LINKING LENDERS AND COMMUNITIES

WINTER 2008-2009

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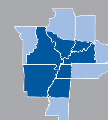

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The Ripple Effect

As Economic Crisis Expands, Community Development Feels the Pinch

By Amy Simpkins and Roby Brock

The economic situation over the last few months has been tumultuous. Fannie Mae and Freddie Mac entered government conservatorship. The potential failures of Bear Stearns and insurance giant AIG required large-scale intervention to minimize market disruption. And the Fed introduced aggressive new liquidity measures to address the seemingly daily changes in economic markets.

This national and global economic crisis hit close to home for professionals working in community economic development. The entire field has been affected by tightening credit and capital markets. Individuals, neighborhoods and cities alike continue to face difficult challenges to finding financing for community economic development initiatives.

In September, community development organizations, financial institutions, private developers and representatives from state and local governments gathered in Conway, Ark., to discuss the implications.

National Impact

The meeting, co-sponsored by the Federal Reserve Bank of St. Louis and the University of Central Arkansas Community Development Institute, assessed the rapidly developing situation by focusing on the direct impact such changes were having on community economic development.

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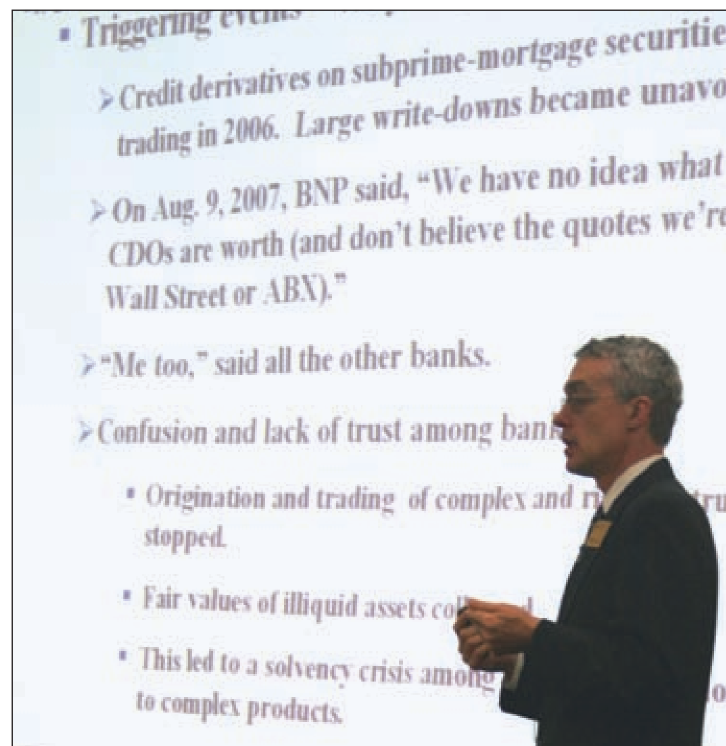

William Emmons gives an overview of the credit crisis during a meeting in Conway, Ark. Emmons is an economist at the Federal Reserve Bank of St. Louis.

Ripple Effect

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Federal Reserve Bank economist William Emmons kicked off the event with an overview of the credit crisis, its origins and implications for the future. Emmons said the crisis stems from over-leveraging, resulting in increased risk. As he sees it, the challenge facing the Fed and other decision-makers is to not only ensure that the banking system remains viable, but to recognize that every institution may not survive.

Though realistic about the widespread repercussions of the crisis, Emmons was nonetheless optimistic that a rebound could be realized more quickly, given the level of attention from both policymakers and the public. "By bringing this situation to the forefront of the dialogue, we can hopefully come to a quicker solution or stability," he said. Ultimately, confidence in the system and trust in banks is needed to resolve the crisis, he said.

Conversations throughout the day looked at the breadth of implications that the crisis has for individual homeowners, community development organizations, municipal and state finances, and private developers.

Community development organizations are fighting to make sure the progress made in neighborhood revitalization and homeownership is not lost as a result of dramatic increases in foreclosures.

Don Phoenix of NeighborWorks America said nonprofit organizations that are key to neighborhood stabilization are being forced to look at alternative business models, such as fee-based systems and lease-purchase products, to survive in an era of declining subsidies and deal volume. Nonprofits can be an integral part of the solution, Phoenix said, but they must be responsive to the realities of the changing market.

