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OA/ID Number: 21804
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Folder Title:
Community Reinvestment Act

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G	34	6	5	1

July 22, 1992

Dear Richard,

Enclosed you will find a booklet and 2 articles. I included a recent American Banker article on Bill Clinton and his vision of the role of the banking industry in the nations economic recovery. He sees the importance of CRA and how it can stimulate the economy.

WE CAN BEAT HIM AT HIS OWN GAME, BUT WE HAVE TO MOVE FAST!

On July 14, 1992 my father had a meeting with Mr. Clayton Yeutter. The meeting went very well and is continuing to go through the Political process. We →

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are still looking forward to a meeting with Lawrence Lindsay; that meeting is very important to us.

I know that you must be very busy, but I hope you can set aside a few minutes to read the contents of my package and schedule a meeting with Mr. Lindsay.

We greatly appreciate it.

Hope all is well and keep up the good work; Vice President Gores Staff is getting lots of positive write ups in the media.

warmest regards,

DORIT

TOP BANK PERFORMERS IN FIRST QUARTER
Tables begin on page 8

AMERICAN BANKER

VOL. CLVII NO. 108 Friday, June 5, 1992 157th year

Banks Facing A Heat Wave On Loan Bias

By PHIL ROOSEVELT

Deservedly or not, banks will be on the hot seat for months and maybe years as a result of the Los Angeles race riots. The political fallout from the unrest has galvanized the government to step up its search for bias by mortgage lenders.

Over the past several weeks, major investigations into discriminatory mortgage lending have been unveiled separately by the Office of the Comptroller of the Currency, the Department of Housing and Urban Development, and the Justice Department.

ANALYSIS: *Follow-up on the news*

An elaborate survey of lenders by the Federal Reserve Bank of Boston also has begun in earnest.

While experts say it's too early to predict the outcome of these probes, the banking industry could face embarrassment as well as higher compliance costs and forced lending reforms.

Some lenders continue to hope that they will be vindicated when the tumult and the shouting end.

Support Is Possible

Indeed, the investigations could yield support for their contention that mortgage bias is inadvertent and can be remedied by improved teamwork among lenders, secondary-market agencies, and other market participants.

Whatever the outcome, the pressure is unlikely to let up anytime soon. The investigative boom began last fall when regulatory data from the Federal Reserve revealed that blacks and Hispanics are rejected for home loans far more often than whites.

But it was the recent Los Angeles riots that gave "muscle to all this," said John F. Kain, a Harvard University professor of economics and Afro-American studies.

At the Forefront

The riots, provoked by the April 29 verdict in the Rodney King case, thrust urban issues – including housing and questions of fairness in mortgage lending – to the forefront of national debate.

"What people are screaming for – it's almost Republican rhetoric – is to own their own companies and own their own homes," said Rep. Joseph Kennedy 2d, D-Mass., who visited the site of the riots last week. "We're not talking about charity here; we're talking about getting banks to lend money."

A new round of pressure on the mortgage industry is expected this fall when the Fed releases its second annual roundup of mortgage rejection data. It is unlikely that there will be much improvement in the numbers in such a short period of time, many experts say.

NEWS ANALYSIS

"I can't believe there won't be" an outcry, said Rep. Kennedy, who hopes to use the momentum to build bipartisan support for a toughening of the Community Reinvestment Act. The 1977 legislation mandates lending in low-income neighborhoods.

Effective Advocate

The congressman should not be taken lightly. He shocked bankers in 1989 years ago with a floor victory that dramatically expanded reporting requirements under the Home Mortgage Disclosure Act, leading to the Fed studies. Under the law, banks must now disclose information about applicants' race, gender, and income levels.

The 1990 data showed that blacks were rejected 2.4 times as frequently as whites. Hispanics were rejected at 1.5 times the rejection rate of whites.

The American Bankers Association has acknowledged "subtle" patterns of discrimination.

The American Bankers Association initially attacked the Fed data as inconclusive for proving bias, noting that it did not take into consideration other factors such as borrowers' credit histories or debt levels. But it began backpedaling last month after meeting with community and consumer groups.

The trade group acknowledged "subtle" patterns of discrimination and launched a campaign to help banks extend more loans to minorities.

"You can't look at the data and say there isn't something wrong," said Gordon Mansfield, assistant secretary for fair housing at the Department of Housing Urban Development.

Agency to Use Testers

HUD recently laid the groundwork for what could prove to be the most potent of the government investigations. It is sponsoring a project that will send pairs of loan applicants into lending offices in three cities to test for bias.

One tester will be white and the other from a minority group, but they will present themselves with similar economic profiles.

The Federal Reserve Board rejected a similar testing plan last year, saying it would raise ethical questions, cost too much, and possibly be unreliable.

But testing may prove to be an ideal tool for weeding out discrimination, especially in the crucial preapplication stage, says Ronald Wienk, a senior researcher at the Urban Institute, a Washington, D.C.-based nonpartisan think tank.

The institute is trying to raise funds to launch its own testing project, he said. Unlike the HUD effort, it would be nationwide.

The housing agency will send pairs of testers into lending offices.

Testing is, of course, not the only approach to finding bias. The Federal Reserve Bank of Boston sent surveys two weeks ago to 130 of the most active mortgage lenders in Boston, seeking detailed information about all mortgage applications

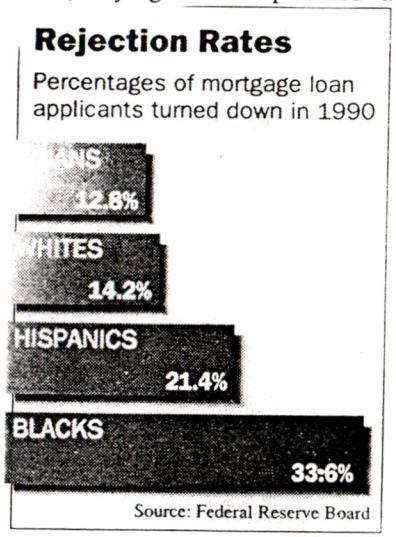
Banks Face Long Heat Wave over Loan Bias

submitted in 1990 by blacks, Hispanics, and a sampling of whites.

"It's primarily a research project, but the information on the individual institutions will be available to their primary regulator," said Lynn Browne, the Boston Fed's deputy director of research for regional affairs.

Filling out the survey forms could take 300 man-hours for some banks, according to estimates by Boston lenders.

But the Massachussetts Bankers Association supports the effort, saying that it planned a similar project until the Boston Fed took the lead.



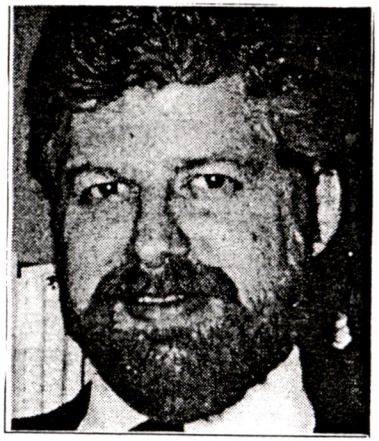
The trade group's president, Richard Driscoll, said the bankers are hoping that the Boston Fed completes its study before the Washington Fed gives out its data on 1991 rejection rates in the fall.

Response to Information

"We're going to get a whole lot of questions out of the 1991 figures, and it would be useful to be able to say, 'Well, based on what we're able to determine, we think there are some things that can be done and are being done,' " he said.

But some observers said bankers will be hard-pressed to avoid further criticism when Washington releases its statistics this fall.

"These problems appear to be deeply imbedded in the mortgage lending industry," said Allen Fishbein, general counsel for the Washington-based Center for Community Change. "I think you are going to see a process of a number of years before significant improvements are detected."



Allen Fishbein
Calls problems "embedded"

The Justice Department, meanwhile, is stepping up its efforts to identify and sue lenders engaged in broad "patterns or practices" of discrimination. In the past, the department's involvement was limited to filing bias suits on behalf of individual mortgage applicants.

The department has enlisted banking regulators to supply information that could lead to enforcement, though that avenue has not been especially fruitful in the past.

The OCC will make public its broad findings of a probe of 250 national banks "if we find anything worth talking about," a spokeswoman said.

Bank and thrift regulators have reported scant evidence of discrimination in their field examinations of banks.

But that may be changing. The Office of the Comptroller of Currency said last month that it was probing some 250 national banks for discriminatory practices.

The investigations should be completed by yearend, an OCC spokeswoman said. The agency will make public its broad findings "if we find anything worth talking about," she said.

Certainly, regulators are under heavy pressure from critics in Congress to find something. Rep. Kennedy characterized their performance to date as "atrocious."

Rep. Esteban Torres, D-Calif., said he may introduce legislation to create a new agency that would monitor banks' compliance with fair lending laws.

Banking regulators are themselves starting to face charges of bias. Just this week, a report from the House Banking Committee criticized bank and thrift regulators for failing to hire and promote women and minorities. □



Rep. Joseph Kennedy 2d
Using the momentum

Rep. Esteban Torres, D-Calif., said he may introduce legislation to create a new agency that would monitor banks' compliance with fair lending laws.

Clinton's Rx for Jobs Relies on Small Banks

By ROBERT M. GARSSON

In May 1985, Gov. Bill Clinton of Arkansas showed up at South Shore Bank in Chicago loaded with questions. He spent hours there and hours more touring the inner-city neighborhoods where the bank does business.

"He wanted to know everything," recalled James Fletcher, president of the bank, which is regarded as a trailblazing community development lender. "He asked how we managed risk, if we made money, whether our methods were transferable."



AP/Wide World

POPULIST: The Democrat has said little about major banking issues but would favor a "more progressive Community Reinvestment Act."

Network Foreseen

The tour provided a model for a bank that the governor said he would help organize in a depressed rural county back home.

As he prepares to accept the Democratic Party's presidential nomination in New York this week, Gov. Clinton hopes to take that model nationwide. He has promised to create, if elected, a nationwide network of community development banks, which might both compete with and complement established commercial banks.

The 45-year-old Arkansan has said little about the banking industry's bread-and-butter issues: deposit insurance premiums, capital standards, and the increasing burdens of regulation.

Job Creation a Priority

But his fascination with South Shore Bank, a subsidiary of Shorebank Corp., offers clues about his views on banking.

No issue is more important to the Arkansas governor than creating jobs, and he wants the banking industry to play a key role in such efforts.

Unlike the Bush administration, which adopted a deregulatory stance that appealed to large banks, big securities firms, and diversified financial services

See **CLINTON** *page* **6**

Bush Library Photocopy

Clinton Sees a Key Role for Banks in Recovery

Continued from *page* **1**

companies, Gov. Clinton wants to foster local action through a network of community-based institutions patterned after South Shore.

"He believes in small community banks," said Arkansas Banking Commissioner William J. Ford. "Small business is essential in job creation, and he knows that small businesses are created by small banks."

Mr. Ford and others who know the governor say he is likely to prove a determined advocate of community banking and of rules to force banks to plow money back into the communities from which they take deposits.

Interested in Banking Bill

In 1985, while Mr. Ford worked on legislation that would permit reciprocal interstate banking with 16 southeastern states, Mr. Clinton took a keen interest.

"Every time he met with me, he would say, 'How's the CRA part?' " Mr. Ford recalled. "He was interested in the local communities, and he didn't want money flowing out of state."

Gov. Clinton hasn't changed his views much in that respect. His national economic strategy, a 22-page document titled "Putting People First," highlights his interest in the Community Reinvestment Act – the 1977 law that drives bankers to distraction.

As president, he said, he would "ease the credit crunch in our inner cities by passing a more progressive Community Reinvestment Act to prevent

tive compensation and called for legislation to deny tax exemptions for salaries of more than a yet-unspecified level.

Karen Shaw, a Washington-based analyst with close ties to Democratic insiders, including some in the Clinton camp, said she thinks bankers should not make too much of some of the rhetoric coming out of the Clinton camp.

"A number of people buried in the policy apparatus [of the Clinton campaign] are a lot closer to Joe Kennedy and the Acorn folks than I feel good about."



AP/Wide World

CRITIC: The presidential hopeful has suggested he would cap card interest rates and called for a crackdown on stratospheric salaries.

William R. Bowen, to his banking commissioner, who worked in the industry for 44 years, Gov. Clinton appears to have won the hearts of his state's bankers.

Despite his call for restraints on credit card rates, he is better remembered by Arkansas bankers for his efforts to modernize Civil War-era laws that set a strict ceiling of 10% on all loan rates.

Mr. Bowen, former chairman of First Commercial Bank, Little Rock, said he was first attracted

Bankers Association next year.

The banker recalls liking Gov. Clinton from the start.

"He was just so obviously such a bright, well-educated person, so much more so than the other candidates," Mr. Brandon said. And the governor went out of his way to establish close ties to the industry, the banker added.

Recognizing Banks' Role

"Through the years, he always recognized that banks have a central role in the economy," he said. "So we always had a good working relationship."

Mr. Brandon also argued that Gov. Clinton's views on community reinvestment are compatible with those of the American Bankers Association.

South Shore Bank, he points out, is a small, private-sector institution that has voluntarily developed a specialty in inner-city lending. The ABA's current policy calls for creation of an institute to provide information to banks interested in lending to low-income areas.

"South Shore has developed a technique for pooling private dollars and foundation dollars," Mr. Brandon said, making it a much more appropriate vehicle for aiding distressed areas than a commercial bank would be.

Easing CRA Pressure?

A network of community development banks might also ease pressure in Congress for tougher CRA standards, he said.

If the Arkansas experience is any guide, Gov. Clinton is likely to take an active interest in his

also took an active interest, and retains a seat on the bank's board.

Defends Deposit Insurance

While Gov. Clinton has never been clear about how he would deal with the problems that continue to trouble the banking and thrift industries, he has taken pains to distinguish between the two sectors. He has said the federal government must stand behind the deposit insurance system, even if it means putting up tax dollars.

"You keep in mind that what the taxpayers were asked to bail out was the guaranteed deposits, so the taxpayers were, in effect, bailing out each other," he said last week in a public television interview with Bill Moyers.

In the thrift industry, Gov. Clinton said, "there were people who made a killing ripping off the depositors." But "the banking system, it's a different situation," he added.

"There are some problems in some banks because of the regional depressions," Gov. Clinton said, "and there have been some mistakes made, but the scope of the problem I don't expect to be nearly as great."

Fresh Scrutiny Urged

Democrats with industry ties say bankers ought to take a fresh look at the Democratic standard-bearer and consider whether they might be better off with a change in leadership.

"He has taken a view that the anticompetitive things we have saddled ourselves with ought to be moved aside," said Charles

know the governor say he is likely to prove a determined advocate of community banking and of rules to force banks to plow money back into the communities from which they take deposits.

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As president, he said, he would "ease the credit crunch in our inner cities by passing a more progressive Community Reinvestment Act to prevent 'redlining' and require financial institutions to invest in their communities."

Interventionist on Business

Some of his rhetoric has surely been shaped by the Los Angeles riots, which set the stage for his economic paper, but Gov. Clinton has shown a preference for using government to modify business behavior in other areas.

While campaigning in New Hampshire, he repeatedly blasted the high rates banks were then charging on credit cards, suggesting strongly that he would act to cap interest charges.

He has also denounced execu-



AP/Wide World

CRITIC: The presidential hopeful has suggested he would cap card interest rates and called for a crackdown on stratospheric salaries.

Clinton campaign] are a lot closer to Joe Kennedy and the Acorn folks than I feel good about," said Ms. Shaw.

She was referring to Rep. Joseph P. Kennedy 2d, D-Mass., and the Association of Community Organizations for Reform Now; both have taken activist positions on CRA.

"But that's the nature of a Democratic campaign," she added, suggesting that Gov. Clinton's policy on banking would not necessarily be guided by the views of either Rep. Kennedy or Acorn.

Arkansas Bankers Like Him

In the governor's home state, bankers haven't been turned off by the campaign rhetoric. From his chief of staff, former banker of First Commercial Bank, Little Rock, said he was first attracted to the governor because of his willingness to take on the usury ceilings during his first term.

