "We approach this from a community perspective," explains Atlantis Housing Director Karen Tamley. Because of Atlantis' role in the community, people trust it more than a bank to advise them according to their best interests. Moreover, disabled persons think of the organization in particularly positive terms when compared to banks which have a negative profile for many people in the community. "Atlantis has more credibility than the bank does with the disabled community," agrees Norwest's Tom Makowski.

Another reason banks use Atlantis is because of the specialized knowledge that it possesses. The system of benefits from governments is specialized for disabled, and the way they interact and change is something Atlantis is knowledgeable about. "People who come in on counseling sometimes haven't got all the benefits they should, so we actually raise their income levels," explains Atlantis Co-Director Mike Auberger. "And some people are collecting (some benefits) when they shouldn't be, and they're better off knowing that before the enter into a mortgage agreement instead of getting cut off later."

Lobbying government and regulators is a key issue in the bank-CBO relationship. The CBOs and banks attempt to push each other to find common ground to influence legislators and regulators. For example, when Congress threatened to gut financial support for low-income housing, the National Community Reinvestment Coalition helped organize collective action. NCRC is clearly a CBO-run organization. However, in 1995 it started an advisory group which includes senior representatives from the banking community as well as from CBOs. This forum helped coordinate bank and CBO opposition to ending of low-income housing tax credits and Section 8 housing subsidies. And in North Carolina, the banks and CBOs have actually run coordinated efforts to get legislators to provide financial support for the CBOs. The President of Wachovia Bank has also volunteered to take a leadership role in fundraising for the CBOs, both through his own bank’s donations and also heading up a Development Committee for a joint CBO-bank initiative which has brought support from foundations, government and other banks.

Sometimes the CBOs provide statements of support for the banks in forums that arise when regulators review of their CRA performance. The CBOs perceive that the correlation is weak between their view of a bank's CRA performance and that of a regulator's view. Although usually the CBOs are heard to complain that the regulators are too soft on the banks, they sometimes take the opposite position. The Pittsburgh Community Reinvestment Group wrote to the Federal Reserve Board to protest the regulators evaluation of Integra Bank's CRA rating, stating that: "PCRG does not accept Integra Bank of Pittsburgh's recent 'Satisfactory' CRA rating. Integra Bank has been, without question, an 'Outstanding' lender in ascertaining and meeting the needs of Pittsburgh neighborhoods."[17] And after a heated battle with National City Corporation over actions following its purchase of Integra Bank, PCRG wrote the regulators to state: "PCRG formally offers its highest commendations to the acquisition of Integra Bank of Pittsburgh by National City Corporation."[18] The PCRG has even come to the defense of banks in the media. Stanley Lowe explains that PCRG was non-plussed by criticism about PNC Bank. "When PNC bought Sears Mortgage Company," he recalls "and we woke up one day and *Wall Street Journal* was bashing Sears Mortgage Company, thirty-two community groups instantly wrote a letter to the President of the *Wall Street Journal* and said 'Listen, let us tell you something that we know--as a matter of fact, this might be a godsend to the folk up there who Sears does business with, because PNC's record is x-y-z.' And no one asked us to do that."

These sorts of actions are not taken lightly, occur only after unusual levels of trust have developed, and they raise concerns in many quarters about co-optation. At best, the relationship remains wary and is far from unconditional. The PCRG support for the acquisition only followed a very high level of confrontation between the two parties, and a reversal of the position of the National City Corporation. And in New York, when a network of community groups asked Jim Buckley in The Bronx in 1995 to write a letter of support for Chase to regulators regarding an application for a merger with a small bank, he refused. However, he did go so far as to write simply outlining his experience with Chase. "I was uncomfortable writing a letter of support, since I had only very specific knowledge of Chase's work and no resources to address the merger issue," he explains.

In Chicago, opportunities for mutual support processes are more extensive since the bank has members on the CBO board. Not only is Marquette National Bank an affiliate member of the CBO-led Chicago Area Neighborhood Development Organization (CANDO), but when a bank staff member Frank Maincyzk was GSDC's President he and CANDO Executive Director Ted Wysocki went to San Antonio together for a research project. The opportunities for mutual support further expanded when GSDC Executive Director Jim Capraro was appointed to the Board of Marquette National Bank by owner Paul McCarthy. "He must have thought we really know our business," says Capraro, "and it would be good to have the capacity on the inside. And also from a CRA perspective it would be useful to have someone to build a bona fide CRA strategy." Bank President George Moncada explains that under Capraro's influence and even before regulations changed, the bank totally changed its CRA strategy. "He's given us insight as to what's happening locally, to help other customers," says Moncada. "He's also got us to the point on the CRA side to say 'this is changing,' and was somewhat instrumental in us changing our process, to separate it from community service."