Cities and counties face challenges in both the short and long term. The most immediate implication is in the bond and tax credit markets where there are few buyers, resulting in a pent-up supply with very little demand. In the long run, municipalities and states both expect revenue and tax receipts to drop. In addition, help from the federal government likely will decrease.

The Response

In the midst of these challenges to traditional development financing mechanisms, states have been responding to the crisis through efforts to combat foreclosures.

Across the country, states are helping consumers avoid foreclosure and stay in their homes by passing foreclosure intervention regulations or laws, preventing rescue scams, funding refinance programs, creating loan-modification programs, initiating statewide counseling campaigns, and supporting foreclosure hotlines. (To read more about state responses to foreclosure, visit the Pew Center on the States at www.pewcenteronthestates.org.)

What's Happening in Arkansas

Local Arkansans working in the field added a note of optimism to the meeting, saying that, while economic times are challenging, there are bright spots of opportunity.

Scott Beardsley of First Security Bank/Crews & Associates, a national lease corporation with broker-dealer operations, works with municipalities and school districts nationwide. Beardsley's firm does "plain vanilla" public finance for projects like school buildings and water system bonds, as well as lease-purchase agreements for government entities.

"We've seen a dramatic impact on the national leasing stage," said Beardsley, who suggested that rising interest rates based on fear of the unknown are complicating deals. "But in our broker-dealer operations, ironically, we've seen no change."

Beardsley noted that earlier in September, 17 bond issues were on the ballot in Arkansas. Despite market turmoil, 13 measures passed. That 76-percent passage rate was slightly higher than the 70 percent traditional average.

With voter approval, the bonds are ready for placement, but Beardsley warned that those higher interest rates would be a factor.

"Anytime there's uncertainty, people are unsure of what's going to happen, and so they will often pad the interest rates," he said. "We're still seeing projects go forward. We do expect all of the bonds that were approved this week to be sold between now and Dec. 1."

Greg Nabholz is a commercial real estate developer whose company is affiliated with a national brokerage firm and a family-owned construction business. Nationwide, commercial property transactions fell about 74 percent in the first six months of 2008 compared with the same period in 2007, he said. In Arkansas, the year-over-year transaction decline has topped 50 percent. "You're seeing the number of deals shrinking and thus the commission revenue," Nabholz said.

He also said three factors have fundamentally altered his business model.

First, lending standards have tightened while greater investor equity is required to jump-start projects.

Second, appraisals are coming in lower because surveyors are being more conservative as they face unparalleled scrutiny.

Third, rising construction costs, from raw materials to labor, and flat leasing rates have compounded the diminishing situation.

"We've had to be creative in putting deals together," Nabholz said.

Amidst the volatility, Gene Eagle, vice president of the Arkansas Development Finance Authority (ADFA), said he sees a window of opportunity for more public-private partnerships.

"My concern is that we get too conservative because of the problems that the rest of the country is experiencing," Eagle

said. "I see it as an opportunity for the state to make an investment in its people, in education and economic development opportunities."

