

VERMONT NATIONAL BANK SOCIALY RESPONSIBLE BANKING FUND (SRB Fund)

Brattleboro, Vermont

The Socially Responsible Banking Fund is the first statewide commercial bank program in the nation that allows customers with any type of bank account to specify that their deposits be used only for socially responsible loans. The goals of the SRB Fund are to humanize three sets of relationships: depositors' relationships with their own money, the relationships between the bank and community organizations, and the relationships among depositors, community organizations and borrowers.

As of July 1995, the SRB Fund is managing 9,600 accounts with over \$84 million in deposits and \$50 million in outstanding loans. Most of these accounts belong to individuals and families living in Vermont. However, the SRB Fund has also attracted depositors from 42 states and 12 foreign countries. Municipalities, schools, non-profits, and small businesses have deposits in the SRB Fund. The savings, checking, individual retirement accounts and money market accounts or certificates of deposit pay the same interest as Vermont National Bank's other accounts and are insured by the Federal Deposit Insurance Corporation.

The Fund was created in 1989 by Vermont National Bank in response to a request for such a fund by a group of Brattleboro residents. Depositors to the Fund often serve as active participants and help direct the bank to organizations and businesses in their communities that are potential customers of the SRB Fund. According to David Berge, Director of the Fund, "We try to get people to understand their relationship with their money. Where they spend and invest is important and has an impact on their community."

Investing in Vermont's communities

The SRB Fund makes loans in five areas: affordable housing, environment/

conservation, agriculture, education and small business. Within these areas, priorities include lending to organizations and projects that provide permanently affordable housing, projects committed to the long-term responsible use of land, and businesses that provide innovative models for other environmental companies. Another priority is providing financing for the acquisition of land and equipment or working capital for projects involving innovative and sustainable models of family farming or agricultural enterprise.

The SRB Fund staff works with the SRB Fund Advisory Board (a group of 12 community representatives) to identify priorities within each of the lending areas

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and to identify projects that serve the immediate needs of individuals and organizations, while providing long-term benefits to Vermont's communities. The Advisory Board reviews applications for loans and meets every six weeks to consider applications in the five areas described above.

Loan officers in all 31 of the bank's branches are authorized to make SRB Fund loans. The SRB staff provides technical assistance to loan officers making customized SRB Fund loans, pushing as much lending activity as possible out to the branches so that the people arranging the loans are closer to the businesses and organizations that are borrowing the money.

The SRB Fund has had an exceptionally low delinquency rate on its commercial loans. At the time this was written, the delinquency rate for commercial loans was 0.53 percent for 30 to 59 days and 0.0 per-

cent for over 90 days. This success can be attributed in part to the Fund's flexibility in creating loans that are attuned to the specific circumstances of each borrower. For example, many small businesses need small loans, but conventional banks will only make personal loans—usually with higher interest rates than commercial loans—at this level. The SRB Fund solves this problem by making commercial loans to small borrowers. The SRB Fund will also structure loans to borrowers that have businesses with seasonal fluctuations (such as farming), so the borrower makes the entire year's payments during months with best cash flows.

With the town of Townshend, the SRB Fund created a revolving loan fund, the Pilot Loan Program, to create jobs and strengthen the local economy. Under the Pilot Loan Program, businesses can borrow from \$5,000 to \$25,000 over five years. The businesses receiving loans can also receive technical assistance from the Townshend Small Business Advisors Pool, a group made up of local professional volunteers who counsel the businesses. A town committee helps identify and screen prospective borrowers, and the SRB Fund reviews applications, makes final lending decisions and services the loans. Dick Jackson is a member of the town committee because "If Townshend doesn't have jobs, the young folks will have to leave town to get work. For too long our best and brightest haven't had job opportunities here in town."

The strength of the partnership is the Pilot Loan Committee's knowledge of the small businesses in Townshend and the SRB Fund's expertise in banking issues. Walter Meyer, another committee member, agrees that "all Vermont towns are in need of new jobs. If we want to create these jobs, we have to do it for ourselves. No one else is going to do it for us."

