ORGANIZING MONEY

By Robert Creamer

INTRODUCTION

In the last year, the Chicago based Citizens Action Program (CAP) Congress of Community Organizations has pioneered a new organizing technique that gives local community organizations the ability to permanently appropriate considerable power over the future of their neighborhoods.

This technique is rooted in the understanding that the decisions that most significantly affect the state of communities are financial. They are investment decisions made by Savings & Loans, Banks, insurance companies, large land developers and realtors.

Simply put, the strategy involves the recruitment of thousands of pledges from community residents that they will allow financial institutions to have access to their savings deposits only if they use these deposits to shape the community according to their desires. This procedure, known as "greenlining" was originally developed to deal with mortgage redlining, whereby institutions arbitrarily withdraw mortgage capital from certain communities.

THE DISINVESTMENT PROBLEM

Thousands of people in Chicago invest savings every year in local Banks and Savings & Loans. Over 13 billion dollars are invested in Savings & Loans alone and these dollars provide the bulk of mortgage financing in the Chicago area.

For years, Banks and Savings & Loans have had a free hand to determine exactly where money would be invested – regardless of the needs of the communities from which they get their savings. The result has been a net outflow of housing capital from the older neighborhoods of the City, and a virtual bleeding dry of mortgage capital from neighborhoods threatened with racial instability.

Frequently, financial institutions have engaged in the practice of overt redlining – drawing a red line around communities where they have decided to curtail or completely cut off new investment. Areas that are solid, viable communities are often redlined because mortgage institutions decide that in the long run they are "bad risks". However, this becomes a self-fulfilling prophecy. Without mortgage funds, home improvement loans, and commercial loans, the community does, in fact, deteriorate.

Of course, the result of this practice in racially changing areas can be complete re-segregation. When conventional mortgage money is withdrawn from a changing area, panic sets in. Since potential buyers and sellers cannot get anything but FHA insured mortgages, the door is opened for unscrupulous mortgage bankers and panic peddlers to completely turn over huge areas using several much abused sections of the FHA housing laws. The result is millions of dollars in profits for mortgage banking firms, and realtors; but it is also the loss of thousands of dollars in property values to current and former residents, the exploitation of thousands of new buyers who pay exorbitant prices, huge rates of home abandonment, and enormous racial hatred.

Disinvestment, however, may take more subtle forms. In periods of tight money there simply isn't as much mortgage money to go around. So older neighborhoods that didn't get much money when credit was abundant, don't get any when it is scarce.

During the first nine months of 1974, thousands of potential city home buyers were told that mortgages were unavailable because money was tight, or that 50-60% downpayments would be necessary. And money certainly was tight. The 1.3 billion dollars in conventional mortgages made in the Chicago area over that period was considerably under the amount made in the same period in 1973. Yet, the fact remains that <u>loans were made</u>. And most of them were made in the far suburbs and in condominium developments along the posh lakefront. Throughout this period, homes and developments were continually advertised in these areas at low interest rates and 5-10% downpayments.

In other words, the limited amount of money that was available was all going outside of the communities that generated the savings. One of the major causes of this phenomenon is the process whereby Savings & Loans give large package forward commitments to big developers six months or a year before mortgage money is needed. Through this procedure, large suburban developers get all of the money they need before the individual home buyer even gets to enter the market.

Other disinvestment techniques are commonplace. Some institutions will not give mortgages on frame houses – even though all of some neighborhoods are frame. Or, institutions will not give mortgages on less than 35 foot lots, even though huge areas of cities have smaller than 35 foot lots.

THE GREENLINING RESPONSE

In facing the problem of neighborhood deterioration, the Citizens Action Program has developed a systematic response — a strategy for forcing financial institutions to meet their obligations to the communities where they get their savings. This strategy, known as "greenlining" involves organizing the savers' dollars through pledges. Savers pledge to invest savings only in institutions which agree to shoulder their share of the mortgage demand in the community. These pledges are then used as the basis to negotiate contractual agreements with lending institutions for specific levels of reinvestment into the community. The agreements are renewable on a yearly basis.

