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Posted: August 22, 2010 06:09 PM

Zillions for Wall Street, Zippo for Barack's Old Neighborhood

"The best lack all conviction, while the worst are full of passionate intensity."
-- W.B. Yeats

On Friday, the government moved to seize and temporarily shutter one of the truly heroic banking institutions of this dismal era for American finance -- ShoreBank of Chicago. More precisely, ShoreBank of Barack Obama's old neighborhood.

Over the years, since its founding in 1973, ShoreBank had enabled thousands of moderate income residents to become homeowners, and thousands of small businesses to get credit, without ever playing the subprime game or making a single predatory loan. It was a model bank that earned a modest profit by delivering on a social mission.

In the end, ShoreBank succumbed to the aftermath of a financial crisis made on Wall Street. Yet while the Treasury Department found hundreds of billions of dollars to rescue giant Wall Street institutions, it refused to come up with the $75 million for which ShoreBank qualified under the TARP program.

A number of stories that I've reported about the wrongheaded priorities of the Obama administration leave me bewildered and exasperated. This one leaves me really angry.

The bank will continue under new ownership and a new name, the Urban Partnership Bank, to be run by some recently hired ShoreBank executives, and which has pledged to keep the bank open and continue its basic philosophy. But owners of ShoreBank stock, which include many socially responsible investors, will have the value of their shares wiped out and the directors dismissed. And it remains to be seen whether some of ShoreBank's social commitment will be compromised.

Today, there is a whole category of bank known as a community development financial institution. This category did not exist until it was invented in 1973 by ShoreBank, then known as the South Shore National Bank. But ShoreBank did not set out to create a banking category, only to help a distressed community.

Its idealistic president, Ron Grzywinski, now emeritus, had seen the effects of racial redlining first hand as a banker and community activist, and resolved to create a bank that could help the depressed South Shore neighborhood of Chicago regenerate by providing normal banking services to creditworthy borrowers.

I first met Ron in 1975, when I was staffing hearings on redlining for my boss, Senator William Proxmire, then the new chairman of the Senate Banking Committee. When community groups helped us draft legislation requiring banks to disclose by zip code where they had loans, a bill that Congress passed as the Home Mortgage Disclosure Act, we had the entire banking industry lobbying against the bill. The sole banker we could find to testify in favor was Ron Grzywinski.

Over the years, Ron and his colleagues built a model institution, and helped to transform South Shore and other depressed communities. In 1994, the Clinton administration, impressed by the achievement, enacted legislation to help create other community development banks. ShoreBank was the alternative to the predators that worked low income neighborhoods--the subprime sharpies, offering deals that were too good to be true, preying on the dreams of working people.

Fast forward to 2009. ShoreBank is caught up in a crisis not of its own making. Loans that were perfectly well collateralized when they were made are now under water because housing values have dropped. Borrowers who had bankable credit ratings are now behind on their payments because they are out of work. ShoreBank booked a loss of $36.9 million in the first half of this year.

In 2009, the Treasury Department, having dumped hundreds of billions through the TARP program to rescue Wall Street--$45 billion to insolvent Citigroup alone-- grudgingly created a very modest refinancing and recapitalization program to help distressed community development banks. But almost immediately, Herb Allison, the assistant treasury secretary in charge of TARP, set standards so high that hardly any can qualify.

Even so, ShoreBank managed to exceed the standards set by its prime regulator, the Federal Deposit Insurance Corporation. It raise some $150 million in new private capital, ironically much of it from the very institutions rescued by TARP, including Citigroup, Goldman Sachs, Bank of America, and Wells Fargo. Goldman's CEO, Lloyd Blankfein, eager to show that he's a white hat, personally worked the phone to raise money for ShoreBank.

The money raised more than met the capital target that the FDIC had set as a condition for ShoreBank to get $75 million in TARP money (when Citi got TARP money, private investors were fleeing.) In the meantime, ShoreBank has had an exemplary record of modifying loans so that borrowers could avoid foreclosure.

But in the end, the Treasury refused to put up its share of the money, requiring ShoreBank to be seized, closed, and reopened under new ownership.

Why did the Treasury Department, which found almost unlimited sums for insolvent mega-banks on Wall Street, not cough up a relative pittance for ShoreBank, which was a going concern that had gotten a seal of approval from its primary regulator, the FDIC?

There are a few explanations. One is that people like Tim Geithner and Herb Allison have their eyes focused on the big picture and don't have much time or money for small fry like ShoreBank. A second is that after all of bad publicity for the first round of TARP credits to Wall Street, they have belatedly tightened their standards when it comes to community banks.

But the saddest explanation is that the Treasury is bending over backwards not to help an exemplary community bank in Barack Obama's old neighborhood, lest somebody accuse the administration of favoritism. And in fact, for weeks Republican congressman have been using Shorebank as a whipping boy. Fox News has been full of broadsides against ShoreBank.

But the sacrifice of ShoreBank has done nothing to quiet the rightwing propaganda. Since the investors in the successor bank include some of the very same Wall Street banks that got aid from TARP, the rightwing storyline continues that Obama's buddies on Wall Street are doing the administration a favor, and that this is a sweetheart deal.

None of the explanations for the decision to let ShoreBank fail reflects credit on the administration. If the Treasury had one standard for the Wall Street and another for the south side of Chicago, shame on them. And if the administration failed to extend aid to a model institution serving the victims of the subprime mess in Obama's old neighborhood for fear of Fox News, shame on the president.

Appeasing the right does nothing except whet their appetite. When will the best--not the worst--display conviction, passion and intensity on behalf of a decent America?

Robert Kuttner's new book is "A Presidency in Peril." He is co-editor of The American Prospect and a Senior Fellow at Demos.