ShoreBank's Legacy and Vision Continue: A Practitioner's Reflections

By Bruce Gottschall, Former Executive Director of Neighborhood Housing Services of Chicago

ShoreBank, headquartered in Chicago, was the largest community development bank in the United States. In August 2010, it was declared insolvent, and Urban Partnership Bank acquired ShoreBank's core deposits and most of the assets of ShoreBank Corporation's Midwest bank out of receivership from the FDIC.

ShoreBank was created at a time of urban turmoil and neighborhood decline. In the late 1960s and early 1970s, people across the country were protesting and demonstrating against the "redlining" of minority, low-income, and older communities. At bank offices and at bank executives' homes, protestors showed their disapproval of banks' lack of lending in certain neighborhoods. Furthermore, it was then an accepted belief that once city neighborhoods started to decline, the downward spiral would inevitably continue. Decline became a self-fulfilling prophecy because many people, including bankers, acted on that belief. An accompanying conviction was that the only way to reverse this decline was to demolish the neighborhoods and start over.

In the midst of this turmoil, in 1973 — before passage of the Home Mortgage Disclosure Act (HMDA, 1975) and the Community Reinvestment Act (CRA, 1977) — a small group of people bought a troubled bank in a declining African-American neighborhood on Chicago's South Side. These people had a dream of improving the neighborhood by using a small private community bank as a base. That might not seem like a novel idea today, but at the time, it went against the accepted wisdom of how to deal with the problem of declining areas. Buying a failing bank in a declining neighborhood took foresight, courage, and dedication, and it also meant taking significant risk. Indeed, many people thought the task of reviving both the bank and the neighborhood was impossible.

The protests had focused attention on the problem, but the enactment of HMDA and the CRA was essential for encouraging banks to provide the credit necessary to make a difference in neighborhoods. However, communities also needed examples of how this type of lending and community development could actually be done. ShoreBank, through its focus on making credit available in a place other institutions had written off, provided such an example.

ShoreBank's vision, which emphasized leadership and the responsibility of private-sector entities in regenerating neighborhoods, changed the game. In particular, the bank helped to shift responsibility for reversing the decline of troubled neighborhoods solely from the government to other institutions, especially banks, because ShoreBank realized that the availability of credit was an essential ingredient for improving neighborhoods. This concept also made a huge difference in creating new models for community investment. By showing that neighborhoods that had been excluded from obtaining credit could improve with the right combination of private and public resources, ShoreBank changed perceptions about what was possible. If a small community bank in a declining area of Chicago could demonstrate the viability of the neighborhood and the bank, there was no reason others couldn't do the same.

ShoreBank introduced the concept of a community-based bank — local knowledge and local presence — to a tough urban neighborhood from which banks had fled. Yet it went much further by setting up for-profit and not-for-profit subsidiaries that helped potential borrowers navigate the loan process and created further investment in the community. In brief, ShoreBank went beyond the legislative mandate of the CRA to create financial services and credit and lending opportunities. It offered concrete evidence that private investment in declining areas could make a difference and showed ways to do it successfully.

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ShoreBank also created a base from which to leverage public and other investment resources to further its local development goals. In his book *Community Capitalism*, Richard Taub notes that one of ShoreBank's major strengths was its ability to mobilize outside resources and focus them on the community.[1]

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[1] Richard Taub, *Community Capitalism*. Boston: Harvard Business School Press, 1988.

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Throughout the 1980s and early 1990s — a time when the community development lending infrastructure was being built — the financial press ran numerous articles describing how ShoreBank was able to make loans that led to real improvements in the community without losing money. This was an important time in the development of neighborhood-lending expertise because the CRA was being enforced more rigorously, and examples of how to make the act work were vital to furthering community development and building a lending infrastructure to support it. ShoreBank's success countered the claim that there were no lending opportunities in these neighborhoods and dispelled the myth that there was no good banking business to be done there. Through its pragmatic example, ShoreBank engendered institutional changes within banks that led to increased lending to these neighborhoods.

Of course, ShoreBank's influence reached far beyond Chicago and led to one of its most noteworthy achievements. In 1986, working with Bill and Hillary Clinton in Arkansas, ShoreBank staff developed the Southern Bank Corp., an institution modeled after its own work in Chicago. This important institution demonstrated the value of the ShoreBank model. In addition, the relationships that developed out of this effort led to one of ShoreBank's single greatest contributions to community development: its leadership in creating the legislation that established community development financial institutions (CDFIs) and the Bank Enterprise Award (BEA) in 1994. This achievement has been acknowledged by many people who work in the community development arena. President Clinton recognized it in his remarks at the signing ceremony for the CDFI legislation: "[ShoreBank is] a place that I visited, got to know, and got to understand. I've long admired the way they steered private investments into previously underprivileged neighborhoods, to previously undercapitalized and underutilized Americans, proving that a bank can be a remarkable source of hope...."