Currently, over $50 million in pledges has been recruited from over 13,000 people in Chicago. These pledges were collected over a six month period through canvassing in local neighborhoods and recruitment through churches and other institutions. Individual community organizations which are members of the CAP Anti-Deterioration Coalition are now entering into negotiations with financial institutions for contracts. Simultaneously, the citywide coalition is beginning discussions with downtown Savings & Loans.

The target date for the completion of the first major organizing drive is April 6, 1975 — the date of the citywide CAP Congress Convention. At that point, the 4,000 delegates will determine a strategy for enforcing these agreements. The Convention will determine which institutions will be targeted as examples of those which have failed to sign contracts, and pledge signers will be asked to move their savings from those institutions to others which have come to terms.

ECONOMIC CONDITIONS ALLOWING FOR THE SUCCESSFUL APPLICATION OF THE GREENLINING STRATEGY

Obviously any strategy involving the organization of money will only succeed if the amount of money which it is possible to organize is adequate to seriously affect target institutions. Several circumstances have allowed for the success to date of the Chicago Greenlining drive:

1). It is not necessary when dealing with financial intermediaries such as Banks or Savings & Loans to organize a substantial portion of the total assets of any given institutions or the industry as a whole. Rather the organization must gain control only over a large percentage of the institution's liquid assets for some limited time period. About 17% of the assets of the average Savings & Loan are liquid in any given year (or about 4.25% for any quarter). If a high percentage of the pledges of savers in target institutions can actually be implemented over a quarter, then the amount of pledges needed to seriously affect the institution need not be terribly high.

The current credit shortage -- particularly in mortgage capital — has increased the power of savers to affect institutions with a limited number of pledges. Of course, for a $100 million institution, 5% of total institutional assets still represents $5 million in pledges from about 1250 pledgees (the average savings account in the Chicago area is about $4,000).

2). Throughout Illinois there is sharp and constant competition for savings among institutions since chartering practices are relatively liberal. This gives potential savers a variety of options among a number of relatively convenient institutions, so that the pledgee is more willing to move his or her savings from one institution to another. In some states, like Michigan, chartering practices are considerably more restrictive and competition is therefore less pronounced.

3). The withdrawal of savings accounts from Savings & Loans is a fairly simple and uncostly proposition from the standpoint of the saver-pledgee. S&L accounts are, of course, passbook accounts and are therefore less withdrawable than bank demand deposits, but they are still easy enough to withdraw to make the threat credible. The percentage of pledgees who actually implement their pledges is maximized by concentrating on a few target institutions as examples and following up on all pledges in these institutions through mail and personal contact.

Also the ease of transfer is increased because forms are available which allow the transfer of funds from one S&L to another entirely by mail.

Most importantly, of course, savers are not being asked to remove their savings so rapidly that they will lose any interest. A principle requisite of all money organizing strategies is to assure that it will cost the participants as little as possible in the short run.

4). The managements of Savings & Loans and Banks — particularly at the neighborhood level — are deeply concerned that once a highly publicized program asking pledgees to move their savings from the institution were initiated, many other non-pledgee savers would jump on the bandwagon. As a result they fear that they might lose deposits far in excess of the amount pledged. While organizations should not depend on this effect for their bargaining power, it certainly does increase the credibility of the greenlining tactic.

5) Illinois law has historically prevented the development of a few dominant chain Banks or Savings & Loans with many branches. People therefore have a sense of many Banks and S&L's as neighborhood institutions. Residents are able to love or hate specific neighborhood institutions much more than they would love or hate the neighborhood office of a faceless metropolitan-wide Bank.

6) In each neighborhood where the pledge drive has been conducted, the drive itself had been preceded by other types of activities geared toward making the residents aware of the redlining issue. In many areas this included a year long campaign for disclosure of lending information, confrontation of savings and loan officials, public hearings, and demonstrations. Of course, as the issue has become better understood throughout the city, less lead time has become necessary to kick off specific community drives.