Some Arkansas bankers go so far as to say a Clinton administration might bring some relief from the growing burden of regulation, which they view as a hot button.

"He's not as interested in the paper trail as in getting something done," said William H. Brandon Jr., president and chief executive officer of First National Bank of Phillips County, Helena, Ark.

Mr. Brandon, who was chairman of the Arkansas Economic Development Commission under Gov. Clinton, is in line to become president of the American recognized that banks have a central role in the economy," he said. "So we always had a good working relationship."

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Easing CRA Pressure?

A network of community development banks might also ease pressure in Congress for tougher CRA standards, he said.

If the Arkansas experience is any guide, Gov. Clinton is likely to take an active interest in his development-bank proposal.

After returning from his Chicago trip, he turned his attention to Arkadelphia, a small town in a rural county of 20,000 persons that had been devastated by the loss of three major employers. They took as many as 1,500 jobs from the area, leaving it with the state's highest unemployment rate.

"Bill twisted a lot of arms of local investors to get [the community development bank] going," said George P. Surgeon, a former South Shore officer who moved to Arkansas to run the institution, Southern Development Bank.

The governor's wife, Hillary, tem, even if it means putting up tax dollars.

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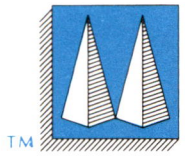
Democrats with industry ties say bankers ought to take a fresh look at the Democratic standard-bearer and consider whether they might be better off with a change in leadership.

"He has taken a view that the anticompetitive things we have saddled ourselves with ought to be moved aside," said Charles T. Manatt, a former banker and onetime chairman of the Democratic National Committee.

Cantwell C. Muckenfuss, a Democrat who has held a number of senior posts in bank regulatory agencies, said the industry would have a better chance of winning modernization with a President Clinton "who can work with the Congress better."

More important, he said, bankers ought to rephrase the question Ronald Reagan posed during his first campaign: "If you ask about the banking system, 'Are you better or worse off than you were 12 years ago?', the answer sort of leaps out at you." □

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$30.	$1560.	$3120.	$4680.	$6240.	$7800.
$40.	$2080.	$4160.	$6240.	$8420.	$10,400.
$50.	$2600.	$5200.	$7800.	$10,400.	$13,000.

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2. I, THE PARTICIPANT IN THE H.P.P.'s HOME FINANCING GROUP UNDERTAKE TO OPEN A BANK ACCOUNT WHERE I WILL DEPOSIT MINIMUM WEEKLY DEPOSITS, AND FURNISH YOU WITH PROOF OF THE ACCOUNT AND THE DEPOSITS FOR AS LONG AS THE BANK ACCOUNT IS OPEN. (For earnings on deposits see Benefit & Profit)

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3. I, the Participant in the H.P.P.'s Home Financing Group, undertake to make regular weekly deposits each and every week, or two weekly deposits every two weeks, or a one time four weekly deposit each and every month, for as long as my Savings Account is open. I hereby select a minimum deposit of $_____ every _____ week(s). I may deposit more but not less than said minimum.

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5. I understand that I may withdraw my funds in the Savings Account (no partial withdrawals being permitted) or close the account at any time. I shall however forfeit the $100 enrollment fee and all rights and benefits under my H.P.P.'s Home Financing Group Agreement.

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6. I UNDERSTAND THAT I THE PARTICIPANT MEMBER IN THE H.P.P.'s HOME FINANCING GROUP WILL BE A PART OF A GROUP THAT WILL PROMOTE HOME DEVELOPMENTS, WHERE I CAN ACQUIRE OWNERSHIP IN A FINANCED RESIDENTIAL-UNIT THAT I WILL UNDERTAKE TO PAY OFF IN MONTHLY PAYMENTS. UPON RECEIVING OWNERSHIP SAME MAY BE SOLD AND MAY EARN PROFIT ABOVE MY TOTAL DOWN-PAYMENT.

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Phone Number: ( ) _____

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Date of Birth: _____

Enclose a $100.00 registration fee by Check or Money Order payable to: Home Participating Promoters, Inc.

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I/We agree to the Conditions Governing the Operation of the Home Participating Promoters–Home Financing Group as stated:

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Signature (If Joint Account with right of survivorship)

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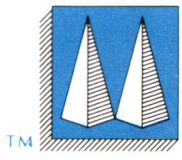
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YOU CAN SET ASIDE WEEKLY SAVINGS AT YOUR OWN PACE
IN YOUR BANK-ACCOUNT – WHERE ONLY YOU HAVE ACCESS TO THE MONEY,
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The chart below shows how small deposits add up to big bucks!

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$30.	$1560.	$3120.	$4680.	$6240.	$7800.
$40.	$2080.	$4160.	$6240.	$8420.	$10,400.
$50.	$2600.	$5200.	$7800.	$10,400.	$13,000.

Conditions Governing The Operation Of The Home Participating Promoters®–Home Financing Group

H.P.P.'s Home Financing Group

1. I, the Participant-Member understand that when I establish a Savings Account, I will be entitled to the rights and subject to the obligations of the H.P.P.'s Home Financing Group from the date of the Participation Registration Agreement.

Savings Account

2. I, THE PARTICIPANT IN THE H.P.P.'s HOME FINANCING GROUP UNDERTAKE TO OPEN A BANK ACCOUNT WHERE I WILL DEPOSIT MINIMUM WEEKLY DEPOSITS, AND FURNISH YOU WITH PROOF OF THE ACCOUNT AND THE DEPOSITS FOR AS LONG AS THE BANK ACCOUNT IS OPEN. (For earnings on deposits see Benefit & Profit)

Home Down-Payment Account

3. I, the Participant in the H.P.P.'s Home Financing Group, undertake to make regular weekly deposits each and every week, or two weekly deposits every two weeks, or a one time four weekly deposit each and every month, for as long as my Savings Account is open. I hereby select a minimum deposit of $_____ every _____ week(s). I may deposit more but not less than said minimum.

Home Down-Payment

4. Although there is no limitation on the amount which may be held on deposit in the H.P.P.'s Home Down-Payment Account, a minimum equity must be accumulated in the Savings Account, prior to acquiring a financed Residential-Unit. The minimum down payment shall be determined by the size of the home or the apartment, location of the development, and my ability to pay the monthly Home-Apartment Ownership payment.

Early Withdrawals

5. I understand that I may withdraw my funds in the Savings Account (no partial withdrawals being permitted) or close the account at any time. I shall however forfeit the $100 enrollment fee and all rights and benefits under my H.P.P.'s Home Financing Group Agreement.

Benefit & Profit

6. I UNDERSTAND THAT I THE PARTICIPANT MEMBER IN THE H.P.P.'s HOME FINANCING GROUP WILL BE A PART OF A GROUP THAT WILL PROMOTE HOME DEVELOPMENTS, WHERE I CAN ACQUIRE OWNERSHIP IN A FINANCED RESIDENTIAL-UNIT THAT I WILL UNDERTAKE TO PAY OFF IN MONTHLY PAYMENTS. UPON RECEIVING OWNERSHIP SAME MAY BE SOLD AND MAY EARN PROFIT ABOVE MY TOTAL DOWN-PAYMENT.

Joint Tenants (If Applicable)

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No Transfers

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All inquiries should be made by mail.

Keep for your record.

Detach and mail back.

Home Participating Promoters®–Home Financing Group
Participator Registration Agreement

Please Print:

Name: _____ (Last) _____ (First) _____ (Middle)

Address: _____ (No. Street) _____ (City) _____ (State) _____ (Zip Code)

Phone Number: ( ) _____

Social Security No. _____

Date of Birth: _____

Enclose a $100.00 registration fee by Check or Money Order payable to: Home Participating Promoters, Inc.

I select a minimum deposit $ _____ every _____ week(s).

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_____

Signature _____ Date

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HOME PARTICIPATING PROMOTERS,® INC.

A Subsidiary of The Bernard Baruch® Organization, Inc.
450 Park Avenue, 19th Floor
New York, New York 10022

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The Home Credit System™

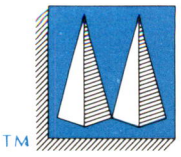
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the _____ day of _____, 19____

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By _____
Authorized Agent



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America's HOME-FINANCING Option



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450 PARK AVENUE • NEW YORK, NEW YORK 10022 • (212) 751-7979

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YET. . .

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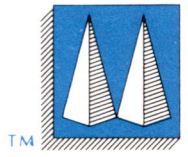
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The Home Credit System™

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By _____
Authorized Agent

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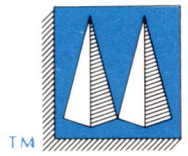
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(No. Street) (City) (State) (Zip Code)

Phone Number: ( ) _____

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ALL ABOUT MR. MARGALT.....

In 1976, Bernard B. Margalt, started a construction company, building and financing commercial real estate in New York. By 1979, he expanded his company by revitalizing low income areas and financing supermarkets and grocery stores to minorities with great success. He used a cooperative plan where industries related to food products and store fixture manufacturers, would jointly finance the minority store owner. Mr. Margalt was able to share the risk and the industries expanded into new markets.

As the commercial real estate market became saturated, in the late 1980s', Mr. Margalt ventured further in financing small businesses and revitalizing low income areas in New York. In his belief that people are entitled to decent and affordable housing, he remains committed to financing home ownership for low-moderate-middle income families.

By 1991, he completed The Home Credit System. A plan that will make it possible for families across the United States, by pooling their savings, to be entitled to receive financing for home ownership, regardless of their income.

Mr. Margalt can only hope that this program will give pride and opportunity to all Americans in fulfilling their dream of home ownership.

Carter Urban Policy Seems Snarled In Political and Economic Demands

By ROBERT REINHOLD
Special to The New York Times

2-2-78

WASHINGTON, Jan. 31—Less than two months before it is to be unveiled, President Carter's promised national urban policy seems to be stalled in a complex web of conflicting political and economic demands.

Work on the urban package, due by March 15, is expected to intensify in the coming weeks, following the President's approval last week of a rather general statement of broad principles on urban strategy that was meant more to bring together quarreling members of his Administration than to state policy.

But the work will be hampered by some extreme constraints imposed by Mr. Carter's seemingly conflicting promises—to run a tight fiscal ship and to aid the black and urban voters who backed him so solidly in his campaign for the Presidency.

"We're in a pretty tight box politically," said an informed Administration official. "We've got a real problem with the people who put this President in office."

"It certainly does not look like a year's progress," conceded another official, referring to the troubled urban policy.

Complicating the political difficulties is growing concern in the White House that any policy strongly "tilted" toward the older Northern cities will fail in the face of political opposition from potent Western and Southern interests in Congress. The President is understood to have attached a note to the statement of principles stressing, among other things, that any urban policy should be addressed to all cities, not just those that are severely distressed.

Teetering on Shaky Tightrope

As a result, the Administration's urban planners are teetering on a shaky tightrope, trying to devise a plan so finely tuned that it would direct aid to "pockets of distress" wherever they are, even in suburbs, so that the policy will not be interpreted in politically fatal regional terms or in terms of big cities vs. the suburbs. It is not yet clear how this will be done.

This shift in focus from distressed cities to distressed "communities" was achieved only with the reluctant agreement of the Department of Housing and Urban Development. The housing agency appears to be far more sanguine about what the Federal Government can do about relieving urban problems than are

Continued on Page A18, Column 1

Urban Policy Seems Snarled by Conflicting Demands

Continued From Page A1

both the White House domestic staff and the Office of Management and Budget, which has urged the President to avoid promising too much.

For the moment the budget office's view seems to have prevailed with Mr. Carter, but the housing department represents an urban constituency whose voice cannot be ignored in the White House. Meanwhile, Joseph A. Califano Jr., Secretary of Health, Education and Welfare, has told the President in a memorandum that the Administration is erring in putting stress on places in distress rather than people in distress.

Commitment Is Doubted

The growing realization that the Administration plans no ambitious innovations, that its urban plan will be limited mostly to modest improvement and refocusing of existing programs, has led some of its natural allies to doubt its sensitivity and commitment to the urban malaise. "It's not very much an urban-oriented Administration—that's just the reality," said M. Carl Holman, head of the National Urban Coalition.

Even before the broadening of the approach to include suburbs and rural areas, renewed cries of complaint were rising from urban groups. Just before the State of the Union Message, in which the President barely mentioned urban policy, the National Urban League proclaimed his first year in office a disappointment. And later the United States Conference of Mayors expressed similar dismay over the urban aspects of Mr. Carter's first budget, released last week.

The few new initiatives proposed in the President's budget represented only "the first phase of the Administration's program to support local efforts to improve and revitalize distressed urban areas," in the words of the document.

'Urban' Also Means Suburban

By using the term "urban areas," the Administration may have been trying to make things look better than they really were. Most people probably would assume that the term means cities, when in fact it means metropolitan areas—cities and their suburbs. By the Administration's definition, then, Federal aid destined for such affluent suburbs as Shaker Heights and Scarsdale is just as "urban" as aid that goes to downtown Cleveland or to Harlem.

White House sources have said that a supplemental budget request would be made to pay for any new programs embodied in the urban policy. The Conference of Mayors called for an additional $11.3 billion in spending for social services, housing, job aid and other needs, although it did not present a clear idea of what a cohesive national urban policy should be, apart from expensive.

"You cannot develop a national urban policy while cutting back on the Federal Government's share of the Gross National Product," said Mayor Lee Alexander of Syracuse, the group's president. "You have to spend more money."

But Administration officials and many urban experts disagree that the solution to urban ills lies in spending more money on programs that have had mixed results. They have responded with increasing irritation to the laments of big-city mayors.

Look at Total Operation

A few more billion dollars is not nearly as important as the way $500 billion is managed, said Robert C. Embry Jr., Assistant Secretary of Housing and Urban Development, who is staff director of a Cabinet-level urban task force. The Administration, he said, should be credited with looking at "total operation" and asking whether existing housing, highway, tax and other policies hurt or help cities.

All signs indicate that no more than $2 billion to $4 billion is available for new urban programs. Thus Mr. Carter's pledge of a "comprehensive" policy is not likely to be the sweeping frontal assault on slums, crime and blight that many may have inferred it would be.

Rather, the tactic is to "retarget" existing programs and use Federal "leverage" to encourage the local authorities and industry to change their ways. Heavy stress is being placed on stimulating private economic development as a means of creating urban jobs.

The writing of an urban policy has not been one of the more agreeable experiences of the new administration. The task was assigned to the Urban and Regional Policy Group, made up of seven Cabinet members and led by Patricia Roberts Harris, Secretary of Housing and Urban Development.

The panel produced a long document calling for billions in new or enlarged programs, particularly those meant to aid urban youths—the so-called structurally unemployed—who have so few marketable skills that they remain jobless even in prosperous times. To many people, the document, since revised twice, seemed diffused and directionless.

Proposals Sent to President

Last month a set of program proposals based on the report was sent to the President, who reportedly rejected them out of hand angrily, saying he would not consider new proposals until a central philosophy was devised.

Therefore, an 11-page summary memorandum was prepared by Mrs. Harris and the President's chief domestic adviser, Stuart E. Eizenstat, and presented to the President after some revisions. The statement, the one signed last week by Mr. Carter, contains no specific program proposals and is so general that it is unlikely to provoke much debate. According to informed insiders, the chief purpose of the document was to mend fences with Mrs. Harris after the original rebuff and head off her resignation from the Cabinet.

The Presidential statement masks some serious disagreements in and out of the Administration. Not the least of the problems is how to devise a mechanism so sensitive that it would deliver aid to depressed rural and suburban areas as well as to inner-city areas. "Also, we need to broaden the index of distress to include cities with incipient distress," said one Administration aide.

Generally, Federal funds are allocated by formula and most Congressmen vote according to how their districts would benefit by a given proposal. Therefore, key officials are thinking about giving Washington greater discretion over how to place money, allowing for more precise "targeting" to need.

Consensus Favors New Criteria

"There is a growing consensus that allocation criteria should be related to specific purposes," said another official. "It does not make sense to list the 25 worst unemployment cities and send drug abuse monies there."