Certainly, ShoreBank's efforts inspired those of us who developed the Neighborhood Housing Services (NHS) of Chicago partnership in 1974–75. ShoreBank's example of leading neighborhood revitalization from a community-based bank was important in the development of NHS Chicago. Those of us engaged in this process believed that, following ShoreBank's example, it would be possible to create a partnership among banks, neighborhood residents, and the government to address community lending and investment issues. This helped to develop a sound partnership base led by private resources to serve a range of low- and moderate-income neighborhoods and residents.

Many other bankers have described their visits to ShoreBank and their conversations with its leaders as critical to their own work. For example, Thomas Fitzgibbon, a banker who would become a leader in community development banking, came to Chicago in the late 1970s to observe ShoreBank's activities and use them as a guide for his work in St. Paul/Minneapolis (and later in Washington, D.C. and Chicago). He described ShoreBank as proof that banking institutions can and should play a leadership role in providing access to credit for low- and moderate-income residents and for people of color. Mark Willis, who in 1989 moved from the public sector to head up Chase Bank's community development efforts in New York, said that upon taking up the post at Chase, one of his first trips was to Chicago to meet with ShoreBank staff in order to gain insights that would help him in his work for Chase.

Obviously, ShoreBank's leadership and innovations in community development lending — both nationally and internationally — are far-reaching. This article does not touch on ShoreBank's many other leadership roles and innovative efforts that encouraged others. One area worthy of special mention is ShoreBank's groundbreaking work in lending to owners of small multi-unit residences to fix up and manage these critical but difficult investment properties. Over the years, ShoreBank made loans on 55,000 units of rental housing and created hundreds of minority entrepreneur–investors. In addition, ShoreBank's legacy includes, among other things, hundreds of community development banks and credit unions, NeighborWorks organizations, not-for-profit loan funds, and hundreds of CDFIs that are building on the groundwork laid by ShoreBank. The bank's leadership in many other areas is also unquestioned, for example, socially responsible investing and environmentally conscious lending, the idea of a double and triple bottom line, micro-finance, innovative retail savings products, and innovation on extending services to the unbanked. And ShoreBank's influence is still being felt today. ShoreBank, like all pioneers, opened new territories as it paved new paths to community improvement and investment for others to follow. Current practitioners in community development investment are truly following in the footsteps of those who came before as they continue to expand the territory, widen the paths, and build knowledge and program infrastructure. Today's practitioners are also working to recognize the current barriers and myths that impede community investment and to develop strategies to overcome them. In short, community development practitioners are heeding the lessons learned from ShoreBank's almost four decades of success and inspiration while moving forward with their efforts to build successful communities.

Perhaps an article on ShoreBank that appeared in *The Economist* sums it up best: "Mainstream banks are now in partnership with these community-based institutions so as to tap their expertise at lending to businesses in difficult environments. ShoreBank may have failed, but the movement it once led is stronger than ever."[2]

Bruce Gottschall was executive director of Neighborhood Housing Services of Chicago from 1975 to 2009. He developed the NHS program in 1974 as a charter member of the NeighborWorks Network.

[2] "ShoreBank: Small Enough to Fail: The Sorry End to a Bold Banking Experiment," *The Economist*, August 26, 2010.

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greater number of students eligible for free or reduced-price lunch than traditional public schools.[10]

Few states offer capital dollars to charter schools for facilities, and typically charter schools cannot access capital funding streams used by district schools. Therefore, they must pay for rent and debt service from operating cash flow. Locating an affordable and suitable facility is one of the most persistent challenges cited by charter schools. School districts are frequently unwilling to share facilities, and even when they do, significant renovations are required to meet the demands of a 21st century educational experience.

Financing facilities for charter schools is a critical piece to making quality educational alternatives accessible to all. It is also a key community development strategy, as these schools bring educational opportunities to many low-income families, serve as community assets, and bring new institutional actors into public education. TRF is committed to being a reliable source of capital to charter schools.

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[10] National Alliance for Public Charter Schools, "Public Charter School Dashboard 2009," June 2009, available at http://www.publiccharters.org/files/publications/DataDashboard.pdf.

TRF Lending Case Study

The Reinvestment Fund (TRF) has provided short- or long-term financing to more than half of the charter schools in the School District of Philadelphia (SDP). Among them, TRF worked with Mastery Charter Schools, a network of middle and high schools that has managed the turnaround of three troubled district schools into high-performing Mastery Charter Schools. With participation from Wachovia Bank (now part of Wells Fargo), TRF financed the conversion of all three of these facilities. In 2006, the SDP invited Mastery to convert Shoemaker Middle School in Philadelphia into a charter school. Poor maintenance and extraordinary wear-and-tear had contributed significantly to the school building's dire condition. An $11 million construction loan from TRF helped Mastery upgrade the HVAC and electric system as well as reconfigure hallways to reflect Mastery's hub system, which limits spaces where students are out of public view. Shoemaker — once among the most violent schools in the district — is now a model school with its students showing dramatic improvements in discipline and academic performance. In state testing conducted in 2006, prior to the conversion, only 30.6 percent of Shoemaker's eighth graders scored proficient or above in math, and only 42.8 percent scored proficient or above in reading. In 2008, proficiency rates increased to 76 percent in math and 79 percent in reading. Over 80 percent of its students qualify for free or reduced-price lunch.

–Sara Vernon Sterman