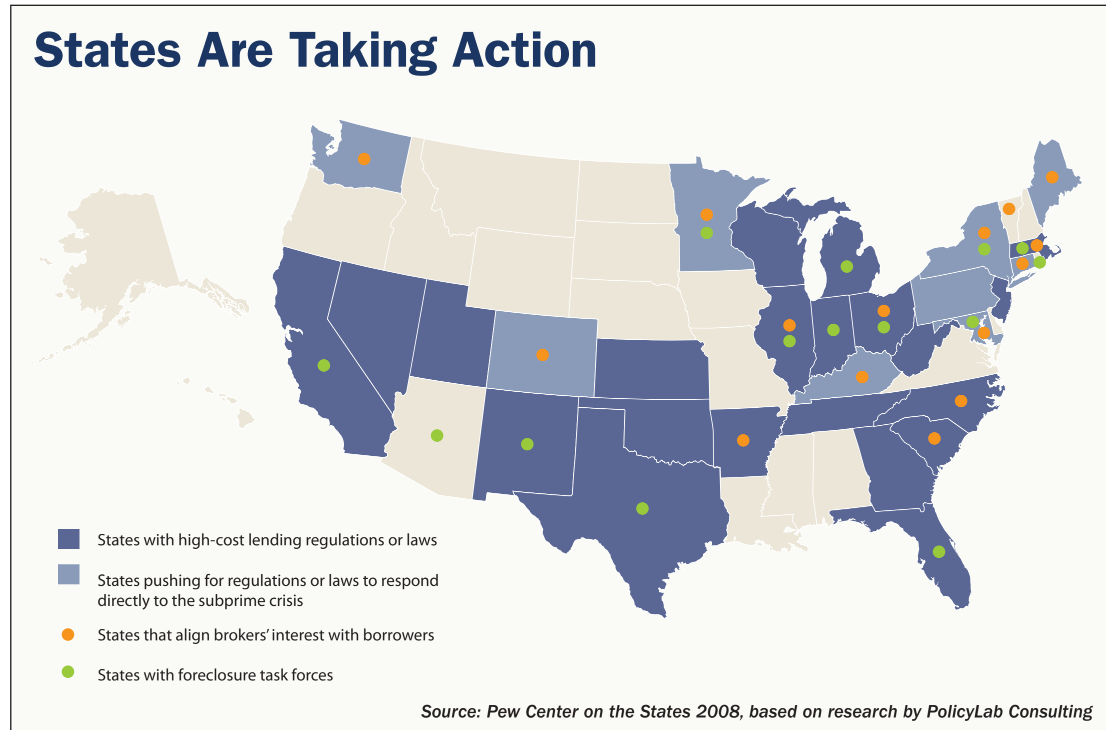
ADFA is an Arkansas state agency that can issue bonds and direct loans for public housing and limited industrial projects. In recent years, the agency also has been a catalyst for developing pools of risk capital to develop and recruit knowledge-based companies in Arkansas. However, only a narrow range of projects qualify for this type of funding due to state restrictions.

Eagle agreed that market uncertainty was creating higher interest rates for deals—to the point that fewer deals might make sense. He sees it as an opportunity for the state to leverage its low debt and solid credit rating.

"I think we need to utilize our own credit rating as a state, and it's time to take some risk in order to try to build and grow companies and grow our tax base," Eagle said. He supports more investment from the state in private, seedling companies with growth potential.

Panelists agreed that Arkansas is not likely to see the dramatic economic downturn in housing that states like Florida or Nevada are experiencing, in large part because Arkansas' housing market didn't accelerate as rapidly as housing markets in those states.

Nor is Arkansas likely to see a financial meltdown like Wall Street did. By and large, community banks in the state remained conservative in their lending habits. There was, however, an overextension of housing credit in northwest Arkansas that led to one bank's collapse and some stern warnings from federal regulators for other banks.



Panelist Paul Young, finance director for the Arkansas Municipal League, a nonprofit organization representing more than 500 cities across the state, said banks in Arkansas have not only remained relatively strong, but have supported the credit underwriting that finances infrastructure projects.

"Arkansas has always been supported by a strong appetite among banks in Arkansas for Arkansas paper," Young said. "While a lot of these transactions these days are done in some sort of rated format, I see a lot of bonds that are being done on a nonrated basis, as they always have been." This is because community banks are comfortable with the credit worthiness of the issuers, he said.

Beardsley sees a bit of vindication for firms like his. "We've gone in and evaluated each deal based upon the merits of whether or not they're going to pay. We haven't used a lot of synthetic derivatives or investment swaps or other items," he said.

"I've had some frustration in the past when clients have chosen to use a Wall Street firm to do a transaction where they've promised them a lot of bells and whistles, and now we're seeing some of that coming back to bite them," he added.

He concluded that there is some uncertainty in the market, "but we're ready to take advantage of the core values that we've always thrived on."