Carter aides also hope to obtain such discretionary power to induce the states to be more sensitive to urban needs. There is thought of rewarding those states that make a coherent effort, in coordination with Washington, to help urban areas—for example, by allowing cities and suburbs to share their property tax bases.

But since the needs of Washington may differ greatly from those of New York, said one aide, "We need some discretion." Traditionally, local officials prefer to operate without strict guidelines from Washington. "But," said the official, "somebody is going to have to make a judgment about whether the state actions are desirable."

Officials in various Cabinet departments were ordered last week to examine the existing "base programs" affecting urban areas and to recommend new efforts to meet unfulfilled needs. Already the process has produced an unusual amount of internal discord.

In the text of a speech released today and scheduled for delivery tonight to the National Urban Coalition, Secretary Harris took issue with the stress being placed by the White House domestic staff and by other agencies on economic development and inducements to private industry as solutions to urban ills.

While that is needed in part, she said, "I warn you that if we return to the follies of the 50's and 60's and mistake catchwords for reality, and accept monolithic approaches to multifarious problems for complex solutions, we will again be doomed to failure."

"Let us remember that economic development is not the penicillin for urban decay, if at the same time there are no hospitals, no low-cost housing and no decent transportation," she said.

Mrs. Harris's volley may be only the first of many acrimonious exchanges before the Carter Administration's version of urban policy is presented to Congress and the public next March.

2-28

Carter Okays Principle of Urban Assistance

By BRUCE DRAKE

Washington (News Bureau)— President Carter gave his approval yesterday to a set of general principles for a national urban policy, including emergency financial assistance to the hardest pressed metropolitan areas.

The statement of principles approved by Carter contains no specific program proposals and gives no hint of what might happen to concepts such as the much-talked about Urban Development Bank, which is an issue now bogged down in cabinet-level squabbles.

Coincidentally or not, sources reported Carter's action at a time when hundreds of big-city mayors were holding their annual midwinter conference here. And many of the mayors had arrived expressing dismay over the substance of Carter's budget proposals and the lack of progress in forging an urban program.

Among the general principles drafted by a task force on urban policy headed by domestic adviser Stuart Eizenstat and Housing Secretary Patricia Roberts Harris were these:

- Providing emergency fiscal assistance to urban areas that have been particularly hard-pressed. Carter already has disclosed in his budet his intention to push for a renewal, in some form, of anti-recession aid — which will provide New York City $140 million in the current fiscal year — as well as for emergency employment programs, particularly for youths.
- Emphasizing the preservation of neighborhoods. Administration aides indicated earlier that this would be accomplished mostly through a heavy emphasis on housing rehabilitation programs and programs that address the problem of street crime.
- Heavy emphasis on incentives to encourage private business involvement in central cities. Carter's urban planners have also, in the latest policy statement and in earlier memos, put heavy emphasis on "leveraging" — that is, using federal funds as seed money or bait to encourage both business and local government investment in inner city projects.
- Doing a comprehensive review of federal policies that, inadvertently or otherwise, have an adverse effect on cities and moving to adjust policies that favor the flight of business and residents from the cities.

The urban statement approved by Carter also puts strong emphasis on stepping up efforts to eliminate racial discrimination and "institutional racism."

While the statement of principles did not mention a firm price tag for an urban program, administration aides said earlier this week that Carter's fiscal 1979 budget contained $3 billion in "contingency" budget authority — some or all of which could be called on to fund a new program. Treasury Secretary W. Michael Blumenthal reiterated that yesterday before the Conference of Mayors and also said that, if more cash was needed, a supplemental budget request could be sent to Congress.

"SWEAT EQUITY"

—which is one of the most promising do-it-yourself techniques for reversing neighborhood deterioration.

Another approach is employed in the Bronx by the Morris Heights Neighborhood Improvement Association to fight the confusion, despair and downslide caused by landlord abandonment. In one year, the organization helped occupants in 48 buildings to organize their own tenant associations.

Of course, metropolitan man does not live by crime control and housing renovation alone. A major urban headache is the messiness of so much of the city, but it need not be a terminal disease.

There are innumerable projects, ranging from sidewalk sweeps to civilian sanitation patrols, that fight litter in a variety of ways.

In one day, VITAL (Volunteers to Improve Third and Lexington Aves.) cleaned up the streets, sidewalks and gutters of 28 blocks. It took longer, but in Brooklyn, a community project transformed an ugly dump for a construction site into a garden. Or go—

TO THE BRONX

—where the Mosholu-Woodlawn South Community Coalition weeded tatty-looking Williamsburg Park, or to Staten Island, where the Tottenville Improvement Council beautified the grounds of its public library.

There are so many projects for men and women of urban good will: Helping the junior and senior citizens, organizing street olympics, setting up parent baby-sitting cooperatives, painting park benches, converting lots and backyards into play areas.

It's all there in the handbook, which was made possible by a grant from the Manufacturers Hanover Trust Co. For a copy, write on an organization letterhead to the Citizens Committee for New York City Inc., 630 Fifth Ave., New York, N.Y. 10020.

We'd like to predict that it will be the city's best seller, but we can't. It comes free.

OPERATION BOOTSTRAP

The year's most important book for New Yorkers has just been published by the Citizens Committee for New York City Inc., and we strongly urge every civic-minded organization from the farthest reaches of Queens to the Bronx-Westchester line to order its copy posthaste.



From crime control to building abandonment, beautification to sanitation, the 144-page "New York Self-Help Handbook" capsules the where-to and how-to for curing community problems that too often fester into blight and deterioration.

Given the city's hemophiliac economy, neighborhoods can no longer look to City Hall for the services they have long taken for granted. The money just isn't there today. Rather, by—

DO-IT-YOURSELF PROJECTS

—they must take over most of the job themselves, or risk the fate of Bushwick and the South Bronx. The message that comes through loud, clear and encouragingly in the handbook is that volunteers *can* do the job —and get both fun and satisfaction out of executing the most challenging assignments.

Sometimes, for example, it seems that the bad guys are taking over, but that needn't necessarily happen. For the white-hat volunteers, there are anti-crime patrols galore—civilian observation, parent safety, fire-alarm-box patrols, not to mention the auxiliary police, block watchers and buddy alarm systems.

Take your pick, and help make the city safe for the decent people. Again, it *can* be done.

Did you know, to cite just one case, that tenant patrols were set up half a dozen years ago in 40 buildings of the Queensbridge Houses in Long Island City —and have reduced crime by one half?

Housing blight is another dreary, seemingly insoluble problem. But in East Harlem, a street gang is renovating a building with—

City Redrawing Map of Poor Areas

By FRANK LOMBARDI

The Koch administration is in the process of revising dramatically the often-criticized method by which $40 million a year in antipoverty funds has been channeled to 26 designated poverty areas in the city.

Critics ranging from Controller Harrison J. Goldin to the American Jewish Congress have charged that the boundaries of the 26 poverty districts were set in 1965 using demographic data that has long since become obsolete. The result, the critics maintain, is that many of the city's poor are not getting services they are entitled to.

Mayor Koch reportedly has assigned the task of redrawing the boundaries of the districts, eliminating them entirely, to Deputy Mayor Herman Badillo, his management chief, as part of City Hall's efforts to end abuses, waste and inequities in all the antipoverty programs.

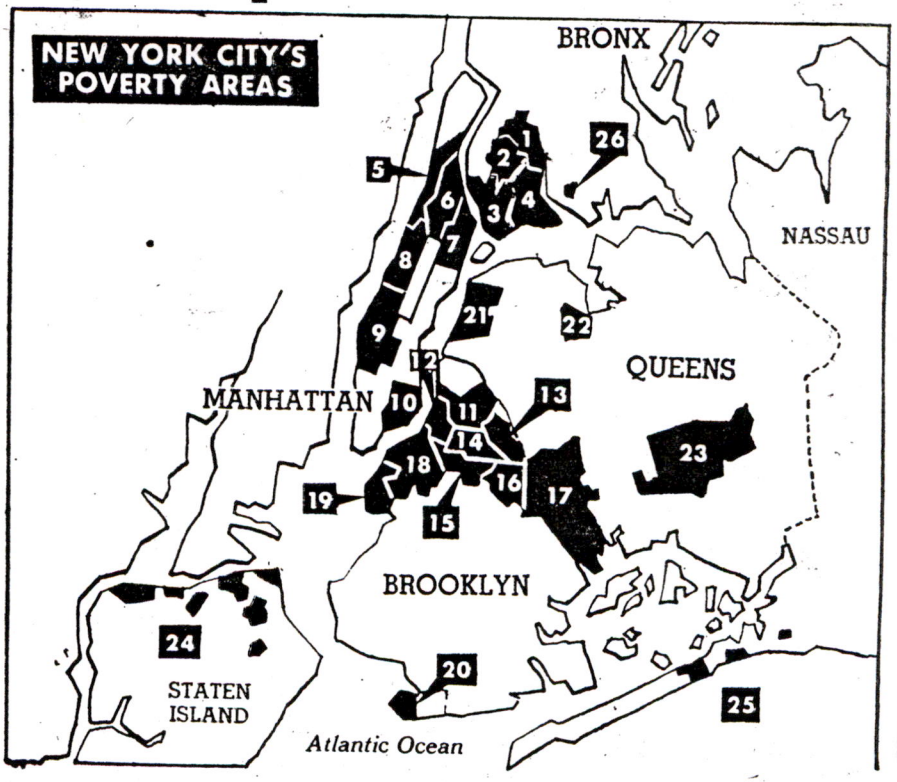
Criticized by Feds

The composition of the Council Against Poverty and the community boards came under attack from federal authorities last year who threatened to cut off funds unless the elections were held. However, groups such as the American Jewish Congress now have asked the federal funding agency, the Community Services Administration, to delay the elections pending changes in the poverty districts.

Sylvia Deutsch, director of the Metropolitan Council of the American Jewish Congress, charged that if the elections are held as scheduled it would only produce "entrenchment of the same interests that would have ignored the needs of the non-target-area poor."

There are more than one million city residents who are classified as poor. Areas designated as poor in the mid-1969s tended to have a concentration of black and Hispanic residents. But critics of the program say that poverty has spread to other neighborhoods. Senior citizens as well as the poor from ethnic groups—Jewish, Italian, Chinese, etc.—have been excluded from assistance, researchers have determined.

Badillo, in an interview with The News, said he agreed with critics of the poverty designations and that he was studying methods of changing the procedure "so that the poor can be served wherever they live."



News map by Edward Gallagher

Here are present 26 poverty areas as designated in 1965 by Council Against Poverty. Areas 24, 25 and 26 each contain several small pockets.

City Gives U.S. a 1B Plan To Fix Up South Bronx

By BRUCE DRAKE and HARRISON RAINIE

City officials yesterday presented a $1 billion rehabilitation plan for the South Bronx to the Carter administration that would require $700 million in federal aid over five years.

"I think it was well received," said First Deputy Mayor Donald Kummerfeld. "They were very positive, though they were in no position to make firm commitments. They didn't seem flabbergasted or outraged by our figures."

Kummerfeld said federal officials from seven agencies had agreed to study the plan, though they demanded that city officials secure more substantial commitments for funds from the state and private sector. He did not reveal the dollar figures discussed except to say that the final cost would probably top $1 billion.

25,000 Units of Housing

Kummerfeld and Planning Commissioner Victor Marrero represented Mayor Beame and there were observers from the Mayor-elect Koch's transition staff. Bronx Borough President Robert Abrams was there.

The plan calls for construction of 25,000 housing units and creation of 15,000 jobs.

One major proposal is the conversion of the Penn Central Harlem River yards into an industrial park to lure business. Kummerfeld said there were dozens of ideas including transportation and recreation development and salvaging of commercial areas.

The 100-page plan stemmed from president Carter's dramatic tour of the South Bronx last October. Carter's aide, Jack Watson, is heading the federal end of the planning.

New Jersey Lottery
Pick It: 754
Straight Payoff: $291
Connecticut Lottery
Daily: 104

1-18-78

About Real Estate

Conversion From Rental Status To the Cooperative Apartments

By ALAN S. OSER

"Have a macaroon," said Arnold Badner, leaning forward and offering from a can of the rum-flavored.

During the working day, the 36-year-old Mr. Badner is to be found in the president's chair of Spilke's Bakery Company in the Williamsburg section of Brooklyn. Long ago Dugan's bakery was in the building. Spilke's, a specialty bakery, is strong on fruitcake too.

At night Mr. Badner goes home to an eight-room apartment at 161 Henry Street, on the corner of Pierrepont Street, in Brooklyn Heights. It is a 10-story turn-of-the-century building with 29 residential apartments and two ground-floor professional apartments. It went from rental to cooperative status last December, with Mr. Badner as one of the pro-conversion tenant organizers. The tenant committee hired a lawyer, negotiated with the owner, Harbor Realties, on the sale terms, and lobbied for tenant support.

The professionals' apartments were not for sale. Of the 29 residential apartments, 25 were bought by their occupants in what was considered a housing selling success. Prices ranged from $9,000 to $23,800. There are six eight-room three-bath apartments, but most of the apartments have about four rooms and one bath.

•

"What a buy!" said one tenant-purchaser. "It was a once-in-a-lifetime opportunity." The attitude of other tenants was perhaps more mixed. Three families moved out prior to the sale, unwilling or unable to purchase. Of the four rent-controlled tenants, three have chosen to buy although they were not obliged to. The offering terms allowed controlled tenants to stay on as renters, and one has.

The tenants committee was confronted with nervousness, suspicion or apathy, with fear over whether such a large investment could or should be made, with coldness to the notion of investing rather than renting one's housing—and with considerable sophistication on the part of many tenants.

This was a well educated and relatively well-to-do tenancy being offered apartments in a "strong" residential location. Some of the tenants were lawyers and were outspoken on the offering terms. The presence of a knowledgeable tenant committee turned out to be a critical asset in the conversion.

The Henry Street conversion underscores the fact that the cooperative-conversion movement is still stirring, and perhaps more so now that cooperative prices have firmed. A cooperative plan for the 321-unit Carnegie House, at 100 West 57th Street, went into effect in December and about 80 apartments are understood to have been sold. There have been other recent conversions in Gramercy Park, on East End Avenue, on East 52d Street and on East 10th Street.

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The expiration of the Goodman-Dearie law, opening the way to so-called noneviction conversions, has aroused new interest in conversions. But it has yet to be reflected in a surge in plans submitted to the state Attorney General, who must review them to assure full financial disclosure before apartments can be offered for sale.

In noneviction conversons, sponsors can aaoid the city requirement of a favorable 35 percent vote by tenants, provided they agree to allow rental tanants to stay on as renters as long as they wish even after the building is a co-op. Co-op buyers can move into an apartment only after the renter moves out. In practice apartments are usually not sold till they are vacant.

But the slowness of this conversion process makes it impractical for most small owners, says lawyers active in the field. The sponsor-owner must be prepared to hold shares in the co-op for years. Furthermore, the tax consequences to the owner-sponsor may be a deterrent. If a large number of apartments rent at levels well below what would be their carrying costs as co-ops, the chance of sales to tenants may seem so unlikely that an offering would be considered hopeless. Every situation is different.

Martin Berger, the Brooklyn lawyer who represented the Henry Street tenants committee, made the point that the building must be in good shape or the sponsor must be willing to provide the money to put it in shape

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The Henry Street owner-sponsor, with Wm. A. Wite & Sons as selling agent, showed tenants its sales terms before the expiration of the Goodman-Dearie law. There had to be a tenant vote. After a period of uncertainty, a five-member pro-conversion committee was formed, each member contributed $100 to a legal fund and agreed with the lawyer on a maximum fee representing 25 hours of work.

The tenants negotiated on the "red herring" that by law they must be shown before the plan is submitted for filing with the Attorney General. The sponsor agreed to increase the reserve fund for rehabilitation and repair to $111,000 from $30,000, said Lawrence Zelner, a management consultant in Manhatan who since has been elected president o fthe co-op. "But he didn't budge on the mortgage," he said. The tenants are hoping through the use of the city's J-51 tax-incentive program to give the repair fund an effective value of $200,000.

The purchase price was $944,800, of which $550,000 was a 10-year purchase money mortgage from Harbor Realties, the seller, in which Leroy Rubin is a principal.