Other areas which adopt the greenlining approach might not have exactly the same list of conditions as Chicago. Certainly most areas in Illinois are very similar. But one thing should always be kept in mind: before adopting any money organizing strategy a serious analysis should be undertaken to find out just how much money is needed to have an impact, and whether the organization has the ability to recruit that number of pledges.

FORMULATING DEMANDS

For a campaign of the type described above to prevent disinvestment, contract demands must be carefully developed and ironclad. The following is an outline of the demand formulation.

Determining Mortgage Demand For A Given Area

Cook County maintains precise records of yearly home turnover and market price for each of 400 neighborhoods throughout the county. This data (supplemented by census data and data from the Society of Real Estate Appraisers SREA) allows CAP to determine exactly how much money is needed to finance the home sales that occur each year in each community.

Defining The Community Area

Each organization determines exactly how to define its own area. Neighboring areas crucial to community stability, as well as sub-areas vulnerable to deterioration are specifically designated.

Determining How Much Of The Demand In Each Area Given Institution Should Meet

First, the dollar demand in the community will be divided between each institution in the market area in proportion to the assets of each institution. The bigger the institution, the more money it would be asked to put back into the neighborhood.

Secondly, a rider is attached to each local agreement to the effect that their proportion of reinvestment in the immediate community could be reduced in direct proportion to the number of agreements CAP can get from the central area Savings & Loans. These central area (downtown) Savings & Loans control about 20% of the assets in the metropolitan area and should shoulder the responsibility for 20% of the demand in each geographic area. But there is no guarantee at the beginning of negotiations that they will do so. Therefore, CAP demands that all demands be met by the local area institutions to help get agreements with the downtown institutions. This procedure, of course, could be modified where a high proportion of savings from an area goes to downtown institutions.

Determining Which Financial Institutions Are In Each Local Market Area

The institutions included in local market areas are chosen mainly on the basis that they get a great deal of savings from the community.

Determining How Much Mortgage Money Should Be Made Available By Banks

Banks, unlike Savings & Loans, do not make most of their investment in real estate loans. In some communities (like the southwest side), they meet virtually none of the mortgage demand. In others, they make considerably more. On the average the Federal Reserve Board indicates that Banks make approximately 5.6% of their total assets available for home mortgages.

At a minimum CAP demands that every Bank CAP considers important make at least this percentage of its total assets available for mortgages.

To determine the proportion of demand in a community that a bank should shoulder, CAP treats a $100 million Bank that did not make any mortgages at all like $5.6 million Savings & Loan. Where a $100 million Bank puts 20% of its assets into mortgages, CAP treats it like a $20 million dollar Savings & Loan. In other words, a $100 million Savings & Loan would be expected to shoulder five times more mortgage demand than a $100 million Bank that puts 20% of its assets into mortgages.

Before beginning negotiations with banks, however, CAP is developing other additional demands for redevelopment funds, small business loans, and home improvement loans – since this is the area in which the bank would be most likely to contribute to the welfare of the neighborhoods.

Is CAP Asking Only That A Financial Institution Make Mortgages "Available" To The Community?

No. CAP is asking that the institution actually invest a specific dollar amount in the community over the period of one year. The local organization knows how much demand there is for mortgages in each area. The Savings & Loan or Bank cannot argue that there isn't enough demand in an area to support the dollar figure it has requested. This is especially true in this period of tight mortgage money.

Additional Demands

Aside from the basic demand that the institutions meet conventional mortgage demand in neighborhoods, several other elements are included in any contract or agreement CAP negotiates:

– **Affirmative Lending Policy.** Each institution is required to invest the same number of advertising dollars in informing the neighborhood of the availability of home mortgages as they spend trying to generate savings from the community.

– **Terms.** The average downpayment, nominal interest rate, effective interest rate (after points, etc.) and length of term fall within very close limits to the averages for all mortgages made in the six county area. The Federal Home Loan Bank Economics Department maintains public records of these averages.

– **Redevelopment.** In each local area, organizations may wish to add specific dollar demands, over and above normal conventional loan demand, for money that would go into redevelopment programs.

