

Congressional Testimony

It is a distinct pleasure and honor to appear before you today as a representative of Sable Bancshares, Inc. the holding company for Community Bank of Lawndale located on the west side of Chicago, Illinois. I am Michael Brown, Chairman and CEO of Sable Bancshares, Inc.

I would like to begin by thanking Chairman Talent; Congressman Davis, Congressman Watts and the other members of the committee for your work in proposing legislation that is directed at the heart of urban development addressing the critical needs of our communities. The legislation, I believe, can make a difference in providing opportunity and hope to individuals and families who for a long while have been left out of the economic mainstream.

It is indeed a pleasure to see the amount of legislation enacted and currently being considered to address the obvious problems that exist in the urban communities. I would, however, be remiss in not pointing out that the problems will never be effectively addressed if the legislation is introduced on a platform that promotes politics rather than solutions.

The drafters of the proposed legislation should be applauded for conceptually crafting a bill that attempts to address the problems in the community in a holistic manner. No single solution is going to cure the problems in the urban markets. These problems are no different than what you may find in any emerging market community and require the same amount of focused attention; financial resources and incentives; and well devised strategies that address both the economic and infrastructure issues of that community. There are no alternatives. The people of these communities must be brought into the economic mainstream. If allowed to remain on the outside it will only further sow the seeds of discontent, which is a result none of us can afford to permit. These economies must be rebuilt and then stimulated in order to reach their full economic potential. This would serve to benefit all of us through increasing productivity while reducing the financial drain and dependence on the economy. The end result would make a stronger America making it even more competitive in the Global market place. That's the future and everyone has to play a role.

Sable Bancshares, Inc. was created with the commitment to aggressively participate in the development of the community we serve. In 1995, Sable was

granted holding company status by the Federal Reserve Bank of Chicago pursuant to Section 3(a)(1) of the Bank Holding Company Act of 1956. It is Sable's mission to undertake the revitalization of its communities through the development of products and services that make credit for business development, housing development and wealth development for individuals and entities accessible in a community traditionally neglected by the conventional credit market.

In order to effect this strategy. Sable, in 1996, acquired one hundred percent (100%) of the outstanding common stock of Community Bank of Lawndale located on the west side of Chicago. Though this institution was located in the community it had little connectivity to the community. Since Sable acquired Community Bank of Lawndale, it has worked to become the "Bank of the Community". To further support its mission Sable formed a development corporation committed to bricks and mortar development, a training center to address the educational and technical training needs of the communities residents and recently formed an entity dedicated to addressing the specialized lending needs of the community. In January, 1997 Sable was certified by the Department of Treasury's Community Development Financial Institutions Fund ("CDFI Fund") under the Reigle Community Development and Regulatory Improvement Act of 1994, and was the recipient of an equity investment in March, 1998. The investment represents a true public/private initiative.

Sable's Core Business Beliefs

At Sable, we believe the success of our entity is attributable to our focused market attention with a hands-on approach to assisting our customers achieve their goals. In order to attain this goal we needed to stimulate market capacity through building links with community organizations and to develop and encourage the entrepreneurial skills of our employees. Without their spirit, insight and service, none of this could be accomplished. Sable is committed to introducing realistic solutions to serious problems using methods such as:

- Establishing partnerships that permit a mix of traditional credit products and services and development products and services to be created for the target market.

- Research and develop reasonable and creative systems that can be used to deliver strong market-ready products which incorporate the best new concepts and technologies in the market.
- Provide employees with the requisite training and development to ensure the best service afforded the customers of the organization.
- Establish long-term relationships with our customers, business partners, and employees so that we can keep our fingers on the pulse of the community, the general market, as well as our institution.

The desire is to leverage our resources and the relationships we establish to create fresh solutions to address critical problems within our community. These relationships have been instrumental in establishing a risk profile that puts more money to work in the community, benefiting individuals and businesses while rehabilitating and constructing new communities. It is our goal to build on this foundation and continue to perfect community development banking within our community.

Strategic Alliances

Sable understands the enormity of its task. It's management is wise enough to know the entities strengths as well as its limitations and understands that alone it can not began to provide a "total solution" to the problems present in our targeted communities.

The first step in bridging this gap was the identification of partners equally committed to community development with resources that can be engaged in tandem with Sable. This is a fundamental value added approach that provides the requisite capacity to aggressively create leading edge solutions to time tested problems. Several partners have been identified that fit the above criteria including financial institutions, foundations and corporation and individuals.

Strategic Focus of Sable

Sable's mission is to offer quality development banking services through a network of affiliates and partnering relationships designed to deliver financial

products and services enhanced by focused development, training and counseling services to customers within its target markets.