City giving Co-Op City time to pay a $23M debt

City officials sought today to reassure the 60,000 tenants of Co-Op City in The Bronx that they were not in any immediate jeopardy because of the city's foreclosure action.

The city filed formal notice yesterday that it planned to begin foreclosure proceedings against the giant housing project for nonpayment of $23 million in real estates taxes, interest and penalties.

But First Deputy Mayor Donald Kummerfeld said foreclosure "was not a practical solution" and that the city "had every intention" of negotiating a plan with the state for helping the project pay its back taxes.

He said that under the law, the city had been compelled to begin proceedings since the project's taxes were a year in arrears. But he said that the entire process would take 15 to 18 months to complete and that a solution could be worked out before then.

SOURCE OF PROBLEM

The Co-Op's tax problems result from a 13-month rent strike settled in mid-1976. The tenants of Co-Op City agreed to a 20 per cent increase in their maintenance charges at that time, but the agreement failed to take back real-estate taxes into account.

Gov. Carey has indicated that he will present the next session of the legislature with a proposal for aiding Co-Op City and other Mitchell-Lama projects in the city.

The Mitchell-Lama program provides moderate-priced housing by giving buildings low-interest state-backed mortgages that keep costs down.

The Co-Op City dispute involved the state because the state is in effect the mortgage holder on the huge Bronx development.

Westchester Is Told U.S. Stresses Aid to Downtowns

By JAMES FERON
Special to The New York Times

PURCHASE, N.Y., Dec. 15—Robert C. Embry Jr., staff director of President Carter's Urban Policy Task Force, said today that the new housing and Community Development Act would focus on the downtowns of the country's older cities, probably at the expense of suburban communities.

Speaking to Westchester planners and officials who represented both categories in the county's cities, towns and villages, Mr. Embry said: "We're in favor of turning growth back to the cities, and in favor of less suburban sprawl."

He indicated an ending of the period of high-priority Federal assistance to highway projects that drew families and jobs from the cities. Similarly, the act, signed into law seven weeks ago, would discourage the typical expensive water and sewer projects required to convert farmland into suburban tracts.

"Why build a sewer line outside of Detroit that opens 3,000 square miles to suburban housing at the same time the Federal Government is trying to help housing in the city?" he said. "If we're trying to help employment in Chicago, why locate a bulk-handling mail facility that will draw 1,400 low-income and moderate-income employees out of the city, away from transportation? Why build a belt highway around Richmond that we know will pull jobs out of the city?"

More Than Token Action Required

Mr. Embry, an Assistant Secretary of the Housing and Urban Development Department, said that the 1977 act required written plans—he referred to "strategies"—for the redevelopment of inner cities. These, he said, would require more than token public participation and would be carefully monitored.

The measure helps to direct funds into industrial and commercial sections of cities to an unprecedented degree and it encourages the rehabilitation of homes on a single-unit basis rather than only as part of a neighborhood plan.

It concentrates particularly on low-income and middle-income housing assistance, with the Federal department requiring that roughly three-quarters of total assistance be devoted to this category. Mr. Embry said, however, that objections from city officials were prompting his agency to stretch the three-quarters rule over several years.

He said: "We are taking a close look at communities receiving community development funds to see that in return for the funds they are facing up to the low- and middle-income needs of the area."

He was asked how this might affect New Castle, where large-lot zoning was recently ruled unconstitutional and exclusionary by a State Supreme Court justice. The town, which is appealing the decision, was given six months to draft a plan for multifamily housing.

Mr. Embry replied: "We're not going to dictate any plans and there's no control the Federal Government has locally. It's a state decision. If New Castle wants to participate in the community development program, however, it will have to address the housing needs of a total range of its citizens."

He also spoke of another shift in priorities. "In 1974," he said, "the decision was made to take money away from areas receiving it, such as the Northeast, and spread it throughout the United States." That would be reversed, he said, "because the greatest need remains here."

The new act, which some city planners find more flexible than earlier community development plans, has been criticized by urban planners for what they anticipate will be inadequate financing. Mr. Embry said budget requests for programs to put the urban policy into effect were submitted to the President yesterday, but without policy documents. They will be resubmitted later this week, he said.

Carter Plan for Helping Bronx Due Next Month

Jack Watson, the White House aide who is coordinating plans for Federal Assistance for the South Bronx, said last week that the main elements of a strategy to revitalize that blighted section would be in place by early February.

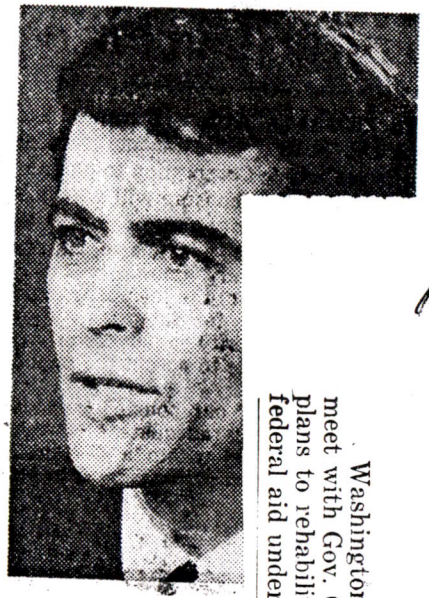
After meetings here with Governor Carey and city officials, Mr. Watson said his talks had focused on crime, providing security for business, bringing down the high cost of insurance and energy and what roles the city, state and Federal governments would take.

He described the sessions as "working discussions, not decision-making meetings" and said his aides were still reviewing current Federal expenditures in the South Bronx to determine which program were effective and which were not.

Last month, in response to President Carter's October visit to the South Bronx and his pledge to help the area, former Mayor Abraham D. Beame submitted a proposal whose major elements were job-creation and housing. Mr. Watson said that proposal "was a good start, but had so many gaps, it really cannot be caalled a plan."

Governor Carey pressed hard in his meeting with Mr. Watson for projects that would bring jobs to the Bronx. Warning against wasting time and moeny on demonstration or trial programs, he cited the creation of an industrial park in the former Brooklyn Navy Yard and the work of the Bedford-Stuyvesant Restoration Corporation as models of the kinds of things that could help.

Mr. Carey also urged Mr. Watson to direct some defense contracts to the South Bronx and said the state was ready to help new businesses with tax incentives and manpower training programs.



Jack Wat

Poll Shows Most in California In Favor of Farm Land Over Homes

SAN FRANCISCO, Jan. 21 (AP)—In a sharp reversal of the public mood that set off this state's housing boom of the 1950's and 60's, Californians today overwhelmingly favor stricter control of urban sprawl, according to to Mervin D. Field a poll taker.

His California Poll of 1,058 people indicates that 84 percent of those surveyed considered protection of farm land more important than building more suburban homes. The poll finds land-use preferred for farming over housing and industry by a margin of almost 8 to 1, and over parks and recreation by almost 4 to 1.

1-18-78

8 ☆ DAILY NEWS, WEDNES

Carter Aide to Meet With Carey on Bronx

By BRUCE DRAKE

Washington (News Bureau)—Presidential aide Jack Watson will meet with Gov. Carey in New York today to discuss the state's role in plans to rehabilitate the South Bronx amid hopes expressed here that federal aid under the project could begin flowing by next month.

A Watson aide was careful to stress that the meeting was set up "just to touch base" with Carey and that there was no intention at this time to put the pressure on the state for specific commitments.

However, Carter administration aides previously have made it clear, in public and private pronouncements, that President Carter's pledge to come up with a plan to salvage the neighborhood was contingent, in part, on the willingness of the city, state and private sector in New York to make an acceptable committment of local resources to any rescue plan.

It is expected that Watson, in his discussions with Carey, will focus on the state's campaign to attract business to New York and the possibility of directing some of those efforts to luring commerce to areas such as the South Bronx.

Energy Policy

Other issues expected to come up include the state's energy policy, since energy costs have been a liability in the effort to keep business in New York, and state regulation of insurance companies, a concern heightened by the difficulty in getting private insurers to write fire and other policies in areas like the South Bronx.

Meanwhile, Bruce Kirschenbaum, a top assistant to Watson, said this week after a meeting of the Carter Administration's interagency task force on the South Bronx, "We hope we can settle the first stages (of the Bronx plan) sometime in February, depending on where the other players are. If city officials can hammer out their end, if the Carey meeting is fruitful and we all are together, then hopefully, we can start in February."

Civic Groups

Watson's team must yet meet with Mayor Koch, probably sometime early next month, to discuss with him the Carter administration's preliminary assessment of the South Bronx plan that was delivered to Washington by city officials in December. They also must discuss Koch's view of the plan, since it was written mostly by outgoing Beame administration's planned use of federal

One issue that will have to be resolved with the city is the Koch Administration's plan for coordinating the variety of civic groups that are to be involved. The present city plan says the project "must build" on local groups but doesn't spell out how.

Top Carter Aides Agree on Plan To Stress Jobs in Policy on Cities

By ROBERT REINHOLD

Special to The New York Times

WASHINGTON, Dec. 24—Since President Carter's refusal last week to commit more money for the nation's ailing cities until he is presented with a satisfactory overall urban policy, his top aides have sent him a memorandum urging him to adopt five basic goals.

The 11-page document, which was to be delivered to the President this weekend at his home in Plains, Ga., places heavy stress on reducing urban unemployment, stating that it is "so central a problem of distressed cities that it must be a central focus of urban policy."

Administration sources said that the memorandum, a copy of which has been obtained by The New York Times, represented the first consensus among White House staff members and the various departments contributing to the urban policy after months of discussion and frequent friction over the issue. It is signed by the President's chief domestic adviser, Stuart E. Eizenstat, and by the Secretary of Housing and Urban Development, Patricia Roberts Harris, who heads a Cabinet-level panel called the Urban and Regional Policy Group.

If he approves the memorandum, Mr. Carter is expected to include some of it in his State of the Union Message next month and to use it as the basis for a comprehensive urban package, which he has promised to announce in March.

The document deals only with general strategy and overall policy, not specific programs or money. Sharp debate, both in and out of the Government, is expected

Continued on Page 19, Column 1

randum said. "It would establish a comprehensive interdepartmental commitment to urban economic and community development. Furthermore, it would link this commitment to well defined jobs, revitalization, housing and social problems."

As basic goals of an urban policy, the memorandum listed the following:

¶Meeting the "emergency needs" of cities, particularly through fiscal assistance and expanded employment opportunities for young people.

¶Strengthening private business in urban areas as a means of providing jobs and bolstering the urban tax base.

¶Revitalizing neighborhoods and improving housing.

¶Reducing the social and financial disparities that make suburbs more attractive places than cities in which to live and do business.

¶Strengthening measures to combat racial discrimination.

The document says that, while there is concern for all cities and metropolitan areas, it must be recognized that "some cities have more intense problems than others and that strategic targeting of select resources is both equitable and proper."

Moreover, it said that because Federal resources were limited, Federal money should be used in ways that encouraged better performance by state and local governments and by industry.

The emerging urban policy has met criticism from both ends of the political spectrum. Black and urban leaders have said it amounts to little more than a warming over of old, failed approaches. Conservative have said that, given current economic realities, it is hopeless to try to preserve some cities.

Air Base to Graduate 98 Saudis

SAN ANTONIO, Dec. 24 (UPI) — Ninety-eight members of the Royal Saudi Arabian Air Force will become the first foreigners to graduate from basic training at Lackland Air Force Base on Wednesday, the Air Force announced yesterday.

TODAY IS CHRISTMAS!
REMEMBER THE NEEDIEST!

TOP AIDES TO CARTER AGREE ON URBAN PLAN

Continued From Page 1

to continue as the specifics are worked out.

The attempt to develop an urban policy has been a matter of considerable distress to the Carter Administration. Critics have said that the study group, which depended on cooperation among seven departments, inevitably produced a "laundry list" of programs meant to satisfy everybody, rather than a central philosophy. The group recently prepared a 150-page report urging the expansion of various Federal urban programs and better "targeting" of Federal aid to "cities and people in distress."

In recent weeks it has become increasingly apparent, however, that Mr. Carter is not prepared to commit much new money to urban programs. The White House was also said to be sensitive about the political implications of redistributing money, because some areas would have to lose, and uneasy over how the urban policy was to be stated. Mr. Carter rejected the plan as presented to him last week.

The new document, which is meant to answer his objections, urges the President to avoid setting out a "final urban program" in his urban messages scheduled for March 15. Rather, it said, he should define "broad policy principles and objectives" and commit the Government to a "long-term effort" to carry them out.

The memorandum said that the message should also announce means of improving existing urban programs, helping cities to rebuild stable economies, strengthening Federal, state and local coordination, and encouraging private investment in cities.

"Your message would express the Administration's concerns for the health of the nation's cities and the quality of life available to their residents," the memo-

Last month, the group prepared a 150-page draft report proposing an expansion and "targeting" of a number of Federal programs in the hope of creating jobs and generating economic activity in older cities.

By most calculations, implementation of the report's recommendations would have cost $8 billion to $12 billion, far more than the White House is willing to spend.

Five Basic Points

A person who helped draft the report said that it was always intended that there would be "a winnowing down once a basic policy was agreed on."

A key White House staff member said, however, that he and his colleagues never understood that the proposals would be pared down. Rather, he said, the report was viewed in the White House as a "laundry list" of programs that each Cabinet department would like to spend money on.

The draft of the report was studied by the President's domestic policy staff, under the direction of Stuart E. Eizenstat, and a synopsis was given to the President at Tuesday's session. One person at that meeting described the proposals as "bureaucratic logrolling" and as "a well thought-out, carefully devised plan to take whatever money was available and distribute it equally among existing programs."

It was, the adviser commented, "as if we had learned nothing in 10 years."

Top officials at the Department of Housing and Urban Development were described by a subordinate as "livid" at the way the matter had been presented to the President.

On Wednesday, they wrote a 15-page memorandum containing what they believed to be the five basic points that should be included in an urban policy. The points were as follows:

¶A substantial effort should be made to reduce unemployment in the core cities and to help those cities develop economically.

¶Action should be taken to eliminate the disparity of services that makes living and working less attractive in cities.

¶There should be increased housing subsidies and a revitalization of city neighborhoods.

¶States and other governments in metropolitan areas should be given incentives to help cities solve their problems.

¶The Federal Government should enact and enforce tougher equal opportunity and affirmative action programs to assist minorities.

That memorandum is now said to be on the President's desk, but Mr. Carter's advisers said that it did not answer his basic question. "He wants to know how to make existing programs work better before he starts making decisions on new ones," the White House staff member said.

An official who worked on the urban policy report said that he believed that the President was nervous about the political consequences of a policy that would take money away from suburbs, Sunbelt cities and rural areas and funnel it into the older cities of the Northeast and Middle West.

White House advisers disagreed with that assessment. "The President wants to help poor people whether they live in Houston or Detroit," one adviser said.

Another adviser close to the President said, "I am not disappointed. I think we will have something good by March 15. We do not have anything good now."

FOR AN URBAN POLICY

Jimmy Carter swept into the presidency in large measure because voters in New York and the Northeast believed his promise to deal with the horrendous problems that beset America's ailing cities.



President Carter

But a year after the inauguration Carter doesn't have even the start of an urban policy.

His planners are bogged down hopelessly, trying to sort out the scores of urban programs that Washington has spawned over the last 40 years.

That's a dead end. Just dressing up the old programs in trendy clothing or tossing new ones on the pile won't do the job.

The President, in our view, must start with something that is more elemental and profound. He must recognize himself—and then articulate forcefully to Congress and the nation—the concept that America's cities are the keystone of her future.

He must pound home the message that the salvation of the great urban centers—where most Americans now live—is one of our greatest missions.

Then Carter must lead Congress in reshaping major federal policies—foreign and domestic—to achieve that goal, much as every muscle and sinew of the nation was directed toward defeating the Axis powers in World War II.

The first step that would follow from such a sweeping commitment, because it is the most immediately pressing, would be—

THE RESCUE

—of New York City through a long-term financing program. As Sen. Daniel Moynihan has pointed out, if Carter lets "the capital city of the Western world" slip into bankruptcy, nothing else he does as President will matter. The shock waves would be that terrible.