Amy Simpkins is a community development specialist at the Little Rock Branch of the Federal Reserve Bank of St. Louis. Roby Brock is a freelance business reporter based in Little Rock, Ark. He is the host of a weekly statewide business news program, Talk Business, *and is editor of www.talkbusiness.net.*

Passion Blindness

The "Seven Deadly Sins" of Nonprofit Organizations

A commentary by Yvonne S. Sparks

"But love is blind, and lovers cannot see the pretty follies that themselves commit…"

When William Shakespeare penned these famous words, he clearly did not have nonprofit organizations in mind—but he could have. Most nonprofits are, after all, started by passionate people with a deep love for what they do. And, surprisingly, that love, that passion is often their downfall. I call it "passion blindness."

Creating a nonprofit organization requires passion. Nonprofit organizations are by definition mission-driven. Put another way, the reason that people form nonprofit organizations, particularly those that serve people or places in need, is that founders often believe it is their calling to create an organization that allows them to transform deeply felt passion into action.

To bring an organization into being is an act of great faith, sheer will and tenacity. It is the intensity of this calling that may cause those in the field to overlook opportunities and to fail to respond soon enough when trouble is on the horizon.

Surviving the Current Economy

We offer this call to action now during a time when the nonprofit sector is at a crossroads—dependent for its very life upon the generosity of others (i.e., individuals, foundations, members or government programs). The sources of funds that the sector is so dependent on are themselves at stake in the current financial environment. Individuals and institutions, like foundations and governments, are tightening their belts as they watch assets shrink. That means that most nonprofits must tighten their belts as well.

Organization executives are often so busy meeting current needs they neglect to plan for an unforeseen financial crisis. In addition, it is often difficult to convince board members and supporters to create and donate to a "rainy day" fund, even though for decades experts have advised organizations to have six months of operating expenses on hand. An even more daunting challenge is creating a worst-case operational plan. By developing various operating scenarios that reflect fewer staff and less money, an organization would know exactly what services it could continue to provide during a crisis.

According to a 2007 report by the Third Sector, a Boston-based think tank devoted to research on the nonprofit sector, there are more than 1.4 million nonprofit organizations in the United States. They account for 5.2 percent of the gross domestic product and for more than 8 percent of salaries and wages paid in the nation. This does not include the more than 350,000 churches that are also nonprofit organizations. Moreover, private sources invested more than $250 billion in nonprofits in 2006, individuals nearly $200 billion and volunteers gave the equivalent of more than $65 billion in donated services.

There is no question that pressures on the nonprofit sector will almost certainly result in job losses, in fewer services to those most in need and in decreased economic and community development activity at a time when demand for such services and activities will no doubt be growing. Generally speaking, making preparations to mitigate the impact of predicted financial contraction is a function of leadership. Organizations that have a chance to survive will do so only if their board and staff leadership have the courage to face the current and worsening economic climate head-on and prepare.

Compounding the financial issues is the unfortunate fact that many, if not most, nonprofit organizations—regardless of their constituency, size or industry—are not prepared for hard times. They are already struggling with internal problems that make life difficult during good times. Add those to a crisis, and trouble is inevitable.

The Seven Deadly Sins

The problems that often plague nonprofits come down to seven things—"Seven Deadly Sins," if you will. Mind you, these are known in theology as "Cardinal or Capital Sins." They are mortal, and they particularly may affect the mortality rate of the organizations during economic downturns. They are as follows:

PRIDE: Many of those who join boards are doing it out of the desire to have their name listed on the letterhead and adding it to their resume to prove how involved they are in the community. They are not there to offer expertise or raise funds or take on the challenges of governance. They are, essentially, nonessential to the organization. They take up a seat that could be occupied by someone who has something of value

to offer the organization. According to theological sources, the opposite of pride is humility. Service to the community, no matter what it is, should evoke a sense of responsibility that is humble. This is particularly so when the people served by an organization are those least able to help themselves. That is why nonprofit organizations have an obligation to be as efficient as possible.

SLOTH: There is nothing worse for a nonprofit executive than to have a lazy board, lazy staff or to be lazy themselves. Executives who do not routinely and vigilantly scan their environments for potential threats and board members who refuse committee service, do not come to meetings, and, worse, don't contribute financially or raise money for the organization fall into this category. By definition, this is their duty. The corresponding virtue is diligence. Boards must demand diligence from executives and the executives from their boards. Another expression of this virtue is zeal or integrity. Staff members cannot be left out, either. Some people want to do as little as possible, but claim to be passionate about the cause. Passion is no substitute for integrity, and your name on the letterhead and the payroll puts your integrity on the line.

