

ISF continued to lend through the recession, basing its loan decisions on the borrower's character as well as what's written on paper.

A Bronzeville thrift, despite losses, is still lending

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Feb 10, 2011

Illinois Service Federal Savings and Loan Association, a South Side mutual owned by its depositors, has stayed true to its mission of serving its customers by providing loans and services hard to find elsewhere, even in the face of losses.

Last year, continuing its practice through the recession, the Bronzeville thrift again added to its loan portfolio, lifting the total outstanding by 8 percent to \$59.3 million. Deposits also rose, by 5 percent to \$102.8 million, and total assets climbed to \$149.2 million from \$147.5 million.

Despite the steady growth, rising expenses and loan losses forced ISF's bottom line steadily downward during the recession. But after a loss of \$214,000 in 2009, it swung back into the black last year with a modest profit of \$77,000.

"We're serving a community that's really under just an incredible economic stress," said Norman J. Williams, chief executive officer of ISF. He said the spread between income and costs was shrinking during the recession, but ISF strove to operate more efficiently by reducing overhead, and it kept the loan window open, to neighborhood home buyers in particular. "It is not highly profitable, but it does good," Williams declared. "It gives them access to banking and a chance to improve their community."

"The culture and mission of the bank always appears to be in the best interest of the community and of the African Americans," said Mell Monroe, owner of Welcome Inn Manor bed and breakfast in Chicago, who has banked with ISF for two years.

"We were in a bit of a jam because I had one glitch on my credit rating," he said, explaining the trouble he had with his old bank in getting a mortgage loan. He said he then turned to ISF, which is in his neighborhood, and from the time he walked in there to when the deal was closed, it took just three weeks.

"I was so pleased with the turnaround," he said. After getting the 30-year fixed-rate loan, he brought the idea of a bed and breakfast to ISF, and "just three weeks later, we closed the deal."

"A community bank has a local footprint, drawing its deposits from local depositors, drawing investments and lending them out to the same kinds of people," said John Pettazzoni, Northeast regional director of the Independent Community Bankers of America, an advocacy group representing nearly 5,000 community banks in the country. "People invest their money in the banks that would lend out to people with similar needs in the same area."

"Someone looking at just our books and records would say, 'They're lending to people who can't pay on time,'" Williams said. "On the other side, one would say, 'Yes, they're lending to people who need someone.'"

ISF is recognized by the U.S. Treasury as a community development financial institution for its service to an economically distressed neighborhood. In both 2009 and 2010 it received a Bank Enterprise Award from the department, along with a cash award of \$600,000 last year.

Williams affirmed that ISF's mission is to understand what its customers' pain and challenges are, and to try to fill that need.

This mission has not changed since the thrift was established in 1934, when a group of African-American men chartered a savings association to help the black residents of Chicago who were trying to buy homes. That was a very difficult time for African-Americans to get access to loans, Williams said. The savings institution was established with \$7,000 as a mutually held institution with a primary goal of giving aid to home-buyers.

"That has been the major focus of our lending all these years," Williams said. He explained that although regulations for thrifts have loosened over time, ISF has not changed its concentration in homeownership and expects "we'll still be doing 70 percent home mortgage lending based on our size."

The bank faced headwinds in the early 1980s when numerous African Americans moved from the city to the suburbs. "That movement caused a lot of stress on property values," Williams said. "Homes were being sold for a lot less than they were worth, and it made it difficult to establish a stable value of homes, difficult to establish what our value would be for collateral."

The bank survived the crisis, he said, by practicing discipline to make reasonable loans and by not selling loans in the secondary market, so that it was easy for people to refinance or adjust their loans as needed.

Lending "is getting harder, though," Williams acknowledged. "Customers are coming to us after they've been refused by other banks" and with accumulated stress.

ISF maintains traditional requirements for home mortgages. "We look for 80 percent loan-to-value and 20 percent down payment," Williams said. He considers 26 percent to 28 percent of the borrower's monthly income as the limit of the loan payment. "We see the overall debt you carry, and we're not as strict regarding payments to your overall income." For commercial loans, the bank sets a 70 percent loan-to-value limit and 30 percent down payment.

"While a community bank cannot always say 'yes' to a loan request, they are able to sit down face to face with the borrower and understand the story behind the numbers," said Charles Crawford, chief executive officer of the Private Bank of Buckhead, a community bank in Atlanta, Ga.

In making loans, Williams said ISF does not rely solely on the customer's credit report; it places weight on the character of the individual and the business.

"Community bankers are able to think creatively of how to accomplish the goals of their clients," Crawford said.

"What I like about ISF is that they hold their own loans, they know the people and they don't have a lot of foreclosures," Monroe said. "They have to be selective [in lending]. They want to help people, but they're a business."

The biggest threat to the thrift right now, according to Williams, is its dependence on appraisals of homes. As values continue to fall, what's impaired is people's "biggest and most valuable possessions," and thus the security of a mortgage loan.

"Everybody is waiting," Pettazzoni said, "for loan activity to pick up." He added that although loan demand has subsided in the last couple of years, "community banks have continued to lend."

Williams echoed this sentiment, saying the community always has financing needs, but they may not always be visible. "The need is there, but people may not be bringing that to the bank. How many times does one want to get rejected?"

He added that for community bankers, that is part of their mission. "I should know where the pain is. I do."

He called small banks the driver of optimism that reaches individuals. "Small institutions may not be making the dollars, but they hit a lot of homes."

"Community financial institutions are absolutely critical to the financial success of the U.S.," said Gabe Krajicek, chief executive officer of Texas-based BancVue Ltd., a software company providing community banks and credit unions with banking products and consulting services.

"The loan to the local small business and the mortgage for the neighbor down the street are what keep many communities vibrant and growing," he stated.

Williams expressed a need for regulatory authorities and banks to continue to engage in conversation.

In agreement, Crawford, the Georgia banker, said, "The more local relationship that can be developed between the bankers and the regulators, the better."