After shoring up New York's finances, Washington would be free to concentrate its full attention on the revitalization of all of the nation's ailing cities.

It could start with federal economic and taxing policies, which heavily influence where jobs in America are created, and what kind of jobs they are.

For the first time in our history, positive steps should be taken to direct those jobs into, not out of, the cities. There could be federal tax credits designed to encourage the construction of new plants and the modernization of existing plants in urban areas.

Federally supported economic development corporations could be used to stimulate whole new industries —such as energy technology—in depressed regions like the Northeast. Another aspect of the—

HIGH UNEMPLOYMENT

Honor guard places casket in Rotunda. At rear are friends and f



Carter Wants New New New Ideas to Save Cities

JACK ANDERSON
and LES WHITTEN

Washington—President Carter has rejected the urban proposals drawn up by his top aides and has called for new ideas to save the cities.

For months, White House planners have been working on a blueprint to revitalize the nation's decaying cities. The President has been pressured by blacks, liberals and labor to come up with a comprehensive urban plan.

But at a tense White House meeting, Carter told his aides that he was disappointed in their recommendations. He dismissed them sternly as nothing more than a hodge-podge of existing programs. There was not one new idea in the whole report, he said. He emphasized that he didn't want to keep pouring federal funds down the same old rat hole.

The President did not say he was unwilling to spend more money to bail out the cities. On the contrary, he told the aides not to worry about the cost of the program right now. The important thing, he stressed, is to come up with some innovative ways to deliver the aid.

How to Slice It

But a debate is raging within the administration over how the urban pie should be sliced up. Some experts argue that the aid should be targeted at the most depressed cities, such as New York, Detroit and Newark.

However, one official confided: "Everyone here is absolutely convinced that the money cannot be directed just at distressed cities. Politically, we'd get killed. We'd never get it through Congress."

If the urban aid is earmarked for cities with high jobless rates and little growth, it will flow mostly into the older cities of the Northeast and Midwest.

But inside the White House, the planners have decided to share some of the wealth with the newer, more affluent cities of the Sunbelt. "The money really isn't needed in the South and West," explained one insider, "but the White House is locked into a political decision to help them, too. That means less money for places like the South Bronx."

Patricia Harris' List

Housing Secretary Patricia Harris, meanwhile, is pushing for new aid to rehabilitate decaying neighborhoods and build new housing. "Pat Harris is coming around with her huge shopping list," chuckled one expert, "and the budget officials are choking on it."

We have obtained a copy of the urban proposals on the President's desk. They call for a special program "to employ minority youth and adults in weatherization, building rehabilitation and other energy-related activities." Federal tax policies should be changed to "favor private investment in distressed cities," the report adds. Health, education and transportation programs for the cities should also be improved.

Carter hopes to announce his long-awaited proposals in March.

BELATED COMMENT: Last month, we revealed that a young recruit had disinfectant made him ill. Navy Secre- boot camp in San Diego after a toxic disinfectant made him ill. Navy Secrtary Graham Claytor has now ordered a full investigation.

In our report, we quoted Navy documents that linked a disinfectant called Wescodyne to the death. We did not criticize the product but the Navy's mishandling of it.

Comment From Company

Through a misunderstanding, we were led to believe the producers of Wescodyne had no comment on the incident. West Chemical Product, Inc., has now supplied us with a comment, which we are pleased to publish.

States the company: "Based on toxicity studies carried out by reputable independent testing laboratories, the various references in your article categorizing Wescodyne as a 'toxic' and 'hazardous' disinfectant are unfounded."

These references, of course, were taken from Navy documents. The company cites "additional studies" which show that even in concentrated form, Wescodyne "is neither a skin nor an eye irritant."

PRESIDENT REJECTS INCREASED URBAN AID

He Plans No Commitment Before Policy on Cities Is Set—H.U.D. Officials Dispute Decision

By DAVID E. ROSENBAUM
Special to The New York Times

WASHINGTON, Dec. 17 — President Carter has refused for the time being to commit additional money to help distressed cities because, in his view, Administration experts have not yet developed a satisfactory urban policy, according to officials in the White House and elsewhere in the Government.

The President's decision, made at a meeting Tuesday evening, was interpreted one way by officials at the Department of Housing and Urban Development and another way by White House staff members who were present.

In the department, the prevailing view is that the President and his principal advisers are unwilling to make the political and financial commitment that an urban policy statement written in the department would require.

The White House advisers said, however, that the President felt that the urban policy statement needed many refinements before he could make decisions based on it.

One adviser who was at the meeting Tuesday quoted the President as saying, "Don't tell me we'll spend more money all around and then we'll call it an urban policy. Give me something worth funding if you want more money."

The President's decision does not mean that no more money will be forthcoming for urban programs, the officials said. Rather, they said, Mr. Carter merely decided not to ask for additional sums for urban programs in the budget for the next fiscal year, which is now being put in final form and will be submitted to Congress Jan. 23.

It is possible, even probable, the officials said, that Mr. Carter will ask for a budget supplement when he outlines his urban policy in mid-March. They said, however, that the delay might jeopardize the prospects of Congressional action on new proposals next year.

Last spring, Mr. Carter appointed a Cabinet-level team, called the Urban and Regional Policy Group, to develop a policy for aiding cities. The group consists of representatives of six departments and is headed by Patricia Roberts Harris, the Secretary of Housing and Urban Development.

Little was heard from the group until August. But after Vernon E. Jordan Jr., executive director of the Urban League, publicly charged Mr. Carter with reneging on his campaign promises to aid the cities, the group began to work urgently to develop a program for the President's review.

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(AP)

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Bloomberg Business News)

ON NATIONAL AIRPORT

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AKE UNDER PLAN

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(Reuters)

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ation, the Society of the Plastics Industry, about 11 percent of these plastic containers were recycled in 1991, up from 7 percent in 1990. But only 651 million pounds of the 14.4 billion pounds of plastic packaging produced last year escaped the trash heap, for a recycling rate of 4.5 percent.

J. Roger Hirl, president of the Occidental Chemical Corporation and chairman of the partnership, said markets for recycled materials in general were in their deepest recession in years. "The embryonic plastics recycling industry has been particularly hard hit by the recession," Mr. Hirl said.

Hurt by Low Oil Prices

"The recession has been a major factor," agreed John Ruston, a solid-waste specialist at the Environmental Defense Fund. He said low oil prices had driven the price of oil-derived virgin plastics, like high-density polyethylene, so low that recycled material, which is considered of lower quality, had little appeal.

According to Chemical Week magazine, the current price for the new material is 30 to 33 cents a pound, down from 43 to 46 cents a pound early last year.

Mr. Hirl appealed to consumers to request more recycled plastics in products. He said more than 4,400

Few new uses have been developed for the recovered material.

would mandate levels of recycled material in new bottles and cups. "Industry is best equipped to decide what products can be recycled, not the government," the spokeswoman, Susan Moore, said. She acknowledged that plastic recycling was a money loser for the industry since it was started a few years ago.

Some environmentalists say such legislation is essential to develop the markets and processing plants for materials, like plastics, that are difficult to recycle. "The strongest economies in the world, Germany and Japan, have the best recycling rates," said Allen Hershkowitz, a senior scientist at the National Resources Defense Council. "The reason they have developed coherent markets for recycled materials is that they have had leadership at the national level."

For example, he said, producers of plastic containers in Germany are required to recycle the containers

ment is based on weight.

Recycling Times, a publication of the National Solid Waste Management Association, says many scrap processors and brokers refuse to handle light plastics, like polystyrene foam, because of the light weight and low prices paid by users.

In addition, there is a broad variety of plastic resins that are similar in appearance but incompatible in recycling processes. "A single polyvinyl chloride bottle can contaminate 10,000 polyethylene terephthalate bottles," Mr. Ruston said. This is because polyvinyl chloride chars at temperatures needed to melt the other plastic, and spreads black specs in the clear material.

Although plastic recycling has been uneconomical, the big chemical companies that produce plastics have invested in recycling plants to avoid product bans, taxes and other legislation intended to reduce the amount of solid waste going to landfills. According to the partnership, more than 120 companies recycle plastic products.

One of the most successful recycling projects is the use of soft-drink bottles to produce fiber used in carpeting and the lining of cold-weather clothing. According to the partnership, 36 percent of all these bottles produced were recycled last year.

Banks Are Urged to Discuss Study on Low-Income Loans

By MICHAEL QUINT

A community group that has often criticized banks for lending too little in low-income areas sent letters last week to the chief executives of more than 350 banks across the country, asking them to participate in a conference on July 12 in New York City to discuss new lending programs.

The community group — the Association of Community Organizations for Reform Now, known as Acorn — is expected to publish a study on Thursday of bank lending and deposit-taking showing that residents of low-income areas provide far more in deposits to banks than the banks use to make loans in those areas.

Acorn officials describe the study as proof that banks are denying credit to businesses and consumers in low-income areas, and thus contributing to the areas' economic problems.

An 'Eye-Opening' Difference

"The discrepancy between what banks take in deposits in low-income areas and what they issue in loans is not surprising,' said John L. Kest, Acorn's chief organizer in New York City. "But the magnitude of the gap is eye-opening."

Acorn officials had not yet compiled all the data for the study, which covers 20 cities and does not focus on the practices of individual banks. Other studies, however, have shown that some banks have issued loans equal to only 25 percent of the deposits they collect in low-income neighborhoods, or half the lending rate in higher-income neighborhoods.

Deepak Bhargava, a legislative representative at Acorn's Washington office, said the low level of lending in poor neighborhoods was one reason some banks cited when contending that branches in poor areas were not profitable and should be closed. He noted that the new study was limited to mortgage lending because data on other kinds of bank loans were not readily available with the ZIP codes of the borrowers.

Although people do not always do their banking where they live, Mr. Bhargava said the gap between deposits and mortgage loans was great enough to justify more efforts by bankers to issue loans in poor areas.

Chemical Bank of New York is the largest bank so far to agree to attend the conference. "We are interested in economic development of the low-income areas where we do business, and Acorn's agenda is also our agenda," said Carol Parry, managing director at Chemical for community development.

Acorn is seeking to help banks develop lending programs that would reduce the high rejection rate for low-income mortgage applicants and would make more money available for small businesses.

High-Spee

A Promise F 212 M.P.H. fo

BLOXHAM, England, June 1 (AP) — It costs nearly three-quarters of a million dollars, might not be delivered for months and cannot be driven at top speed unless you are on a race track.

But that has not stopped 1,500 Jaguar aficionados from competing to buy the new Jaguar XJ220, one of the world's fastest sports cars, with a maximum speed exceeding 200 miles an hour.

Jaguar Ltd., a unit of the Ford Motor Company, is making only 350 of the sleek two-seaters.

"Why does anyone buy a fast car?," asked John Billig, a 47-year-old London banker, who will have to wait a year and a half for his XJ220. His deposit was $92,000. "I suppose it's the excitement of the acceleration more than anything else."

Jaguar is expected to begin delivering the numbered XJ220's this month. A third will go to British buyers and the rest will be shipped to 40 other countries.

The car will not be exported to the United States because it meets only European Community standards for emissions and bar-

... 196, 197, 198, 199, 200, 201

WASHINGTON — A quick head count of associations for banks and thrifts turned up 201 organizations.

At the national level, eight leading associations focus on broad-based policy issues. They are:

- American Bankers Association.
- Association of Bank Holding Companies.
- Association of Financial Services Holding Companies.
- Association of Reserve City Bankers.
- Consumer Bankers Association.
- Independent Bankers Association of America.
- National Council of Community Bankers.
- U.S. League of Savings Institutions.

In addition, at least 18 specialized national associations cater to banks and thrifts. They include groups for women, minorities, foreign bankers, marketing professionals, bank directors, and various lending and operational specialists. The 18 groups – including some separately funded affiliates of larger associations – are:

- American Association of Bank Directors.
- American Council of State Savings Supervisors.
- American League of Financial Institutions.
- Association of Banks in Insurance.
- Bank Administration Institute.
- Bank Marketing Association.
- Bank Securities Association.
- Bankers Association for Foreign Trade.
- Conference of State Bank Supervisors.
- Financial Institutions Insurance Association.
- Financial Institutions Marketing Association.
- Financial Services Council.
- Financial Women International.
- Institute of International Bankers.
- National Association of Urban Bankers.
- National Automated Clearing House Association.
- National Bankers Association.
- Robert Morris Associates.

Numerous State Groups

The numbers swell at the regional and state level. The ABA has 52 state affiliates; the IBAA, 34. There are 49 state S&L leagues and five state savings bank groups.

The Western Independent Bankers is a feisty regional powerhouse. And there are 29 multibank clearing house associations.

Finally, at least five national associations have heavy representation from banks and thrifts. They include the Electronic Funds Transfer Association, Futures Industry Association, Mortgage Bankers Association, National Corporate Cash Management Association, and Public Securities Association.

— **Debra Cope**

Appropriate Federal Financial Supervisory Agency

The Act defines the term "appropriate federal financial supervisory agency" to establish the authority of the respective regulatory agencies. Included are the following:

1. The Comptroller of the Currency with respect to national banks.

2. The Board of Governors of the Federal Reserve System with respect to bank holding companies and state-chartered banks which are members of the Federal Reserve System.

3. The Federal Deposit Insurance Corporation with respect to state-chartered banks and savings banks which are not members of the Federal Reserve System and whose deposits are insured by the Corporation.

4. The Federal Home Loan Bank Board with respect to institutions whose deposits are insured by the Federal Savings and Loan Insurance Corporation and to savings and loan holding companies.[6]

is "frequently brought
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said Mr. Burke, presi-
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Snapshots of the Major Trade Groups

Practically every financial institution in the country belongs to at least two trade associations – one national, one state. And quite a few hold multiple memberships.

The associations' offerings vary so widely that it can be hard to remember which does what. To help sort them out, *American Banker* reporter Debra Cope assembled a guide to some of the leading groups.

The 14 groups profiled below include the eight national associations that focus on broad-based policy issues, as well as a selection of other groups.

American Bankers Association

1120 Connecticut Ave., N.W.
Washington, D.C. 20036
202-663-5000

Established: 1875
Membership: About 9,000 commercial banks
Executive Vice President: Donald Ogilvie

The ABA isn't just the oldest banking trade association – it's one of the oldest trade groups in any field. Sheer size makes the ABA a powerhouse on any issue



it takes on. But its very size can sometimes be a disadvantage. Its membership is so diverse that some issues simply defy consensus. The trade group was tortured by divisions over interstate banking in the early 1980s, and by similar schisms on interstate branching today.

Association of Bank Holding Companies

730 15th Street, N.W.
Suite 820
Washington, D.C. 20005
202-393-1158

Established: 1958
Membership: About 100
President: Thomas L. "Lud" Ashley

Organized two years after passage of the Bank Holding Company Act. Membership consists mainly of the nation's biggest banking concerns. The



association is more homogeneous than the ABA, and thus finds it easier to take firm positions and push them. Much of its influence stems from the personal relationship between Mr. Ashley and President Bush. The two men have been close friends

Continued on *next page*

EVEN THOUGH
OUR VOLUME IS
NOW MEASURED IN

Continued from *preceding page*
since their days at Yale, when both belonged to the Skull and Bones secret society. Mr. Ashley's office is a stone's throw from the White House, and he visits with the President regularly: by phone, over dinner, and at Kennebunkport. Presumably, banking issues occasionally come up.

Association of Financial Services Holding Companies

900 17th Street, N.W.
Suite 500
Washington, D.C. 20006
202-223-6575

Established: 1985
Membership: 40 savings and loan holding companies
President: Patrick A. Forte

This lean but efficient group was known until last year as the Association of Thrift Holding Companies. Why the switch? "Half the companies held are



not thrifts any more," said President Patrick A. Forte. "They're credit card banks, national banks, nonbank banks." In recent years, the association has orchestrated a string of small legislative and regulatory victories by focusing sharply on nuts-and-bolts matters affecting members' operations... Today's battle: allowing thrifts that convert to national banks to maintain their savings and loan holding company status if they continue to meet the qualified thrift lender test. If regulatory restructuring

visors, CSBS provides a Washington voice, regulatory coordination, training, and research. For bankers, "it's mostly philosophical, to support the dual banking system," said James Watt.