Other Provisions

It is necessary to include clauses in any agreement with the financial institutions which allow an adjustment – either up or down – of actual dollars to be invested in a community in the event that after six months of the year long agreement, the records of the Cook County Recorder of Deeds indicates that demand has either increased or dropped by more than say 5% from the expected level. This could easily be incorporated in any contract.

Examples Of Possible Demands By Specific Organizations On Specific Savings & Loan Associations

Southwest Federation: Demand $24,663,518

Savings & Loan	Savings From Primary Service Area	%	$ Share Of Demand	Actual Investment
Talman	$329,499,654	64.1	$15,809,315	$5,828,230
Chicago Savings	53,254,833	10.3	2,540,342	
Gage Park "	12,732,248	2.4	591.924	399,280
Republic Federal	53,508,872	10.4	2,565,005	
Crawford	41,676,734	8.1	1,997,744	
Lawn Manor	9,880,000	1.9	468,606	
SW Federal	13,134,382	2.5	616,587	
TOTAL	$513,686,723	100.0	$24,663,518	

North Austin: Demand $12,995,104

Savings & Loan	Assets	%	$ Share of Demand
Austin Federal	$ 87,243,806	23.2	$ 3,041,864
St. Paul	233,369,502	62.2	8,082,954
1st Federal S&L of Schaumburg	13,133,187	3.4	441,833
Sterling	41,422,320	11.0	1,429.461
TOT AL	$375,168,815	99.8	$12,995,104

MONITORING THE AGREEMENTS

Each institution must agree to provide quarterly, CPA verified disclosure of lending and savings distribution. Geographic areas broken out by the institution must be specific enough to assure that the agreement is being complied with.

Disclosure for this monitoring should include: dollar amount and number of both loans and savings deposits for each geographic area covered by the agreement, for other areas of the city not covered by the agreement, and for the suburbs; nominal and effective interest rates by area; downpayment and length of term by area; dollar amounts spent on advertising intended to attract savings in the area and that which is intended to inform the community of the availability of mortgage loans in the community.

POSSIBLE EXTENSIONS OF MONEY ORGANIZING STRATEGIES

The greenlining strategy is significant because it recognizes that the forces which shape the future of neighborhoods are primarily economic – not racial, and to a large extent not even political. Through the greenlining project, and other related projects to reform FHA, CAP has been successful at uniting white and black community groups – even in changing neighborhoods – against the common enemies of those communities: large financial institutions.

Just as important, however, the greenlining concept could very well provide the same kind of power for community organizing that the strike weapon has provided the labor movement. It gives people the ability to organize the capital generated by their savings and allows its use only for purposes which serve their interests.

So far this type of organized money power has been used mainly to assure that demand for mortgage funds are met in communities. The most immediate extension of the program would be to assure that home improvement loans, commercial loans to small businessmen and redevelopment loans for specific projects are available.

Developing specific dollar demands in these areas is a much more subjective process and will require research on a community by community basis.

The policies of various other institutions which affect communities could also be addressed using this technique. For instance, many insurance companies discriminate against certain areas in their rate structure. It is possible that programs might be developed to organize insurance consumers in the area and to give business only to companies which give the community favorable treatment.

Adaptations of money organizing to other areas must, of course, be done quite carefully, and systematically. The specific program must make sense to potential pledgees and the economics of the industry or institution in question must be such that the potentially organizable money can have an impact.

The investment policies of some institutions – including insurance companies and mortgage bankers – are not of course so immediately subject to the type of savings organizing described above. The possibility of affecting even these institutions, however, should not be set aside as organizing of this sort expands around the country.

The organization of a community's capital resources could be a fundamental new departure in community organization. If it works, real community control over a number of the decisions that affect neighborhoods may be a real possibility.

The author has been Associate Director of the Citizens Action Program (CAP) Congress of Community Organizations in Chicago for the last several years and was staff co-ordinator for the Greenlining Drive described in this paper.

From the Reader of the Conference on Alternative State & Local Public Policies held June 13-15, 1975 in Madison, Wisconsin. The reader was edited and compiled by Derek Shearer and Lee Webb.

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