In Pittsburgh, PCRG members have formally listed the activities it will undertake for a bank. One of the major services is reviewing banks' performance. "Every year," explains PCRG's Stanley Lowe, "we will go down to the Allegheny County Recorder of Deeds and look up every loan that every bank makes in every neighborhood in the city of Pittsburgh, and we will collect that data, and we will marry that data against what's actually reported, and given those discrepancies we will report them back to the financial institutions, and send them a bill for that, too."

However, PCRG members' support for banks can go beyond these formal items listed. For example, after successfully lobbying Integra Bank to open a branch in Garfield, BGC's Brose actively encouraged residents to use the branch. In another example, Integra CEO Gayland Cook points to the assistance of a PCRG member organization to have parking meters removed in front of a branch that was having trouble attracting business. "The community went to the parking authority and did something we never could have done: we never could have persuaded the parking authorities to cut the parking meters off, but the community did that. And the community worked with us to acquire the additional space we needed for off-street parking."

One thing the CBOs get in return (although there is no formal quid pro quo) is the financing for projects. However, there is also an informal support that at least some of the banks provide. As an example, Brose describes that when she needed help with a community race that was under-funded and had a two-day turn-around, she simply called an Integra Vice President who supplied her with what she needed within two days plus a $1700 donation . Another example of outcomes of openness of relationships is when Integra sometimes transfers foreclosed properties free-of-cost to BGC for redevelopment. "It's that willingness to share openly and preserve lines of communication that I think is the heart and pulse of the partnership," says Cook.

In return for the CBO's work, some banks are actually paying them fees. In most cases this is restricted to counseling services, as mentioned for Marshall Heights and Atlantis. However, sometimes the fees include research and product development quite explicitly, as with CRA*NC's relationship with BB&T bank. And Integra Bank pays PCRG $50,000 a year for its services. In some ways these relationships resembles that of a retainer. Since the banks provide the majority of the revenue for PCRG, the question arises of how it maintains its legitimacy as a community advocate. For the bank a similar issue arises, about whether it is simply being "blackmailed" by the community organizations by an implicit threat to protest if they do not get the money.

In response to the co-optation issue, BGC's Aggie Brose points out that they "shop" all the banks to keep them competitive and BGC's Richard Swartz emphasizes the importance of being accountable to the community. "Hold on to a strong advocacy agency," he advises, "not just bricks and mortar, and have someone working with youth, schools, community activities center, and do a membership drive every year covering everyone." Lowe agrees there is a danger of co-optation, at a certain point--"at the point that we do our analytical work, our research, when we publish--we take no money for that. That's third party, separate source that we publish and do the research work through another source of funds." The money from the banks goes into general operating revenue, but for Lowe separate funding of research is critical. He points out that he receives no money for his many hours of work, and that although the bank's contribution is a big portion of PCRG's budget there is a much larger amount that is effectively donated by member organization and others through their volunteer time.

SUMMARY

Like financial, physical, human, and environmental capital, social capital is an input to production. It is a necessary ingredient in any actions that result in products and services. It provides the ties that information flows over that influences choice of product design and delivery vehicle. And social capital also is represented in the actual product and service delivery channels. These information and sales networks are the social capital structures that are part of all economic processes but are usually not recognized as a category like financial capital. By making them more explicit, better development strategies for both business and CBOs can be built.

The CBO-bank relationships provide rich illustration of the value of social capital, with property developments, products, profits and processes that are being produced through a social capital strategy that were not being produced before. These outcomes are successful when the tension between the CBO and bank objectives are creatively merged into a community development one. The outcomes go beyond what either banks or CBOs could produce on their own. Without the relationship, the products would not be possible.

The role of social capital in creating the four pros is summarized in Figure 1. The values, practices and culture--including these ingredients' formal manifestation as CRA legislation--provide the framework which led to interaction. Originally, the CBOs and banks had no meaningful interaction, but the CRA presented an imperative that led to a spiral of interaction processes that, when successful, created social capital. With the social capital, the banks and CBOs with their respective key constituencies of shareholders and communities, produced new property developments, products and services, and profits. These three outcomes, together with joint processes, can be considered indicators of community economic and social development.