Keys to success

By keeping 99 percent of its loans and investments within Vermont, the SRB Fund recirculates money within communities and strengthens local and regional economies. Many borrowers come to the SRB Fund because they have trouble getting loans elsewhere. According to Berge, "We'll go out of our way to make a project work. Within the fund, we have the ability to set the borrowers' rates based on their project.

We may drop the rate, or lengthen the term to help it go. Support comes from the top with the clear message that we offer flexible lending.”

A key element in the success of the SRB Fund is the fact that senior management at the bank has been fully committed to the Fund since its inception. The bank made available the necessary resources in terms of both people and funds for marketing and equipment to get the SRB Fund off the ground.

Much of the work of the SRB Fund is done in conjunction with other organizations that often act as intermediaries between the Fund and loan recipients. For example, the SRB Fund Community Advisory Board recommended a priority in the agricultural lending area for organic farms and community-supported agriculture projects. As a result, the Northeast Organic Farming Association (NOFA) conducted a needs assessment that showed organic farmers in Vermont have trouble getting money to buy equipment and for short-term operating funds. Now the SRB Fund will lend money to NOFA, which then provides loans and technical assistance to organic farmers.

Another intermediary used by the SRB Fund is Working Capital, a national non-profit program that strengthens micro-businesses and communities by providing group-based support, loans and technical assistance to self-employed persons with limited access to resources. In Vermont, Working Capital has formed a partnership with the SRB Fund to provide the capital for its loans.

One of the successes of the SRB Fund is that it draws money to Vermont National Bank; about 75-80 percent of the money in the fund is new to the bank and not transferred from existing accounts. When asked what has been responsible for the SRB Fund's success, loan officer Arne

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Scope: Loans in Vermont and New Hampshire; depositors across the US and in 16 countries

Inception Date: 1989

Participants: Affordable housing organizations, environmental and conservation projects, educational organizations, family farms, and small and dual bottom line businesses

Project type: Alternative lending/investment, community economic development

Methods used: Loans to the project participants

Lessons learned: To make unconventional loans work, it is important to spend time on the front end structuring the loan most suited for the borrower.

Hammarlund responded, “First of all, it was something that was needed in Vermont. People are concerned with what is being done with their money, where it is going from the deposit side. It allows businesses, environmental groups, and affordable housing groups to deal with a bank that has some historical knowledge dealing with those kind of organizations and is willing to work with them creatively.” The SRB Fund is the only bank in the state filling a crucial need for many organizations and small businesses.

—Jobs & Environment Campaign



UPDATE

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The SRB Fund continues to be very active. As of November 30, 1997, the number of deposit accounts has increased to over 17,000, totaling \$152 million. Loans have grown to \$79 million. The representation of depositors from foreign countries has increased from twelve to sixteen. The delinquency rate is still extremely low.

One correction is offered to the original entry. The SRB Fund Advisory Board helps to identify funding areas, but it does not review individual loan applications. The loans are reviewed and structured by lenders within each branch of the bank.

The major accomplishment in the last two years has been the Vermont National Bank's acquisition of First Savings of New Hampshire. As a result of this acquisition, the SRB Fund has expanded its activities into the State of New Hampshire. Loan officers in the First Savings branches are authorized to make SRB loans on the same basis as the lenders working with Vermont communities.

The intermediate loan program with NOFA-VT has now made 17 loans. Other significant activities have included work with the Champlain Valley Mutual Housing Federation and the Vermont Community Loan Fund to provide funding for housing and business development. One specific example involved the women's crisis center of Brattleboro. The Socially Responsible Banking Fund, assisted by some below-market-rate depositors, helped to locate space and provide a loan to house this organization. Future challenges include expanding the SRB Fund and working with local communities and groups to extend the reach of the SRB Fund.

—Community Sustainability Resource Institute