LUST: I know this must sound strange in this context; however, the opposite of lust is purity of soul and motive. If the motive is the mission, then this sin can easily be avoided. Suffice it to say that if everyone is mission-focused and mindful of the business of the organization, lusting after something other than carrying out the mission and protecting the organization from harm can be avoided or at least mitigated. People may lust over positions, money or recognition, but good leadership that is pure in its motivation is the antidote.

GLUTTONY: Overindulgence in anything usually leads to illness. Taking on more clients than you can handle when finances are tight and accepting donations with strings attached just to pump up the budget can lead to no good end. Gluttony is balanced by temperance or self-restraint. Gains born of competition, hubris or avarice almost inevitably lead to failure. Focus on mission is essential, along with the honest assessment of organizational capacity which, these days, may have to be scaled back so that the organization might be saved.

GREED: Lusting for being bigger and better than the other guy (i.e., gluttony and lust combined) is probably one of the worst and most common sins. Nonprofits desperate for operating capital often make "deals with the devil" to get a grant or to satisfy a donor who wants them to veer away from their core mission or take on something totally beyond their actual capacity. Obviously, this sin is closely related to gluttony, but its opposing force is different. It is charity. Remaining true to the organization's charitable purpose with steadfast discipline will often effectively steer an organization away from the path of greed. Giving time, energy, thought, hard work and treasure (money) to the cause is charity of the kind that can trump greed.

WRATH: Wrath or anger most often occurs when personalities and egos clash in the context of the organization. Whether it is among board members, the board and executive or among the staff, anger eats away the energy that should be focused on the work or repositioning the organization to weather the storm in hard times. Some of the most vitriolic and vicious battles I have witnessed have taken place in staff and board meetings of nonprofit organizations when the time comes to bite the proverbial bullet and cut services or lay people off.

People seem to forget that there is no ownership here. You may disagree, but the collective responsibility is to get the job done. It is here where board leadership is most important. The chair of a board of directors has the responsibility to ensure that anger among board members does not escalate to the point of inaction, wrong action and damage to the organization. The executive has the same responsibility at the staff level. The balancing characteristic is composure. It is incumbent upon the board and staff leadership to maintain their own composure and that of the staff so that they can carry out their work and the organization may survive to serve another day.

ENVY: Last, but certainly not least, is envy or jealousy. If you vote for someone to be chair of the board, then you are accepting the role of follower. I have often heard board members who, having been given the opportunity to serve, decline in favor of another, then talk about how much better a job they could have done. The same is true among staff members. Another function of leadership is to ensure that, when staff members get reshuffled in reorganization efforts, they do not allow jealousy to poison the organizational environment. Jealousy in any context is destructive. Its opposing force is kindness and/or admiration. People who take on the challenging work, who do the hard part with integrity, commitment and results, deserve both.

No amount of passion, compassion or even need can substitute for clear-headed thinking, planning and preparation. In other words, board members and executives cannot afford to be blinded to the threats to their existence by their passion for the work.

In today's environment, it is crucial that nonprofit organizations embrace the fact that, just because you are nonprofit, does not mean you are not in business. It *is* a business. Successful business people plan and make hard decisions and the best ones execute those plans and decisions to survive hard times. So must nonprofits.

Sparks Joins St. Louis Fed

Yvonne S. Sparks recently joined the Federal Reserve Bank of St. Louis as senior manager in the Community Development Office.

Sparks has more than 30 years of experience as a nonprofit and community development manager, executive, trainer and consultant. Her areas of expertise include nonprofit board and executive training, community engagement process design and management, strategic planning, community building, and neighborhood leadership training.

Her volunteer and civic involvement includes a three-year term on and serving as chair of the Consumer Advisory Council of the Board of Governors of the Federal Reserve System and service on the boards of directors of numerous nonprofits and public organizations.

Sparks earned a master's degree in public administration from St. Louis University and an undergraduate degree in administration of justice from the University of Missouri-St. Louis. She also earned a certificate from the Kennedy School of Government at Harvard University's Program for Senior Executives in government and did post-graduate work in public affairs at the University of Texas, Dallas.