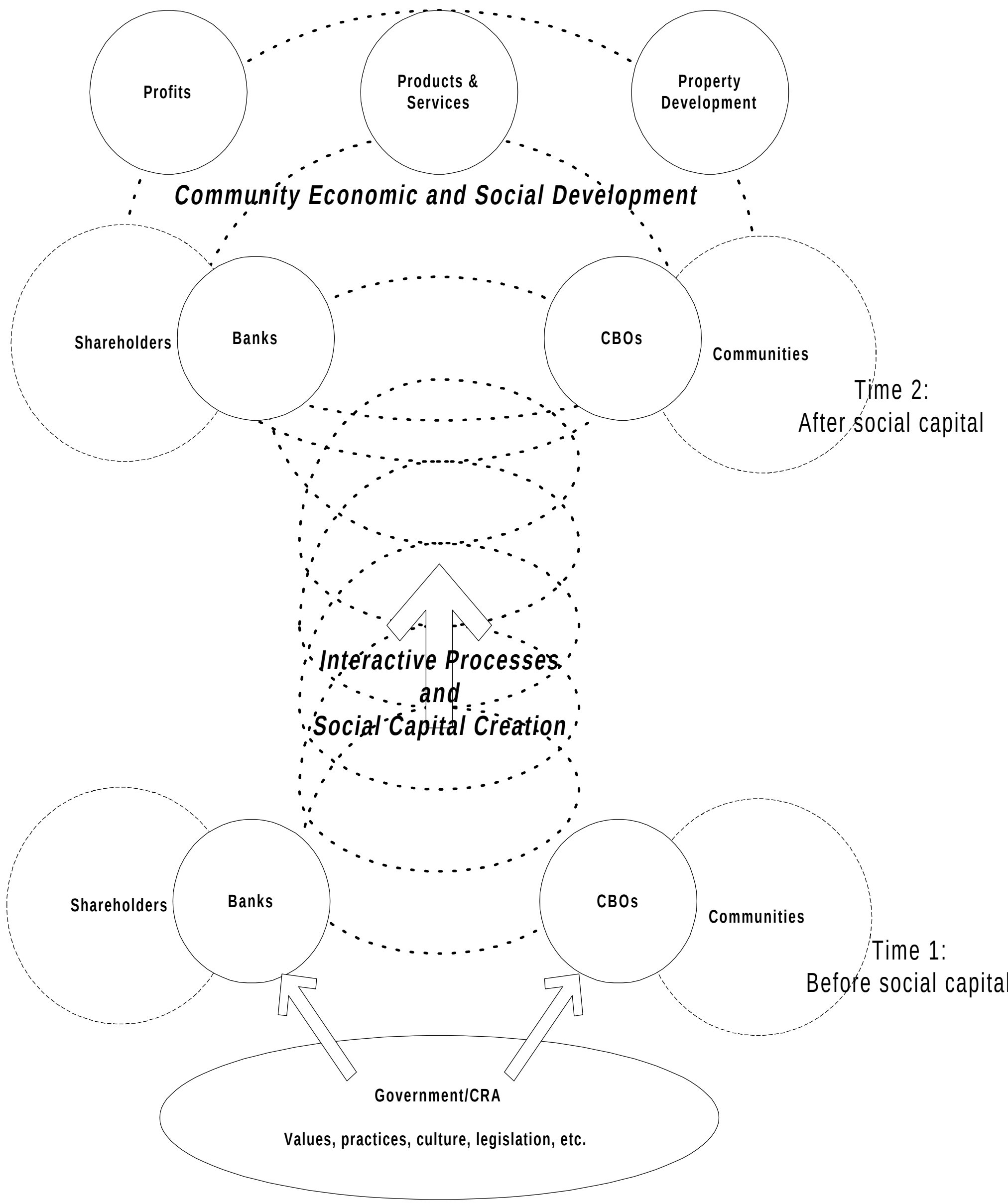
To use the tension between banks and CBOs creatively so it builds social capital rather than descend into simple conflict requires commitment, listening, creativity and good will. Without the commitment, bankers and CBOs representatives would break off their relationship at early stages before experiments were actually launched; without being able to listen and exchange ideas, the two parties would get stuck on their differences that are expressed in the same breath as the one in which they speak to some common ground; without creativity, the parties would not be able to work out new approaches that the new products demand so both sides can find some "wins", and without good will the relationship never develops to actually open up enough "space" to explore new possibilities. These are founding ingredients of the social capital which develops when the bankers and CBO representatives work together successfully. And with initial successes, trust and enthusiasm gradually build to even more audacious experiments with even more unusual products. This cycle requires that both banks and CBOs risk joining their activities and lessen their independence, for the social capital products by their very nature lead to interdependence. However, this should not be mistaken for dependence, because the ability to take an independent stance is what provides the critical creative tension to the relationships.

In some ways the role of the CBOs in generating these outcomes is similar to the function that sometimes has been played by organizations like Chambers of Commerce for small business. The CBOs provide a new structure organizing a new constituency, that banks can work with to more effectively deliver services to a wider market. However, unlike Chambers of Commerce, the CBOs and their members are ready and able to invoke legal pressures through tools like the CRA to prod banks to meet their constituencies' needs. Although such tools become less of a factor in good relationships, they still are important--PCRG had to resort to such pressure when Integra was bought out by a bank which did not understand the contribution of the CBOs. This distinguishing activist strategy might arise form the fact that CBOs do not traditionally think of themselves as "businesses" as Chambers of Commerce members do, and therefore are more ready to "take on" the banks.

