INTRODUCTORY REMARKS

DAVID GALLAGHER:* The need to think about creative strategies in the area of economic development is a by-product of the numerous cutbacks under the Reagan administration. For example, economic development finance has been one of the most effective means of injecting the development system with large amounts of money. In the five year period between 1980 and 1984, there were three hundred and eighty-five million dollars worth of industrial revenue bonds issued by New York City's Industrial Development Authority, which is part of the Financial Services Corporation. Under present law, the commercial industrial revenue bond will sunset in 1986, and the industrial revenue bond will sunset in 1989. Thus, one traditional tool of economic development finance will soon be extinct.

Another program that has provided money for economic development in New York City is the Urban Development Action Grant Program ("UDAG").[1] During the period from 1980 to 1984, New York City received one hundred and twenty-two million dollars in UDAG money. The remaining fiscal '86 money in the UDAG has been essentially impounded pending an attempt at recision by the Reagan administration. UDAG is in effect moribund at this moment.

The Small Business Administration ("SBA"), in that same five year period, loaned and guaranteed loans[2] totalling one hundred and thirty-eight million dollars in the five boroughs. SBA has been targeted for extinction in the past as well as in the most recent budget. In the interim, however, there is something called the "Preferred Lender Program," which delegates most of SBA's lending authority to private lenders. Although the Preferred Lender Program may yield some processing efficiency gains, it eliminates the lending decison process that prevails on a government lender as opposed to a private lender. This is so because the lending decisions made by preferred lender banks are insulated from SBA review. Essentially, SBA has privatized its principal loan program.

The Community Development Block Grant Program ("CDBG"),[3] which touches on both economic development and housing finance, has been reduced significantly on several occasions. It is targeted for further reductions and, most likely, will eventually be abolished. But for the moment, the CDBG is being used as a safety net for all the needs that have been created by the absence of other programs. The Reagan administration professes that community development funds can be utilized for almost any development project.

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1. *See* 42 U.S.C. § 5318 (1982 & Supp. II 1984).
2. 15 U.S.C. § 636(a) (1982 & Supp. III 1985).
3. *See* 42 U.S.C. § 5305 (1982 & Supp. II 1984).

For example, a common tactic is to tell municipalities that community development funds can be used for projects which traditionally would have been covered under UDAG. Yet the Reagan administration has failed to mention the void that will be created when community development funds are eliminated. At that point, there will no longer be a safety net available. In New York City, more than half of New York City's CDBG grant each year goes to maintaining the stock of *in rem* housing which the city owns and must attempt to keep in housing supply because there is such a shortage of non-city-owned housing. Budget cuts threaten the survival of the city's housing maintenance stock.

As far as housing finance is concerned, Section Eight[4] was probably the most successful post-World War II housing program for low and moderate income people. It produced very high quality housing, at admittedly substantial expense. Section Eight is no longer operative. There are a few projects still in the "pipline," but there are no new units on the way.

A final issue that I would like to address is the way in which private lending operates in New York City. New York City is uniquely disadvantaged at the neighborhood level because, more than any other American city, it is served by banks whose major interests lie elsewhere. New York City's banks are money center banks which serve the world economy and focus primarily on multi-billion dollar deals rather than lower income level deals that are characteristic of neighborhood level transactions. This is not the case in cities that lack money center banking concentration.

Another development in banking is rationalization of the branch systems, also called streamlining. As banks reduce the number of branches and reduce the decision-making power left in the branches, the neighborhood access to funds, which often originates in the branch, is sharply curtailed. We are faced with the dilemma that the federal government is cutting back, while private lenders, particularly in this city, are not inclined to address neighborhood needs. Neighborhood needs are not a top priority among such large institutions because their overhead and administrative costs are very high. Small transactions are simply not worth the effort that must be expended by these institutions. Clearly, alternative sources of finance are needed, and one such alternate financing method is the subject of Clifford Rosenthal's paper.[5]

4. 42 U.S.C. § 1437a (1982).

5. Rosenthal, *Community Finance in the Age of Gramm-Rudman*, 15 REV. L. & SOC. CHANGE 183 (1987).