Sparks

Have you HEARD

Scam Offers Consumers Loans from the Fed

Consumers need to be aware that solicitations promising personal loans through a Federal Reserve lending program are a hoax.

Targeted consumers are told they can work with a broker to receive a sizable, secured loan from the Fed. However, the consumer must first deposit large sums of money in a bank account as a security deposit.

The Federal Reserve has no involvement in these solicitations and does not directly sponsor consumer lending programs.

Consumers with questions about solicitations they suspect may be fraudulent should contact the Federal Reserve Board Consumer Help Center at 1-888-851-1920 or at www.federalreserveconsumerhelp.gov.

Fed Adjusts Dollar Amount Of Fee-Based Trigger

Effective Jan. 1, 2009, home mortgage loan fees of $583 or more will trigger additional disclosure requirements under the Truth in Lending Act. This adjustment in the dollar amount of the fees is based on the annual percentage change reflected in the Consumer Price Index that was in effect on June 1, 2008.

The adjustment does not affect new rules adopted by the Federal Reserve Board in July 2008 for "higher-priced mortgage loans." Coverage of mortgage loans under the July 2008 rules is determined using a different rate-based trigger.

The Home Ownership and Equity Protection Act of 1994 restricts credit terms, such as balloon payments, and requires additional disclosures when total points and fees exceed the fee-based trigger or 8 percent of the total loan, whichever is larger.

Homeowners, Low-Income Workers Eligible for Federal Tax Breaks

In light of the economic crisis, and with tax season right around the corner, the Federal Reserve Bank of St. Louis wants to make sure taxpayers know about two new tax breaks and one that has been around for awhile.

The two new provisions include a tax credit for first-time homebuyers and an additional tax deduction for property owners. These are temporary tax breaks that were included in the Housing and Economic Recovery Act of 2008. The act, signed into law in July, is meant to help homeowners and to boost the housing industry.

The new tax credit is a loan for first-time homebuyers who have purchased a house between April 9, 2008 and July 1, 2009. The loan must be repaid over the course of 15 years. However, it is interest-free and provides the homeowner with immediate access to capital.

The temporary tax deduction is for homeowners who do not itemize deductions on their tax returns. The deduction will benefit low-income taxpayers, young families and those who are close to paying off their mortgages and who do not have significant reason to itemize their tax returns. The deduction will be in addition to the standard deduction claimed by those who do not itemize their federal tax returns.

For details on either of these tax credits, go to www.irs.gov.

A third tax break that regularly goes unclaimed by many taxpayers is the Earned Income Tax Credit (EITC). Millions of low-income, working-class Americans are unaware that they are eligible to receive thousands of dollars through the federal EITC.

A booklet from the St. Louis Fed—*You've Earned It! What the Earned Income Tax Credit Can Do for You*—explains how the tax credit works and who qualifies. Eligible taxpayers can receive up to $4,500 with their income tax refund. The typical refund in the Bank's Eighth District has been about $2,000.

Copies of the booklet are free and may be ordered by calling 314-444-8761 in St. Louis; 501-324-8296 in Little Rock, Ark.; 502-568-9202 in Louisville, Ky.; and 901-579-4101 in Memphis, Tenn.

The booklet also is available online at www.stlouisfed.org/community/other_pubs.html.

CALENDAR

JANUARY

12-16

Indiana Economic Development Course—Muncie, Ind.
Sponsor: Center for Economic and Community Development, Ball State University
765-285-1628
www.bsu.edu/cecd/edc

MARCH

1-3

CDFI Institute—Washington, D.C.
Sponsor: Coalition of Community Development Finance Institutions
703-294-6970
http://cdfi.org

1-4

The National Main Streets Conference—Chicago
Sponsor: National Trust for Historic Preservation
202-588-6219
http://mainstreet.org

5-6

The Tax Credit Finance Course—Washington, D.C.
Sponsor: Council of Development Finance Agencies
216-920-3073
www.cdfa.net

APRIL

15-17

Social Enterprise 2.0: Dare to Dream, Dare to Do—New Orleans
Sponsor: Social Enterprise Alliance
202-375-7774
www.se-alliance.org

