

Community Capitalism: Banking Strategies and Economic Development

by *Richard P. Taub*

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Community Capitalism: Banking Strategies and Economic Development is a fascinating study of a very important experiment in utilizing a for-profit business to promote development of a low-to-moderate-income minority neighborhood. In this case the business is a commercial bank (the South Shore Bank) owned by a bank holding company (originally called the Illinois Neighborhood Development Corporation, now called Shorebank Corporation). The bank holding company also owns other for-profit and not-for-profit enterprises designed to revitalize the South Shore neighborhood, a largely black community of 70,000 people on the southeast side of Chicago. The other enterprises are City Lands Corporation, a real estate development and property management firm, The Neighborhood Fund, an SBA-licensed minority enterprise investment company, and the Neighborhood Institute, a job training and social service provider and community organizer. The centerpiece of all of these activities is the South Shore Bank, which provides capital for neighborhood improvement and small business growth, and thus far has generated enough profits to enable the entire development strategy to prove basically successful after more than fifteen years of sustained effort.

South Shore Bank was bought in 1973 by a team of "do-gooders" led by Ronald Grzywinski, who had previously headed the Hyde Park Bank near the University of Chicago. Grzywinski had created a highly-regarded urban development division at Hyde Park Bank that specialized in making loans for community revitalization and minority entrepreneurship. He believed that development banking could help mobilize existing resources within a declining neighborhood, including the considerable number of dollars available in the form of savings, and combine them with other resources from outside the neighborhood. The bank could then use these resources to make many more loans in the community, leveraging and stimulating new investment in small business and in housing, both from area residents and from outside investors.

Ronald Grzywinski purchased the South Shore Bank with the aid of equity investments from various philanthropic foundations, and he maintained the bank's solvency in the early years through nationally-solicited "development deposits" from socially concerned people and institutions located far from the bank's service area in South Shore.

The bank needed this extra boost due to the enormous debt obligation incurred to finance the original purchase, and because it took considerable time for the bank to attract a sufficient and profitable volume of additional depositors and borrowers. Though this use of outside financial backing was somewhat unusual for a local bank, it was part of Grzywinski's original strategy for what was intended to be an atypical banking operation. That the strategy eventually worked indicates that it can be replicated in other similar neighborhoods, and the Shorebank Corporation has already begun expanding its development banking to other communities in Chicago and elsewhere.

Author Richard Taub is a sociologist, not an economist, but he tells the South Shore Bank's story with a good deal of attention to the issues of business finance, management, and marketing. *Community Capitalism* provides data on the bank's loan volume, profits and losses, and other key measurements of performance for selected years. The reader can gain valuable knowledge of banking in a minority neighborhood, as Taub offers a detailed micro view of the bank's difficulties and triumphs in conducting its local financial services business. Taub was partly an insider, closely observing Grzywinski's team and the community for the entire period, and he tells his story with well-written insight. There are interesting discussions on a wide range of themes concerning banking, small business, and social behavior in black communities of northern U.S. cities. Taub also offers some economic data on community improvement as well as survey research on changes in community attitudes, contrasting South Shore with other similar Chicago neighborhoods. His analysis, while cautious in its optimism, does suggest that Shorebank has had a worthwhile positive impact.

Two contrasting case studies frame Taub's analysis of potential lessons from the Shorebank experience. The biggest success in terms of community development was the improvement in both physical and financial value terms of much of South Shore's housing stock. Single-family housing benefited from the growth of a black middle class, and South Shore Bank found a profitable niche in making home mortgage loans. Multi-family housing proved more difficult, but the bank, the City Lands Corporation, and a variety of corporate and bank foundations and government agencies were able to conduct a strong housing rehabilitation effort that had a significant impact on large sections of the neighborhood, and stimulated further private improvement by local apartment owners.

On the other hand, Taub describes the largely unsuccessful attempts by Shorebank to revive South Shore's decaying commercial strip along 71st Street. While the flagship corner near the South Shore Bank is finally in good shape, much of the street still consists of vacant storefronts and failing or seedy businesses. In essence, there does not appear

to be enough market demand to support profitable enterprise occupying all of the existing commercial space on the street. Perhaps rezoning and development for noncommercial uses is called for, though as Taub points out, such an approach is beyond the powers of one commercial bank lending institution to directly accomplish.

This is a short book, packed with interesting information and thoughtful analysis. For those interested in private enterprise initiatives as an important method of generating urban redevelopment, *Community Capitalism* is essential reading. It is a unique depiction of one of America's most noteworthy recent experiments in private-public partnership.

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