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Financial Institutions, Municipal Finance, and Community Development

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SYMPOSIUM

FINANCIAL INSTITUTIONS, MUNICIPAL FINANCE, AND COMMUNITY DEVELOPMENT

Foreword

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An overview of the very complex aspects of community development as they relate to financial institutions may be put into context with a reiteration of one of the basic tenets of American philosophy as stated in the Housing Act of 1949; that it be the policy of the United States Government to provide every American family "a decent home and a suitable living environment." As we narrow our focus to the more specific problem of decaying urban neighborhoods, we are faced immediately with the question of responsibility. First, there is the philosophical cause and effect question; has the purported discrimination by financial institutions in providing housing credit led to the decay of these neighborhoods or has it been a self-destructing and self-perpetuating process divorced from credit considerations? Secondly, to what extent and by what criteria should financial institutions invest in community development projects? It is obvious that an economically viable inner city is of great benefit to financial institutions, and these institutions desire to have an active role in community development. Such a role, however, cannot (by the very nature of financial institutions) be at the expense of their fiduciary responsibilities, particularly at a time when financial institutions and their soundness in terms of loans are under severe scrutiny.

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These seemingly conflicting responsibilities are further reinforced by the diverse regulatory procedures with which such financial institutions and the mortgage markets are involved. On the one hand, we have regulations which try to preserve the private competitive nature of our financial institutions with non-interference in the credit allocation process. On the other hand, there is direct regulation and interference via the Federal Government through its involvement as a secondary mortgage market and its political responsibilities in carrying out programs "for the public welfare." These public responsibilities often seem to dictate government interference in the credit allocation process and the private markets, especially in times of economic disturbance. Further compounding the problem are the deficiencies in the examining and appraisal procedures used by regulators; frequently there seems to be a gap in communications between the regulatory authorities and their field representatives. Much needs to be done to ensure the kind of disclosure that will be of benefit to both consumers and the financial institutions involved and not inimical to the public interest.

The contributors to this symposium have given us an overview of the public and private financing for community development. They also have focused on the fact that there is a basic interdependence of financial institutions, regulators, and the "public interest." The focus of their remarks points to the fact that programs are needed that will integrate all of our resources toward community growth such that both public and private responsibilities and goals will be achieved.