This mission shall be realized through a strategic plan that embodies several major components.

Development Banking Focus

Sable's model provides the best structure to leverage the strengths of the financial institution, development company, and holding company in addressing the demands of disinvested communities. It forces the commitment and focus of institutional resources toward achieving positive development and business results in the targeted area not likely to be undertaken by other institutions. It is our belief that the success of our organization will continue to attract others to the area.

The empowerment of individuals, communities and businesses is Sable's focus. We understand the market and are committed to developing the products and services that address the development and credit needs of the communities we serve. Our relationships with the individuals and businesses in the community, combined with the breadth of resources we can bring to bear will permit us to continue to develop innovative products to address critical problems.

Community Confidence

The principal objective is to ensure that market forces are functioning within the target markets we serve. We are a principal participant in providing a focused combination of capital, credit, talent, and creativity dedicated to restoring investment and entrepreneurialism in our communities. Confidence will be restored block by block - community by community.

Renovation and Rehabilitation

Sable serves as a strong advocate for rehabilitation and renovation of the housing stock in its target markets. We will encourage the residents to assume a personal stake in the neighborhood, supported by targeted lending and development services. It is our belief that synergy occurs in a developing

community--when a home or multi-unit building is improved, it improves the general economic conditions in the area.

New Concepts and Technologies for Product Development

The need for products and services tailored to meet the needs of the people in our target market has never been greater. To meet this challenge will require the collaboration of many diverse resources. Because we understand and appreciate the benefits to our customers, we are investing the time and energy in constructing cost-effective products and services, leveraging grants and loans from city, state and federal agencies and developing strategic alliances with financial institutions, in particular our partners, in developing debt and equity financing products to service our customers' needs. This is a priority. We have recently made a significant investment in improving our in-house technology to better deliver these products and services to our current and future customers. We feel that when the community's economy is balanced, the community has every opportunity to prosper. We are aggressively seeking solutions to bring our community into balance.

Investment Area

The Investment Area currently served by Sable and its affiliates is defined as seven of the seventy-seven communities located in the City of Chicago as outlined by the City's Department of Planning and Development. The seven communities are Austin, West Garfield Park, East Garfield Park, North Lawndale, South Lawndale, the Near West Side, and the Lower West Side. This designated Investment Area has significant segments of the applicants' targeted population, low- to moderate-income persons. According to the 1990 census, our Investment Area has over thirty-four percent (34%) of its population living below the poverty level. Average median family income in the area is slightly over sixty percent (60%) of the average median family income for the City of Chicago. Unemployment ranges from two to four times the national unemployment rate. These areas experienced an average population loss of fourteen and three-quarters percent (14 3/4) during the period of 1980-1990. The Investment Area also accounts for over thirteen percent (13%) of the City of Chicago's population. The area accounted for only eleven percent (11%) of the City's housing stock in 1990. Median family income was \$15,314 in 1990. The

average sales price of a single-family home in 1995 was \$57,535 and for a two-to-four-unit home, \$89,344.

Major portions of the Investment Area have also been designated as an Empowerment Zone by the federal government. This federal program seeks to empower people and communities that meet certain poverty and distress criteria, and as a result can receive substantial federal benefits. Additionally, the Woodstock Institute published a report titled "Indications of Economic Change in Chicago's Neighborhoods" which highlights some statistics on the seven communities that make up our Investment Area regarding certain economic trends that existed in these communities during the period of 1980-1990:

- West Garfield Park, East Garfield Park, and North Lawndale were included in the ten low to moderate income neighborhoods that lost the greatest percentage of population.
- North Lawndale and West Garfield Park were cited as communities with the largest decrease in employment rates.
- Near West Side and West Garfield were cited as communities with the largest vacancy rates.

The Investment Area, however, is experiencing some positive development activity in the community, and in particular North Lawndale. This development is currently being engineered, in part, by the Shaw Company, a private, outside developer that has a history of success in effecting redevelopment of distressed communities. Shaw's commitment is visible and significant. This activity has spawned sales of single-family housing and created an upward push on the property values in the area. The enormity of the Shaw development has stimulated additional development in the area, including additional housing development for single-family acquisition and rental as well as commercial development. Construction of a one hundred and eighty thousand (180,000) square foot shopping mall has been initiated in the North Lawndale area which will include a proposed Certified grocery store that will bring needed quality services to the area. Also, a ten screen Cineplex Odeon Theater is under construction adjacent to CBL. A strong complement of retailers will follow, creating further stimulus for additional housing.