Consumer Bankers Association

1000 Wilson Blvd., 30th Floor
Arlington, Va. 22209
703-276-1750

Established: 1919
Membership: 700 financial institutions, chiefly banks
President: Joe Belew

Fills the retail lending niche as a second association for banks and thrifts. Members include large community lenders, regional banks, and money



centers. Offers tight focus on specialized lending disciplines, including home equity, automobile, and student loans. Stretching internationally: last year, CBA members traveled to the Soviet Union; this year, Soviet bankers attended the association's Graduate School of Retail Banking.

Financial Women International

500 North Michigan Avenue
Suite 1400
Chicago, Ill. 60611
312-661-1700

Established: 1921
Membership: 17,000
Administrative Director: Susan Resh

The only professional organization devoted to women in the

Independent Bankers Association of America

1 Thomas Circle, N.W.
Suite 950
Washington, D.C. 20005
202-659-8111

Established: 1930
Membership: 6,000 commercial banks, mostly of small and medium size and mostly from farm states.
Executive Vice President: Kenneth Guenther

The Independent Bankers are the wild-eyed radicals of the industry. Their list of recent actions includes opposition to interstate branching and Glass-



Steagall repeal, support for lifeline banking and government check cashing requirements, and the filing of a Community Reinvestment Act complaint against NCNB Texas. And that's only the recent list. The group displays some of the populist fire you would expect from bankers with close ties to farmers and rural communities.

Institute of International Bankers

299 Park Ave., 38th flr.
New York, N.Y. 10171
212-421-1611

Established: 1966
Membership: 240 foreign banks that do business in the United States
Executive Director: Lawrence Uhlick

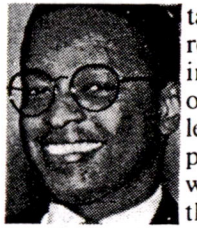
The only U.S.-based association that is made up solely of foreign banks... Was mainly a lunch club until the late 1980s, when foreign banks' presence accelerated in this

National Bankers Association

122 C Street, N.W.
Suite 580
Washington, D.C. 20001
202-783-3200

Established: 1927
Membership: 63 minority-owned commercial banks.
Executive Director: Bruce Gamble

Located in the central cities, minority bankers sometimes feel that they have been handed much of the burden of serving the nation's most disadvan-



taged. As a result, they are in the forefront of opposition to legislative proposals which would require them to cash government checks, a service they feel would fall disproportionately on their shoulders.

National Council of Community Bankers

1101 Fifteenth Street, N.W.
Suite 400
Washington, D.C. 20005
202-857-3100

Established: 1983 from merger of the National Savings and Loan League and National Association of Mutual Savings Banks
Membership: 350
President and CEO: Mark Riedy

Until last month, the association was known as the National Council of Savings Institutions. But members want to downplay their thrift charters and reposi-



tion themselves as community lenders. Dominated by mutual

AMERICAN BANKER

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President: George W. Landgrebe

savings and loan holding company status if they continue to meet the qualified thrift lender test. If regulatory restructuring comes, this group will fight fiercely to keep its members out of the Federal Reserve Board's grasp.

Association of Reserve City Bankers

1710 Rhode Island Ave., N.W.
Suite 500
Washington, D.C. 20036
202-296-5709

Established: 1912
Membership: 299
Executive Director: Anthony T. Cluff

Considered the cadillac of trade associations. Only top executives of banks belong. Given its composition, a merger with the Association of Bank Holding Companies can't be ruled out...Holds its meetings in a relaxed atmosphere.

Conference of State Bank Supervisors

1015 18th Street, N.W.
Washington, D.C. 20036
202-296-2840

Established: 1902
Membership: 54 state banking regulators, 3,500 state-chartered commercial banks
President: James Watt

CSBS is *the* defender of the dual banking system. Bank regulators alone have the vote in this group, but their influence has lessened as bankers have



grabbed a bigger role. About 40% of the 8,500 state-chartered banks belong. As associate members, bankers pay a big chunk of CSBS dues. For super-

Administrative Director: Susan Resh

The only professional organization devoted to women in the financial services industry... Aims its offerings – professional development and education programs – at managers and supervisors... Dues are inexpensive at $85, and that helps FWI hold members... Founded as the National Association of Bank Women, the group changed its name in 1989.

Financial Services Council

1225 19th Street, N.W.
Suite 410
Washington, D.C. 20036
202-785-1500

Established: 1987
Membership: Represents about 25 major bank holding companies, securities firms, insurance companies, and diversified financial firms
President: Samuel Baptista

This group entered the world in 1985 as the Mayflower Group, a coalition of big banks and large diversified concerns – like Sears – with interests in financial



services...Two years later, in 1987, it organized as a trade group with dues-paying members to unite major financial firms from different industries under one umbrella organization... Its goal: to encourage a restructuring of the financial services industry to permit banks to affiliate with all types of financial and nonfinancial companies....Its president, Sam Baptista, once lobbied for both ABA and VISA, and became the spokesman for the Mayflower coalition while a lobbyist for the American Financial Services Association.

that is made up solely of foreign banks... Was mainly a lunch club until the late 1980s, when foreign banks' presence accelerated in this country... Before the "boom," foreign bankers did no formal lobbying, feeling that they were guests here... This fall, focus is on advocating an "open and fair" regulatory environment for foreign banks... Mr. Uhlick was a lobbyist for J.P. Morgan & Co. before joining the Institute.



National Automated Clearing House Association

607 Herndon Parkway, Suite 200
Herndon, Va. 22070
703-742-9190

Established: 1974, as an arm of the American Bankers Association. Became independent in 1986.
Membership: 42 ACH associations serving 15,500 depository institutions.
President and CEO: Elliott McEntee

NACHA sets the rules that the banking industry follows in making electronic payments. NACHA lays out the types of warranties and guarantees that



one bank passes onto another in automated clearing house transactions. Aids in developing new products and services for wholesale and retail customers. Just completed a five-year strategic plan aimed at improving risk management in the banking industry. .It does no lobbying. The president and chief executive, Elliott McEntee, was recruited from the Federal Reserve Board in 1988.

their thrift charters and reposition themselves as community lenders. Dominated by mutual savings banks, which make up two-thirds of the roster. The group's progressive philosophy also attracts some large, healthy savings and loans.



U.S. League of Savings Institutions

1709 New York Ave., N.W.
Suite 801
Washington, D.C. 20006
202-637-8900

Established: 1893
Membership: 2,237. Thrifts make up the bulk of the membership (1,962); affiliates, such as lawyers and accountants, make up the remainder.
President: Frederick L. Webber

The thrift crisis has claimed one-third of the League's members in the past two years. In response, the largest and oldest thrift association has agressively



slashed budget and staff. One casualty: its administrative offices in Chicago, where the League was formerly based, will shut next year. Runoff in membership appears to be slowing, but now a brain drain threatens to sap its once formidable strength. In the past year, the association lost top-notch lawyers Renie Yoshida Grohl and Randall McFarlane to government agencies and laid off chief economist James Christian. Donald Shackelford, a well-regarded Ohio S&L executive who took over as chairman last November, has been drafted to serve an unprecedented second term. □

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Lender eyes niche others are fleeing

Schroder tries commercial projects

BY PETER GRANT
CRAIN'S NEW YORK BUSINESS

Soon after starting his new job as managing director of Schroder Mortgage Associates, Gregory A. White compiled a group of charts demonstrating the turmoil in commercial real estate financing.

One shows that thrifts, commercial banks and insurance companies hold more than 80% of the $1.052 trillion in commercial mortgages outstanding in 1990. Other charts show that $500 billion of these mortgages will be coming due in the next four to five years.

Most of the institutions holding the debt are frantically trying to reduce their exposure to real estate. "Think of what would happen in the corporate bond market if that much debt was coming due and 80% of the players were stepping out," Mr. White says.

Now Mr. White talks about opportunity. "This is the perfect time to make loans or purchase loans," he says.

That is where Schroder Mortgage comes in. A newly created arm of Schroder Real Estate Associates, a pension fund adviser, it plans to raise capital from pension funds, individuals and foreign institutions to buy and make high-quality mortgages.

Pension funds investing too

Mr. White says pension funds are a natural source of finance for the parched real estate industry because they are relatively underinvested in that asset. Only 6% of their $2 trillion in assets are in real estate and more than 80% of that is equity, not debt.

Why should they consider increasing their real estate loan portfolio? Because the potential returns are so great, Mr. White says. Loans that would have had interest rates 1% higher than Treasury notes five years ago now can fetch double those rates. "For investment-grade risk, you can earn noninvestment-grade rates of return," he says.

Pension funds are a natural finance source for real estate because only 6% of their $2 trillion in assets are in that area

Mr. White, 36, brings to his new assignment more than 10 years of experience in real estate finance. With a master's degree in business administration from the University of Pennsylvania's Wharton School, he first worked as an assistant treasurer in real estate for Chase Manhattan Bank. He then worked in Salomon Brothers Inc.'s real estate department for a decade, eventually becoming a managing director.

At Salomon, Mr. White was active in some of the creative financing techniques of the 1980s. For example, he helped design the first securitized commercial mortgage for Olympia & York Cos. (USA). That $970 million offering, which is collateralized by 237 Park Ave., 1290 Sixth Ave. and 2 Broadway, is performing and has not been affected by Olympia & York's financial problems.

Mr. White plans to continue innovating in his new job. For example, he says, Schroder might create a pool of high-quality debt from its mortgages, get that pool rated and then sell it in a securitized offering. The securities would have a lower interest rate than the original debt. "This would create positive leverage and enhance the rate of return of the loans you're keeping," he says.

The key to the strategy is to only make and buy loans collateralized by the highest-quality property. Schroder will not lend to distressed property. And it will not do deals with the Resolution Trust Corp.

Schroder will be protected

Furthermore, the loans will be structured to protect Schroder from the kind of problems lenders are suffering today. The debt will have a lower "loan-to-value" ratio than real estate debt had in the past. In other words, Schroder might only agree to a $50 million mortgage on a property worth $100 million that could have gotten a $75 million mortgage five years ago.

In addition, the loans will have better "debt coverage" ratios. That means a property's net income has to exceed its debt service by a larger amount.

Today it's easy to make such demands. "The beautiful part is there's no competition," Mr. White says.

Schroder Mortgage hopes to raise $500 million in the next two years. The money will either be pooled in one large investment fund or, if investors prefer, their money will be loaned separately. Investments will be made in retail and commercial property throughout the nation. ■



CATHERINE GIBBONS

***Gregory A. White** brings more than 10 years of real estate financing experience to his new job as managing director of Schroder Mortgage Associates.*

BERNARD BARUCH

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450 PARK AVENUE • NEW YORK, NEW YORK 10022 • (212) 751-7979 • FAX: (212) 838-6991

FINANCING & HOME OWNERSHIP

The scarcity of mortgage financing, is having a severe impact on the economy. Lending institutions are reluctant to issue home mortgages in a period of economic downturn. Families of all income levels, are faced with tougher criteria's for home ownership than ever before. But, homes need to be built and people need to be financed.

The risk of financing first time home buyers could be minimized using The Home Credit System, while providing relative safety for its investors.

THE HOME CREDIT SYSTEM: A PROFILE

- A home ownership plan that will make it possible for families across the United States, to be entitled to receive financing on newly constructed homes, regardless of their income.

Americans who want to be home owners, will save in a home down payment account in the banking system. The monetary deposits will be pooled to form a Home Financing Pool (HFP), used to finance home developers across the United States.

Developers will borrow funds, from the HFP, to build homes for the savers in the pool. Upon completion of a construction site, the Sponsor Group will issue long term securities, secured by the land of the construction site and the newly constructed home, returning the borrowed funds to the HFP.

The sponsor group will finance homes to the savers, within the state and county of the newly constructed home development. There will be a cumulative mortgage on each home that will be carried by the sponsor group. Title of the home, will be transferred to the buyer, when the mortgage is satisfied.

OUTLOOK:

Money pools are commonly used by financial institutions, financing only developers. The Home Credit System, will form a money pool, that will finance developers and finance first time home buyers, regardless of their income. Funds are withdrawn from the pool, as savers use their accumulated down payment to buy homes.

NO RELIANCE:

The Home Credit System, is a self supporting plan, that has no reliance on economic sensitive financial institutions, to issue home mortgages or to finance developers. Most importantly, the plan requires no government funds nor needs government legislation.

The board overseeing The Home Credit System, will govern the safety of the saver funds. The board, will review developer proposals on future construction sites, match the newly constructed homes to saver income range, and enforce established policy insuring the soundness of the program. Allocation of homes will be done using The Nationwide Zoning System.

SIZE:

The nationwide offering of The Home Credit System, is of vital importance for the safety it affords to our investors. No one home buyer, or one property, will be relied on exclusively. Being large, we will be able to absorb buyer failure, the vicissitudes of the economy and other unforeseen disasters.

CONCLUSION:

Whether in times of economic downturn or prosperity, homes need to be built and people need to be financed. The Home Credit System, will make it possible to finance first time home buyers, provide relative safety for its investors, and give pride and opportunity to all Americans in fulfilling their dream of home ownership.

THE HOME CREDIT SYSTEM
composed of a HOME FINANCING POOL and MORTGAGE POOL

HOME FINANCING POOL (HFP)
for
FINANCING FIRST-TIME HOME BUYERS

o- A financing plan for first-time home buyers, is a program to mobilize Americans throughout the United States for contractual savings in a home down payment account. It is designed to help meet and support the self effort of Low-Moderate-Middle income individuals, and to receive financing on a residential unit in a financed home development.

o- Residential-Unit financing is linked to a commitment for contractual savings in a home down payment account, and is locally initiated. It fosters self reliance, and utilizes available human resources, to overcome the mortgage credit underwriting requirements for first-time home buyers.

o- Home down payment account, is designed for those who want to save for a down-payment, and gain financing on a Residential-Unit in a financed home development.

o- Home Financing Pool, will finance short term housing developments to builders across the United States.

MORTGAGE POOL
for
FINANCING FIRST-TIME HOME BUYERS

o- Will finance Residential-Units to savers, by a Mortgage Pool with long term mortgage backed securities.

Savers will qualify for a financed residential unit in the financed home developments, only with the required down-payment accumulated in their home down payment account.

HOUSING *for the* PEOPLE *by the* PEOPLE

COMMUNITY REINVESTMENT EFFORT

THE HOME CREDIT SYSTEM- is based on cooperation between banks and associations participating to promote home developments, and finance residential units to savers who are saving for a home down payment in the participating banks.

CITIZEN PARTICIPATION - A COMMUNITY REINVESTMENT EFFORT:
Is affordable home ownership for Low, Moderate, and Middle income Americans. **It focuses on controllable factors of home financing:**

- o- Eliminating all application requirements by registering into a list of potential home buyers;
- o- Eliminating the required down payment for first time home buyers by undertaking to save for a home down payment;
- o- Enabling citizens to become a part of our economic growth;
- o- Emphasizing a policy that will regulate and control the distribution of funds for financing home developments;
- o- Blending financing on residential units in newly built home developments for Low, Moderate, and Middle income families.

CITIZEN REGISTRATION
Registration will be for Low, Moderate, and Middle income Americans through the participating Banks, where savers will establish home savings accounts and save to gain financing on a residential unit in a financed home development.

COMMUNITY REINVESTMENT ACT OF 1977

- o- Participating Banks-- Pooling savers for a home down payment;
- o- Participating Banks-- Financing short-term construction loans;
- o- Participating Banks-- Swap- financing long-term securities;
- o- Participating Banks-- For a cooperative Home Credit System.

Is a commitment for
The Community Reinvestment Act of 1977.

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THE COMMUNITY REINVESTMENT ACT OF 1977: 12 USC 2901

THE CONGRESS: 802-

1. Regulated financial institutions are required by law to demonstrate that their deposit facilities serve the convenience and needs of the communities in which they are chartered to do business;

2. The convenience and needs of communities include the need for credit services as well as deposit services; and

3. Regulated financial institutions have continuing and affirmative obligation to help meet the credit needs of the local communities in which they are chartered.