Looking at Figure 1, however, the potential for more action becomes obvious. Only two of the relationships include significant activity in all the Pros described, and even these relationships do not include specific activities that others have developed. Although Pittsburgh and the North Carolina BB&T bank relationships are productive, neither of them has reached out to include disabled persons, for instance. This example is particularly telling, for it does not speak to just "one side" of the relationship--neither the CBOs nor the banks have brought the issue to the table.

Although community development is about making connections, somehow the disabled persons community, which legally includes 14 percent of the population, has remained outside of all but one of the relationships where it is focal. And this is with some of the best relationships in the country. It seems that development of social capital products is just beginning.

Figure 1. The Social Capital Process of Community Economic Development



End Notes

1. Levine, H. and Harmon, L. 1992. The Death of an American Jewish Community. Free Press, Boston, MA.

Massey, D. and Denton, N. 1993. American Apartheid: Segregation and the Making of the Underclass. Cambridge, MA: Harvard University Press.

NCRC. 1994. Mortgage lending, Race and Lender Employment: Does Anybody Who Works Here Look at Me? Washington, DC.

Rogers, David. 1993. *The Future of American Banking.* New York: McGraw-Hill: 6.

Squires, G. 1989. *Unequal Partnerships*. New Brunswick, NJ: Rutgers University Press

U.S. Senate Record, January 19-23, 1977.

U.S. Senate Hearing Records. March 22-23 1988.

2. Jonnes, J. 1986. *We're Still Here: the Rise, Fall, and Resurrection of the South Bronx*. Boston, MA: The Atlantic Monthly Press.

3. Art, R.C. 1987. Social Responsibility in Bank Credit Decisions: The Community Reinvestment Act One Decade Later. *Pacific Law Journal*. Vol. 18 (4): 1971-1139.

4. ABA Banking Journal. 1993. Urban Allies on the Move. August: 34-42.

5. Bourdieu, P. 1986. The Forms of Capital. In J. Richardson (ed.) *Handbook of Theory and Research for the Sociology of Education.* New York: Greenwood Press: 247-258.

6. Coleman, J.S. Social Capital in the Creation of Human capital. *American Journal of Sociology.* 94 (Supplement): S95-S120.

7. Burt, R. 1992a. Structural Holes: *The Social Structure of Competition.* Cambridge, MA: Harvard University Press.

Burt, R. 1992b. The Social Structure of Competition. In R. Swedberg (ed.) *Explorations in Economic Sociology.* New York: Russell Sage Foundation: 42-64.

8. Putnam, R.D. 1993a. *Making Democracy Work: Civic Traditions in Modern Italy.* Princeton, NJ: Princeton University Press: 35.

9. Fukuyama, F. 1995. *Trust: The Social Virtues and the Creation of Prosperity.* New York: Free Press.

10. Burt, R. 1992a. *Structural Holes: The Social Structure of Competition*. Cambridge, MA: Harvard University Press. pp. 8-9.

11. Brown, D. 1995a. *Creating Social Capital: Nongovernmental Development Organizations and Intersectoral Problem-Solving.* IDR Reports. Vol. 11 (3).

Brown, D. and Ashman, D. 1996. Participation, Social Capital, and Intersectoral Problems Solving: African and Asian Cases. *World Development.* September. Vol. 24 (9): 1467-1480.

12. Waddell, S. Forthcoming. Creating a New Form of Enterprise: Social Capital Enterprise. HUD: Washington, DC.

13. One of the earliest analysis of such approaches, see: Geertz, C. 1962. The Rotating Credit Association: a "Middle Run" in Development. *Economic Development and Cultural Change,* 10:

249-63. There is now a large volume of information about micro-enterprise lending. For more information contact the World Bank's CDAG in Washington, DC or ACCION International in Boston, MA.

14. Thurston, B. 1995. Powerful PCRG leads the nation in loan scrutiny. *Pittsburgh Business Times.* Pittsburgh, PA. Dec. 11-17. p. 36.

15. Bank of America Corporation. 1995. *Annual Report.* San Francisco, CA.

16. The Woodstock Institute in Chicago has done a number of good studies in this area.

17. PCRG. 1995. Letter to Federal Reserve Bank of Cleveland, Community Affairs Officer Ms. Laura McGowan. November 30. p. 8.

18. PCRG. 1995. Letter to Federal Reserve Bank of Cleveland, Community Affairs Officer Ms. Laura McGowan. November 30. p. 8.