

Banking on urban America

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Abstract:

Gail Snowden is the force behind BankBoston's Community Banking Group (CBG), an effort to build a profitable business in New England's underserved urban markets. With \$1.6 billion in deposits, 44 inner-city branches, a real estate finance and development unit, and an urban investment bank, the CBG is perhaps the most ambitious and radical urban banking initiative in the US, and it is making money. The key to the success of BankBoston's urban effort has been Snowden, group executive of the CBG. Her strategy was simple: Build a diverse management team that learns the unique needs of local citizens, respect their language and customs, explore and address the challenges of doing business in economically depressed areas, and offer high-quality products and services that fill a void. While the First Community Bank branches remain vital to BankBoston's urban mission, the BankBoston Development Co. might be more influential in the long run because it can close the gap between urban entrepreneurs and the capital that has eluded them.

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Caption: THE BANK FINANCED the renovation of the landmark Lithgow Building (top), which now houses an FCB branch and 38 other businesses, including a pharmacy (bottom).

Inspired by FCB's success, BankBoston green-lighted Snowden's next initiatives. Her team created a real estate development unit three years ago and has since committed in excess of \$55 million to finance several urban commercial and private building projects.

The newest arm of the CBG is the BankBoston Development Co., an investment bank created last year with a unique approach to urban revival: Rather than offer small business loans, it provides \$250,000 to \$5 million in equity capital to midsized businesses. All told, the BBDC plans to invest \$100 million over the next four years. Why take on such risk? Snowden figured entrepreneurs would be encouraged to open businesses in low- to moderate-income areas if they could obtain the necessary capital and not have to worry about making regular loan payments. Also, as an equity partner the CBG can provide technical assistance in other areas-such as extending credit lines or offering access to expert accounting or legal services. Says Snowden: "It's easier to get involved when you have a seat at the table and a real stake in the future of the business."

While the First Community Bank branches remain vital to BankBoston's urban mission, the BBDC might be more influential in the long run because it can close the gap between urban entrepreneurs and the critical capital that has long eluded them. "Entrepreneurial talent is not limited by race. It's dispersed throughout the spectrum of our society, but access to capital and resources isn't," says Elyse Cherry, president of the Boston Community Capital Venture Fund, which also invests equity capital in urban small businesses. (BBDC invested \$250,000 in the fund.) "If we can redistribute some of those resources, we can change the face of success in our cities."

Twenty years ago, Congress sought to address the problem of discrimination in banking by passing the Community Reinvestment Act, which required banks to serve the loan and credit needs of residents in low- and moderate-income neighborhoods in their market. The act was toothless until the mid-1980s, when bank regulatory agencies began grading banks every two years on their compliance efforts and making the results public. The designations were Outstanding, Satisfactory, Needs to Improve, and Substantial Noncompliance. (BankBoston has received three Outstanding ratings.) Banks that regularly received low grades may suffer severe restrictions.

The ratings and potential sanctions forced banks to get off the dime, but most approached compliance requirements with the enthusiasm of someone on his way to the dentist. America's declining cities were not worth the trouble, many bankers believed. The perception was that residents of inner cities had little money to invest and were bad credit risks. Nonetheless, to ensure that they were able to report that loans were being made to low-income consumers, many banks went to ill-conceived extremes. Some actually lowered credit standards, which led to self-fulfilling crash-and-burn scenarios. Many debts went sour. Losses on these bum loans were written off as "just part the cost of doing business," laments Jackson.

Additionally, some minorities seemed to believe CRA had created a pool of "black money" that could be tapped without a rigorous application process. "Changing that perception was just another challenge," Snowden says.

What clobbered American cities, of course, was the flight of many industries, including banking, to the suburbs. But over time, many business people seemed to conclude that cities had brought this plague upon themselves. In time, the perceptions have become reality to the business community. Professor Porter believes this "perceptual gap" still causes bankers and other business leaders to view

America's major cities "through the wrong lens," thus discouraging real investment and commitment to reaching the market.

Today, Porter, who made his mark as a global business strategist, is a missionary for urban revival. He estimates America's inner cities possess \$85 billion in annual retail-spending power. His voice rises when he talks about the \$70 million of purchasing power per square mile in the cities, vs. \$15 million in the 'burbs. He cites other advantages: less competition, lower real estate costs, access to a vast work force. "This market is ripe," he says.

Muriel Snowden passed away in 1988; Otto died seven years later. Today their daughter doesn't have much time for the swan boats on the lake. Besides tending to her extensive urban mission at BankBoston, she is chairman of the board of Freedom House, which remains a hub of community activity in her old neighborhood and a critical gathering place in a changing world.

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