The purpose of this act is to require each appropriate federal financial supervisory agency to use its authority, to encourage such institutions to help meet the credit needs of the local communities in which they are chartered consistent with the safe and sound operation of such institutions.

THE COMPLIANCE

CREATING
A
NATIONAL HOME CREDIT SYSTEM
Governed by a Chairman and a Board
comprised of BANKS FOR COOPERATIVES

A nationwide cooperative system of banks and associations, will take part in The Home Credit System, in response to the credit crisis that had undermined the nations home credit industry, and created a need for a joint venture of banks and associations, to help meet the nations financing needs in todays home mortgage market.

COMPLYING
WITH THE
COMMUNITY REINVESTMENT ACT OF 1977

o- Savers in their communities saving for a home down payment in a Home Saving Account, forming a community pool of potential home buyers.

o- Banks and associations pooling savers for a home down payment in their communities, creating a pool, for lending money to home developers in communities.

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CRA Regulations Gain New Respectability

CRA may have some frustrating aspects, but paying attention to the Act may uncover substantial opportunities that otherwise may have been ignored.

Griffith L. Garwood

On the heartburn index of banker worries, the Community Reinvestment Act (CRA) seems to be a major source of discomfort. The law, which appears so simple and self-evident — requiring only that financial institutions help to serve the credit needs of their communities — remains forbidding to many bankers.

Examiners are poking around in bank business that never concerned them before, such as officer call programs and advertising plans. They are touring the community asking questions — often calling on groups and individuals that may not be the bank's natural friends. Despite bankers' pleas to "just tell us how much is enough and we'll do whatever is necessary to pass," the regulators are unable to do that for fear of engaging in credit allocation. This makes them reluctant to provide hard and fast requirements — such as the number of loans needed to assure a good rating. Much long-standing charitable and community-related work seems to be brushed off as "not CRA related," since it doesn't deal with the law's primary focus on credit. All this is understandably frustrating.

Moreover, the new public ratings have added new risk and worry to the process. And, a bank must sometimes hold its breath these days when filing an application, fearing that a community group may show up questioning its record. In addition to concern about the economy, weak loan portfolios, and new competitors of all sorts, worrying about the CRA may sometimes seem like the last straw.

Griffith L. Garwood is director of the Division of Consumer and Community Affairs with the Federal Reserve Board in Washington, D.C. The views expressed in this article are those of the author, and not necessarily those of the Federal Reserve Board.

In fact, there are many reasons for giving attention to CRA, not the least of which is that many institutions have found that they can generate profits while doing good for the community. CRA has proven much less threatening and much more positive than many bankers feared. Moreover, another aspect of CRA may give the industry an important leg up for the future. With the dramatic shift in the demographics of the US population shown by the 1990 census, CRA may be propelling bankers toward developing new business that is very much in tune with today's shifting marketplace. First, some thoughts about why CRA is here to stay; then, some ideas on why it may be a blessing in disguise to the industry.

The idea held by many that, since the financial industry is composed of private sector, investor-owned institutions, it should not be burdened with public responsibilities such as CRA has been severely tested in recent years. Advocates of a public utility-type role for financial institutions have long pointed to chartering, deposit insurance, and discount window access as evidence of government support that should carry with it special social obligations.

A Mixed Blessing

Whatever weight these arguments had in the past, the last few years have left no question about the substantial presence of the government in the financial industry. Since 1980, 1,200 banks have failed—nearly 10% of the industry—with the government becoming involved with all of these institutions during the course of their sale or liquidation. More than 25% of the nation's thrifts have similarly been associated with government agencies during the crisis. All this governmental attention is obviously a mixed blessing. It has brought immediate financial relief, but there's likely to be a long-term price to pay for so much public sector involvement.

For several years now, Congress has debated how many billions of dollars the government needs to inject into banks and thrifts. The full implication of the congressional attention to the financial obligation of government to the industry's depositors won't be known for a long time. But one thing is certain, it has probably fueled, perhaps irrevocably, a bias in many minds toward thinking of the industry as a legitimate instrument of government social policy. Like it or not, the idea that aggressive CRA enforcement is a quid pro quo for all this government attention is very much alive, particularly in Congress. This will probably keep CRA high up on the list of things that bankers must worry about for some time to come.

> ***"The CRA constituency has widened considerably beyond the community activists that bankers often associate with the Act."***

New Respectability

Something else is at work to keep the spotlight on CRA. The CRA constituency has widened considerably beyond the community activists that bankers often associate with the Act. Protestors now routinely include local government officials, unions, churches, newspapers, and the like. The states are getting into the act as well with their own laws. Concern that banks may not be sensitive to the needs of local borrowers has become a broad-based worry, as com-

munities contemplate the prospect of local institutions being snapped up by less sympathetic out-of-state buyers. All this has added a new respectability to CRA. No longer can a banker characterize its supporters as out of the mainstream. Some of the most avid fans are now establishment players, and this new broad interest seems likely to grow as the banking industry approaches full interstate banking.

For a variety of reasons, vigorous CRA enforcement is probably going to be a long-term feature of the regulatory scene. For those who are concerned that CRA is all pain and no gain, however, the picture is not as bleak as some bankers seem to think. Being attuned to CRA issues should lead banks to new business and marketing strategies that can help them remain profitable in a changing world. CRA is based on the idea that, with a little special encouragement, banks can find profitable business in areas that they haven't aggressively served—often using special governmental or other third-party programs. The law itself makes it clear that CRA lending is to be approached with a firm eye on safety and soundness. Fortunately, many banks have confirmed that CRA need not be inconsistent with sound lending, and there are plenty of success stories that prove the premise of the Act.

Beyond that, some important demographic trends suggest that there are additional benefits to be garnered from taking CRA seriously. CRA may have some frustrating aspects, but paying attention to CRA may uncover substantial opportunities that otherwise may have been ignored.

A New Market—The "Baby Busters"

For example, by raising questions about how to serve lower-income groups, CRA may force financial institutions to develop programs to serve a burgeoning lower-income market that they may not have otherwise anticipated. The country is now face to face with the "baby bust" generation—the 75 million Americans between ages 10 and 30—and will be for years to come. Much of this generation may be characterized, not only by diminishing numbers, but by lower incomes than we've come to expect—at least until the "baby boomers" get out of the way and the "busters" can take advantage of a tighter labor market. Even so, the baby busters may never match their parent's living standards—the first full US generation that hasn't been able to do so.

> ***"The 1990 census shows that the median inflation-adjusted income of households headed by individuals under age 25 is 10% less than in 1979."***

The 1990 census shows that the median inflation-adjusted income of households headed by individuals under age 25 is 10% less than in 1979. Income of families headed by someone under age 30 is now 13% lower than such families earned in 1973. On average, young men earn 17% less in real terms today than they did in 1973. Large markets of families with lower incomes may be a fixture of the scene for some time to come.

Several factors contribute to the lower earning power of the baby busters. One is that many work in service industries, such as the fast-food business or back office situations where pay is low. A healthy 75% of new jobs are now in the service sector. In turn, the number of jobs in manufacturing, which traditionally has employed many of these individuals, has dwindled. Perhaps

more important, productivity growth has slowed in recent years. Also, foreign competition and movement of work to nonunion shops have depressed wages. All in all, there is a substantial likelihood that the reduced numbers and lower earning capacity of the baby busters may demand new thinking about which bank products will serve a changing US market.

Despite their reduced earning power, this group can be expected to demand the financial services available to their parents—including credit. To the extent that CRA forces the industry to pay attention to downscale consumers, as well as the upscale, by devising new products that fit their profile, it will be serving an important and growing segment of the market.

Moreover, by putting the burden on financial institutions to serve "the entire community, including low- and moderate-income neighborhoods," CRA naturally puts some focus on minority lending, given the concentration of minority groups in many of these neighborhoods, particularly in urban areas. In doing so, CRA is very much in tune with one of the major demographic developments in the nation. This is so even though CRA is not a civil rights law and most of the low- and moderate-income people in the United States are not, in fact, minorities.

Demographic Trends

According to 1990 census figures, minorities now make up a much greater proportion of the population, their numbers are growing faster than the majority, and their dispersion is changing the complexion of many communities. Non-Hispanic whites now constitute only approximately 76% of the US population, down from approximately 80% in 1980. This decline is broad-based throughout the country. The nation had 3,137 separate counties, and the proportion of whites declined in 72% of them during the 10 years between census counts. By contrast, the proportion of Asians increased in 80% of these counties, Hispanics in 64%, and blacks in 60%. Even the change in the proportion of American Indians was dramatic; they increased in 87% of the nation's counties (perhaps in part because of new ethnic pride and a willingness to be so identified).

> ***"These changes in the ethnic complexion of the US population were greater in the past decade than at any time in the twentieth century."***

Although whites increased at a rate of 6% between 1980 and 1990, blacks increased by 13%, Hispanics by 53%, and Asians by 108%. Taken together, racial and ethnic minority groups are growing more than seven times as fast as the non-Hispanic white majority. In addition to higher internal growth rates, the pattern of immigration is contributing to the changing demographics. The immigration level during the 1980s was the highest since the turn of the century, and much of it was by minorities. In the future, of the 700,000 or so annual immigrants, approximately three out of every four are likely to be from countries outside Europe or Canada.

These changes in the ethnic complexion of the US population were greater in the past decade than at any time in the twentieth century. Nearly one in every four Americans now claims African, Asian, Hispanic, or American Indian ancestry. Demographers predict that by the year 2060, minorities will outnumber non-Hispanic whites. And, in fact, this is already so in some parts of the

country. For example, in Los Angeles, the nation's most populous county, "minorities" now exceed the "majority." This is also true in Houston, Washington, San Francisco, Cleveland, New York, Miami, and many other cities. Whites are in the minority in 75% of US cities with populations of more than 1 million. Long before 2060, the decline in the majority will be very evident—for example, by 2021, non-Hispanic whites should represent only 64% of the population.

In some states, such as New Mexico and California, the population of whites who are not of Hispanic descent has declined so dramatically between census counts that they are likely to be in the minority by 2000. Already, such whites account for just 57% of the population of California. Several other states now have sizable minority populations—Texas 39%, Florida 27%, New York 31%, New Jersey 21%, and Connecticut 16%, for example.

These changes will not just affect urban areas and the institutions located in them. For the black population, the most dramatic changes are not growth, but geographic location. The 1990 census documented increased movement to the South and West. This has been accompanied by entry into the metropolitan areas that have been historically characterized by relatively few blacks. The proportion of minorities living in mainly suburban counties increased by 30% during the 1980s. Today, more Hispanics and Asians live in suburban counties than in cities. The picture of the dark inner city and lily-white suburb is fast fading.

To the extent that the CRA forces financial institutions to recognize and respond to the changing market demographics mentioned previously, perhaps in advance of when they would otherwise have done so, it will have performed a service to the industry. Of course, it would be a great mistake to assume that minorities are necessarily low- and moderate-income. For example, of the nation's 31 million blacks, two-thirds are not poor, and the percentage that can be characterized as affluent is growing rapidly.

In 1988, 13% of black families had incomes of $50,000 or more, up from 8% in 1980. In fact, on average, Asian American households are more affluent than whites. A full 32% have household incomes of $50,000 or more. At a time of diminishing business opportunities, CRA may reveal sizable undertapped markets of profitable minority business to the advantage of the industry.

It's the Law

CRA is here to stay. It's the law, and there are many reasons to expect continuing emphasis on it. Among them are the broadened constituency for CRA during a period of industry strain and consolidation. But there are good business reasons as well. Many institutions report lower than usual delinquency rates on CRA-type lending. The anticipated horror stories of CRA forcing banks into imprudent lending simply haven't materialized, and instead there are plenty of success stories—particularly involving public-private partnerships. Moreover, the idea of doing good for one's institution, while doing good for one's community, has widespread appeal. More and more bankers seem to be turned on by this possibility. But whatever one's level of enthusiasm for CRA, the 1990 census data suggests that it's likely to help prepare banks for important marketing challenges ahead. ■

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TOP BANK PERFORMERS IN FIRST QUARTER
Tables begin on page 8

AMERICAN BANKER

VOL. CLVII NO. 108 *Friday, June 5, 1992* *157th year*

Banks Facing A Heat Wave On Loan Bias

By PHIL ROOSEVELT

Deservedly or not, banks will be on the hot seat for months and maybe years as a result of the Los Angeles race riots. The political fallout from the unrest has galvanized the government to step up its search for bias by mortgage lenders.

Over the past several weeks, major investigations into discriminatory mortgage lending have been unveiled separately by the Office of the Comptroller of the Currency, the Department of Housing and Urban Development, and the Justice Department.

ANALYSIS: *Follow-up on the news*

An elaborate survey of lenders by the Federal Reserve Bank of Boston also has begun in earnest.

While experts say it's too early to predict the outcome of these probes, the banking industry could face embarrassment as well as higher compliance costs and forced lending reforms.

Some lenders continue to hope that they will be vindicated when the tumult and the shouting end.

Support Is Possible

Indeed, the investigations could yield support for their contention that mortgage bias is inadvertent and can be remedied by improved teamwork among lenders, secondary-market agencies, and other market participants.

Whatever the outcome, the pressure is unlikely to let up anytime soon. The investigative boom began last fall when regulatory data from the Federal Reserve revealed that blacks and Hispanics are rejected for home loans far more often than whites.

But it was the recent Los Angeles riots that gave "muscle to all this," said John F. Kain, a Harvard University professor of economics and Afro-American studies.

At the Forefront

The riots, provoked by the April 29 verdict in the Rodney King case, thrust urban issues – including housing and questions of fairness in mortgage lending – to the forefront of national debate.

"What people are screaming for – it's almost Republican rhetoric – is to own their own companies and own their own homes," said Rep. Joseph Kennedy 2d, D-Mass., who visited the site of the riots last week. "We're not talking about charity

See **MORTGAGE** *page* **5**

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Continued from *page* **1**

here; we're talking about getting banks to lend money."

A new round of pressure on the mortgage industry is expected this fall when the Fed releases its second annual roundup of mortgage rejection data. It is unlikely that there will be much improvement in the numbers in such a short period of time, many experts say.

"I can't believe there won't be" an outcry, said Rep. Kennedy, who hopes to use the momentum to build bipartisan support for a toughening of the Community Reinvestment Act. The 1977 legislation mandates lending in low-income neighborhoods.

NEWS ANALYSIS

Effective Advocate

The congressman should not be taken lightly. He shocked bankers in 1989 years ago with a floor victory that dramatically expanded reporting requirements under the Home Mortgage Disclosure Act, leading to the Fed studies. Under the law, banks must now disclose information about applicants' race, gender, and income levels.

The 1990 data showed that blacks were rejected 2.4 times as frequently as whites. Hispanics were rejected at 1.5 times the rejection rate of whites.

The American Bankers Association has acknowledged "subtle" patterns of discrimination.

The American Bankers Association initially attacked the Fed data as inconclusive for proving bias, noting that it did not take into consideration other factors such as borrowers' credit histories or debt levels. But it began backpedaling last month after meeting with community and consumer groups.

The trade group acknowledged "subtle" patterns of discrimination and launched a campaign to help banks extend more loans to minorities.

"You can't look at the data and say there isn't something wrong," said Gordon Mansfield, assistant secretary for fair housing at the Department of Housing Urban Development.

Agency to Use Testers

HUD recently laid the groundwork for what could prove to be the most potent of the government investigations. It is sponsoring a project that will send pairs of loan applicants into lending offices in three cities to test for bias.

One tester will be white and the other from a minority group, but they will present themselves with similar economic profiles.

The Federal Reserve Board

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CONSUMER NEWS

MORTGAGE BANKING

Banks Face Long Heat Wave over Loan Bias

rejected a similar testing plan last year, saying it would raise ethical questions, cost too much, and possibly be unreliable.

But testing may prove to be an ideal tool for weeding out discrimination, especially in the crucial preapplication stage, says Ronald Wienk, a senior researcher at the Urban Institute, a Washington, D.C.-based nonpartisan think tank.