The concentration of efforts and investment dollars provides clear evidence that a community can rebound from disinvestment. But because the revitalization of distressed communities requires a long-term commitment, it is important that public policy programs continue to be created to ensure economic sustainability and community self-sufficiency. To insure success it is important to have access to capital, public policy must be created to encourage community development and strategic partnering relationships have to be developed with partners with common goals.

The American Community Renewal Act seems to be a public sector initiative that will stimulate private sector funding, partnerships and programs to develop urban communities. The bill ostensibly provides direct and clear benefits to organizations and individuals within the empowerment zones. This will unquestionably create opportunities.

In particular, the bill contains several synergies with Sable's business initiatives. The first occurs with the proposed amendment to section 804 of the Community Reinvestment Act allowing financial institutions to receive CRA credit for investments in or loans to, other ventures with community development financial institutions as defined by the Bank Enterprise Act of 1991.

As stated earlier Sable was certified as a CDFI under the Reigle Act. The certification portends that we have as a primary mission the commitment to promote community development within the minority markets with accountability to that market in ensuring that access to capital and development services are delivered to the residents. The CDFI certification did not define the market or our activities. We would have provided credit products and services within the African American community regardless. However, what this process did was bring light to our commitment and provided us as an institution access to the private capital markets. With out this program it would have been difficult to raise the amount of capital necessary to implement our development banking strategy. The program serves to stimulate the private capital markets by bringing discipline and some standardization to the market. This is accomplished through a rigorous application process where if selected the Fund will commit either equity, loan or grant dollars to the CDFI matched on a one to one basis from a non federal source. The private market sources have included, banks,

corporations, foundations and individuals. These sources historically were unavailable to minority community financial institutions as a source of capital. That makes a measurable difference.

The success of the CDFI program is directly linked to the Bank Enterprise Award. The BEA program was constructed to encourage Banks and Thrifts to look at investments in CDFI's on a economic basis while fulfilling their CRA requirements. The Banks and Thrifts can receive up to a 15% return on their investment. This makes good business sense and changes the business paradigm between these entities. These equity investments, loans or grants permit the CDFI's to increase their lending and development activities in the affected communities. As reported by the CDFI Fund, BEA awardees over the last two years collectively provided \$130 million in financial and technical assistance to CDFI's. This investment has yielded approximately \$140 million in loans, investments and services within distressed communities. The Fund further focuses on performance, not good intentions, in that it encourages the BEA awardees to complete their projected activities before their awards are disbursed. This raises the stakes and insures that each investment has a market impact.

The intent behind the Amendment to Section 804 of the Community Reinvestment Act is clear and serves to further aid minority institutions seeking to meet the credit needs of the community. This modification combined with the strength of the Community Development Financial Institutions Fund can generate tangible and measurable results.

Secondly, the creation of the Family Development Account (FDA) will provide a significant tool in our attempt to create wealth development opportunities for residents. It is essential that all persons are encouraged to save. This unfortunately, for all to many Americans is made difficult by circumstance and the cost of living. To move beyond ones circumstances may require some degree of external assistance. This bill provides that encouragement and ultimately stimulates saving for those activities that enhance a persons direct earning power and equity build up through asset accumulation. This would be further stimulated by the match from public or private funds.

As a financial institution the benefits are significant because through the process the individual(s) develops a certain discipline in managing their

individual assets. Collectively, the savings deposit provides monies to increase the lending activities within the community. These dollars in other words can be put to work in rebuilding the community while providing benefit to the depositor. That makes good sense for the individual, the community and the institution.

The third key component of the bill is the homeownership program permitting HUD to sale certain properties or projects to local community development corporations. The competition for properties and land can be great in these communities denying community organizations the ability to become real stake holders of the community. The ability to get title to these properties in the hands of community development organizations will make it possible to rehabilitate and sell quality affordable housing to low to moderate income in the community. This portion of the Act will permit community development corporations to serve as advocates for rehabilitation.

Lastly, the tax benefits offered under the Act will go along way in building a community business base. The importance of this goal should be unequivocal. Over the past twenty years, North Lawndale and Garfield Park area has been troubled by chronically high unemployment levels and loss of job opportunities. As well, declining populations due to lack of affordable housing and lack of jobs has plagued the area. Since 1960, the area has lost half of its population and more than half of its housing. According to the 1990 census, the unemployment rate of individuals 16 years and older in North Lawndale is approximately 35%. Unemployment is a major problem which is directly related to the lack of job growth and business opportunities within our community. The proposed incentives, if successful in attracting business, may play a significant role in addressing a major concern in the urban market.

In summary, Mr. Chairman, members of the committee, thank you for giving me this opportunity to provide you an overview of Sable's mission, its strategic thinking and plans, and how your bill can aid in the implementation of our plan. I would be pleased to respond to any question you may have about my testimony.