The institute is trying to raise funds to launch its own testing project, he said. Unlike the HUD effort, it would be nationwide.

The housing agency will send pairs of testers into lending offices.

Testing is, of course, not the only approach to finding bias. The Federal Reserve Bank of Boston sent surveys two weeks ago to 130 of the most active mortgage lenders in Boston, seeking detailed information about all mortgage applications submitted in 1990 by blacks, Hispanics, and a sampling of whites.

"It's primarily a research project, but the information on the individual institutions will be available to their primary regulator," said Lynn Browne, the Boston Fed's deputy director of research for regional affairs.

Filling out the survey forms could take 300 man-hours for some banks, according to estimates by Boston lenders.

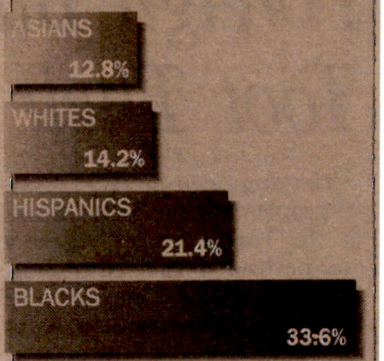
But the Massachussetts Bankers Association supports the effort, saying that it planned a similar project until the Boston Fed took the lead.

The trade group's president, Richard Driscoll, said the bankers are hoping that the Boston

See MORTGAGES page 7

Rejection Rates

Percentages of mortgage loan applicants turned down in 1990



Source: Federal Reserve Board

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Continued from *page* **5**

Fed completes its study before the Washington Fed gives out its data on 1991 rejection rates in the fall.

Response to Information

"We're going to get a whole lot of questions out of the 1991 figures, and it would be useful to be able to say, 'Well, based on what we're able to determine, we think there are some things that can be done and are being done,' " he said.

But some observers said bankers will be hard-pressed to avoid further criticism when Washington releases its statistics this fall.

"These problems appear to be deeply imbedded in the mortgage lending industry," said Allen Fishbein, general counsel for the Washington-based Center for Community Change. "I think you are going to see a process of a number of years before significant improvements are detected."



Allen Fishbein
Calls problems "embedded"

The Justice Department, meanwhile, is stepping up its efforts to identify and sue lenders engaged in broad "patterns or practices" of discrimination. In the past, the department's involvement was limited to filing bias suits on behalf of individual mortgage applicants.

The department has enlisted banking regulators to supply information that could lead to enforcement, though that avenue has not been especially fruitful

---

Jewish Fund Lauds SunBanks Chairman

ORLANDO — Buell G. Duncan Jr., chairman of SunBanks Inc., received the Jewish National Fund's Tree of Life award at a dinner in his honor in Orlando.

The award recognizes outstanding involvement in the community.

Mr. Duncan is active in many business and civic groups and is on the founding board of the National Conference of Christians and Jews. Net proceeds of the dinner will be used to create the Buell G. Duncan Jr. Forest in American Independence Park, 15 miles southwest of Jerusalem. The park is to symbolize friendship between the United States and Israel. □

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CONSUMER NEWS

MORTGAGE BANKING

Banks Face Long Heat Wave over Loan Bias

The OCC will make public its broad findings of a probe of 250 national banks "if we find anything worth talking about," a spokeswoman said.

in the past.

Bank and thrift regulators have reported scant evidence of discrimination in their field examinations of banks.

But that may be changing. The Office of the Comptroller of Currency said last month that it was probing some 250 national banks for discriminatory practices.

The investigations should be completed by yearend, an OCC spokeswoman said. The agency will make public its broad findings "if we find anything worth talking about," she said.

Certainly, regulators are under heavy pressure from critics in Congress to find something. Rep. Kennedy characterized their performance to date as "atrocious."

Rep. Esteban Torres, D-Calif., said he may introduce legislation to create a new agency that would monitor banks' compliance with fair lending laws.

Banking regulators are themselves starting to face charges of bias. Just this week, a report from the House Banking Committee criticized bank and thrift regulators for failing to hire and promote women and minorities. □



Rep. Joseph Kennedy 2d
Using the momentum

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Richard,

This booklet outlines the creation of a CRA Compliance Board.

Dan

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HOUSING *for the* PEOPLE *by the* PEOPLE

THE GOAL TO PROVIDE HOUSING TO MEET NATIONAL NEEDS

A
COMMUNITY REINVESTMENT EFFORT

THE HOME CREDIT SYSTEM- is based on cooperation between banks and associations participating to promote home developments, and finance residential units to savers who are saving for a home down payment in the participating banks.

CITIZEN PARTICIPATION - A COMMUNITY REINVESTMENT EFFORT:
Is affordable home ownership for Low, Moderate, and Middle income Americans. **It focuses on controllable factors of home financing:**

- o- Eliminating all application requirements by registering into a list of potential home buyers;
- o- Eliminating the required down payment for first time home buyers by undertaking to save for a home down payment;
- o- Enabling citizens to become a part of our economic growth;
- o- Emphasizing a policy that will regulate and control the distribution of funds for financing home developments;
- o- Blending financing on residential units in newly built home developments for Low, Moderate, and Middle income families.

CITIZEN REGISTRATION
Registration will be for Low, Moderate, and Middle income Americans through the participating Banks, where savers will establish home savings accounts and save to gain financing on a residential unit in a financed home development.

COMMUNITY REINVESTMENT ACT OF 1977

- o- Participating Banks-- Pooling savers for a home down payment;
- o- Participating Banks-- Financing short-term construction loans;
- o- Participating Banks-- Swap- financing long-term securities;
- o- Participating Banks-- For a cooperative Home Credit System.

Is a commitment for
The Community Reinvestment Act of 1977.

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THE COMMUNITY REINVESTMENT ACT OF 1977: 12 USC 2901

THE CONGRESS: 802-

1. Regulated financial institutions are required by law to demonstrate that their deposit facilities serve the convenience and needs of the communities in which they are chartered to do business;

2. The convenience and needs of communities include the need for credit services as well as deposit services; and

3. Regulated financial institutions have continuing and affirmative obligation to help meet the credit needs of the local communities in which they are chartered.

CREATING
A
CRA COMPLIANCE BOARD
Headed by a Chairman and
Regional Bank Governors

THE HOME CREDIT SYSTEM

A nationwide cooperative system of banks and associations, will take part in The Home Credit System, in response to the credit crisis that had undermined the nations home credit industry, and created a need for a joint venture of banks and associations, to help meet the nations financing needs in todays home mortgage market.

o- Savers in their communities saving for a home down payment in a Home Saving Account, forming a community pool of potential home buyers.

o- Banks and associations pooling savers for a home down payment in their communities, creating a pool, for lending money to home developers in communities.

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THE ZONING SYSTEM

The Home Credit System, is controlled by the participating banks; governed by a Chairman and Board members, and comprised of five major components:

o- The Board member panel will determine policy governing The Home Credit System. The Board will be responsible for undertaking home developments, and in formulating and enforcing regulations governing The Home Credit System.

o- The second major component of The Home credit System are the ten (10) National Zones. Governors of the ten Zones will operate within guidelines established by the Board, and share the Boards' responsibilities in their respective geographic areas.

o- The third major component of The Home Credit System are the State Zones. Representatives of the State Zones will serve on the Application Analysis Division Review in their respective geographic areas.

o- The fourth major component of The Home Credit System are the Local Zones. Representatives of the Local Zones will be the Board liaison between communities and home developers in their respective geographic areas.

o- The fifth major component of The Home Credit System is the Community Zone. The Community Zone is a number routing system to identify each individual saver and the location of home developments in their respective geographic areas.

The Home Credit System with its support Zoning System, will blend all financial institutions, in a comprehensive arrangement to finance home developments nationwide.

The system divides the United States into regions:

10 National Zones
35 State Zones
999 Local Zones
28,969 # identifying Community Zones.

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PURPOSE

The increasing demand for mortgage funds and the demand for home loans exceeds the sum of savings available form local depositors. The need for a nationwide credit system to accept saving deposits is becoming more apparent. Such a system is The Home Credit System, that will consolidate all financial institutions into a single independent group administrated by a governing board. This will affect the balance between savings deposits, mortgage demand, and between geographic areas with surplus of savings and areas where mortgage money is needed.

"1935"

THE SAVINGS SYSTEM THAT MAKES MORTGAGE MONEY AVAILABLE, AND THE HOME CREDIT SYSTEM THAT WAS CREATED IN RESPONSE TO THE GREAT DEPRESSION, IS NO MATCH FOR THE HOME FINANCING NEEDS OF TODAYS HOME MORTGAGE MARKET.

REDUCE RISK

To reduce risk in investing in home developments and of exposure to asset-related problems in the future, the governing Board will take steps to curb risk taking and provide closer monitoring of activities in each zone of the system. The Board will adopt regulations for potential home developments, and guidelines before investing in real estate.

The Board will delegate the responsibility of on-sight inspection and support staff rotation between each zone of the system. Placing all inspectors and examiners under the auspices of the offices of the ten National Zones, will insure greater measures of inspection, discovery of problems, and take swift corrective measures to early signs of problems.

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THE HOME CREDIT SYSTEM
Governed by a Chairman and a Board
Supported by a Zoning System

CRA COMPLIANCE BOARD

The Board will adopt the policies and regulations that will guide The Home Credit System, promote efficiency in its operations, and insure the safety and soundness of the registered savers deposit funds. The board is comprised of a Chairman and eleven Board members:

The Chairman will be appointed from within the participating banks.

or

The President will appoint a Housing Czar acting as Chairman of the Board.

Ten Board members will be appointed from within the participating banks in The Home Credit System. Each Board member governs one of the ten National Zones in the system.

One Board member will be appointed from the sponsor group, who maintains the list of all potential home buyers, and allocates residential units to savers.

The Board members will meet in sessions as often as necessary. During these meetings, the Board will adopt and amend regulations affecting the System.

The type of decisions the Board will make, will involve the creation of new home developments, granting home development loans, and how it will be invested. The Board will make decisions of all types to ensure the safety and the soundness of the system, as well as the saving funds of the registered savers.

In addition, the Board members will direct the policy, and make final administrative decisions, having the final authority over any action undertaken by each zone office in the system.

The Board will delegate a number of employees in each National Zone as supervisory agents, who will be responsible for instituting corrective measures in each zone of the system, and provide day to day on-sight inspection and supervision.

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NATIONAL ZONE

Each regional office of the ten National Zones, is headed by a Governor, who serves as a Board member, and operates as the Boards primary liaison between his State and Local Zones.

The Governor will oversee the operation of each zone in his system, to insure conformity within Board regulations and policies. The governor will coordinate State and Local Zones operations, budget requests, and oversee its performance.

Each regional office of the ten National Zones, serves as the principle supervisory agent, having authority to approve on-sight inspections, and enforce Board regulations.

Each National Zone office, will also review home development applications that the State Zone office has approved, verifying that the applications have been handled in accordance with Board regulations before the Board takes action.

STATE ZONE

Each State Zone in the system, is headed by a Director, who operates as a liaison between the regional Governor, and the Local Zones in their respective geographic areas.

The State Zone offices, is the Application Analysis Division, that will review and recommend final action on the various new home development applications.

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LOCAL ZONE

Each Local Zone in the System, is located in the communities it serves, operating as the primary liaison between communities, developers, and registered savers. It seeks to expand home development, and monitors the allocation of residential units to registered savers in their communities.

Local Zone offices will supply technical assistance to developers, monitor and enforce the Board regulations, and work with the supervising agents investigating complaints.

COMMUNITY ZONE

The Community Zone is a number routing system that will identify communities throughout the United States. Its purpose is to identify registered savers in their communities, to identify potential home development sites, and to allocate residential units in newly built home developments to savers.

THE ZONING SYSTEM

Although the offices of each National, State, and Local Zones in The Home Credit System is bound by the same authority and the rules; each office is responsible to the Board in its duties. As problems and opportunities change across the country, so do the choices and decisions. But the Board and the other elements of the system share a common goal, to make quality and affordable Home-Ownership a reality for all.

AND STOP PAYING RENT

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CONTENTS

	Page
INTRODUCTION	1
The Community Reinvestment Act	3
The Compliance	3
The Zoning System	4
Purpose	5
"1935"	5
Reduce Risk	5
THE HOME CREDIT SYSTEM	6
The Board	6
National Zone 7	Local Zone 8
State Zone 7	Community Zone 8
***HOW THE NUMERICAL # ZONE WORKS**	9
*National Zone By #	10
National Zone # 0 11	NationaL oneE # 5 42
National Zone # 1 20	National Zone # 6 49
National Zone # 2 24	National Zone # 7 54
National Zone # 3 31	National Zone # 8 59
National Zone # 4 37	National Zone # 9 67
Alabama AL 34	Montana MT 48
Alaska AK 72	Nebraska NE 53
Arizona AZ 64	Nevada NV 66
Arkansas AR 56	New Hampshire NH 14
California CA 68	New Jersey NJ 18
Colorado CO 60	New Mexico NM 65
Connecticut CT 17	New York NY 21
Delaware DE 23	North Carolina NC 29
District Of Columbia DC 25	North Dakota ND 47
Florida FL 33	Ohio OH 39
Georgia GA 32	Oklahoma OK 57
Hawaii HI 69	Oregon OR 70
Idaho ID 62	Pennsylvania PA 22
Illinois IL 50	Puerto Rico PR 19
Indiana IN 40	Rhode Island RI 13
Iowa IA 43	South Carolina SC 30
Kansas KS 52	South Dakota SD 46
Kentucky KY 38	Tennessee TN 35
Louisiana LA 55	Texas TX 58
Maine ME 15	Utah UT 63
Maryland MD 26	Vermont VT 16
Massachusetts MA 12	Virginia VA 27
Michigan MI 41	Washington WA 71
Minnesota MN 45	West Virginia WV 28
Mississippi MS 36	Wisconsin WI 44
Missouri MO 51	Wyoming WY 61
	Washington, DC 25

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BERNARD BARUCH

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September 16, 1992

Mr. Richard W. Porter
Counselor to the Vice President
Old Executive Office Building
Washington, DC 20501

Dear Mr. Porter:

Back in the 1930's, during the great depression, it was the Federal Government that invested in new ideas to move the economy ahead. Now in the 1990's, in a "reversed depression", we look to the private sector to invest and jump-start the economy once again.

It is time for this administration to introduce "America's Home Financing Option" proposal to the entire banking industry and the greater American public. This administration should publicly encourage all banks nationwide, including Commercial, Savings, and Credit Unions to participate and offer "America's Home Financing Option" as the savings plan for first time home buyers. Each bank, individually or as a group, will introduce a special passbook savings account with no attached required minimum held on deposit or any other penalty with regards to the amount saved; provided that the savings are designated only for a home down-payment.

This administration should also encourage bank participation into "The Home Credit System"-a nation wide system where savers can register in a potential home-buyers list, administrated and governed by a zoning system to ensure and garuntee mortgage financing to all savers.

"America's Home Financing Option" was verbally endorsed at meetings held with The Honorable Lawrence B. Lindsay, Governor of the Federal Reserve System, Mr. George Knight, Executive Director of the Neighborhood Reinvestment Corporation, and at a recent meeting held with Mr. Mark A.Willis, President of Chase Community Development Corporation. Mr.

Willis expressed his eagerness to participate in "America's Home Financing Option" and asked if we would allow him to use it immediately. Furthermore, he indicated that Chase Manhattan Bank would introduce a special passbook account linked to "America's Home Financing Option", because he feels that all banks will participate and he is ready and willing to meet the competition.

We all know that November third is six weeks away, but it is not to late to introduce "America's Home Financing Option" because it does not require federal funding or Congressional approval. It should be categorized as a private initiative that can stimulate the economy and bring us out from the "reversed depression" that we are in.

With Warmest Regards,

Bernard Baruch Margalt

Bernard Baruch Margalt
President

cc: The Honorable Clayton Yeutter
Mr. Charles E. M. Kolb
Mr. Todd G. Buchholz
Chairman Richard N. Bond
Mr. Nicholas J. Shea