Monthly Business Cycles, Arrest Rates Show Little Effect on Criminal Activity

By Thomas A. Garrett and Lesli S. Ott

Local governments and economic development officials, especially those in urban areas, know that high crime rates adversely affect residential and business immigration to their communities. They know that crime rates—along with educational quality, infrastructure and employment opportunity—are part of what determines whether a city or region is attractive and whether it is an economic success. Research on the effects of crime on the general economic growth of local areas generally finds that areas with higher crime rates experience lower rates of economic growth and development.[1]

Economists explain an individual's propensity to commit a crime by examining the expected costs and benefits of criminal activity. Empirical research on crime has modeled the direct cost to an individual as the probability of arrest and incarceration (i.e., deterrence) and the direct benefit as the value of the illegally acquired goods.[2]

Criminal behavior also depends upon other cost comparisons, such as forgone wages and employment opportunities. The reasoning is that higher wages and employment opportunities decrease the attractiveness of acquiring assets through criminal activity. Much work has been done to estimate the effect of deterrence and economic conditions on crime, but the mixed results from these studies do not allow a definitive conclusion.[3]

Crime in the Eighth District

We recently completed a report that explores the effects of deterrence and economic conditions on crime in U.S. cities. Part of the report presents descriptive statistics on crimes and arrests for seven major crimes (murder, rape, robbery, assault, burglary, larceny and motor vehicle theft) in the Eighth District cities of St. Louis, Little Rock, Memphis, and Louisville. These data are shown in the Table. Crime rates and arrest rates are per 100,000 in population and have been normalized by each city's 1990 population, thus providing average crime and average arrest rates for each city over the respective sample period. (See notes to Table for the sample periods for each city.)

Some differences across the cities are worth noting. Of the four cities, St. Louis has the highest average murder rate (3.5 per 100,000), robbery rate (81.2 per 100,000), assault rate (312.1 per 100,000), burglary rate (224.1 per 100,000) and motor vehicle theft rate (170.9 per 100,000). The rate of rapes in Memphis (9.7 per 100,000) is higher than the rate of the other three cities. Little Rock has the highest rate of larceny at 582.8 per 100,000.

Deterrence and Business Cycles

It appears that, at least when comparing averages across cities, there is a positive relationship

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Average Crime and Arrest Rates for Eighth District Cities

Rate per 100,000 Population (1990)

	St. Louis	Louisville	Little Rock	Memphis
Murder	3.53	1.48	1.69	2.10
Rape	5.55	3.34	8.47	9.69
Robbery	81.17	40.77	42.92	63.18
Assault	312.09	101.91	285.17	166.75
Burglary	224.11	125.26	220.80	214.25
Larceny	538.97	254.60	582.77	335.11
Vehicle Theft	170.92	77.82	69.46	153.34
Murder Arrests	2.77	0.74	1.69	1.62
Rape Arrests	3.78	1.11	5.08	5.17
Robbery Arrests	20.42	11.49	14.12	13.73
Assault Arrests	209.49	58.55	198.77	76.59
Burglary Arrests	28.23	24.46	32.75	26.18
Larceny Arrests	79.91	46.69	85.83	70.13
Vehicle Theft Arrests	20.67	14.45	9.6	14.38

***Note:** The rates shown above were found by normalizing the mean values from the sample of each city by the 1990 population (per 100,000) for each city. The sample period for each city is: St. Louis—December 1983 to December 2004; Louisville—January 1993 to December 2002; Little Rock—December 1983 to December 2004; Memphis—January 1985 to December 2004. The 1990 population for each city was: St. Louis—396,685; Louisville—269,838; Little Rock—177,086; Memphis—618,894.*

Crime

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between arrest rates and crime rates. Of course, this positive relationship does not reveal any causal relationship. It may certainly be the case that a long-run negative relationship between arrests and crime exists and that the direction of causality is not from arrests to crime, but rather from crime to arrests as police allocate more resources to combat an increase in crime.

We also conducted statistical analyses to explore whether changes in each of the seven criminal offenses can be explained by changes in the city's business cycle (as measured by changes in unemployment and real wages), as well as changes in deterrence (as measured by arrests).

Unlike previous time series studies that looked at long-run relationships (i.e., 20-year trends) between economic conditions and crime, the current study explores whether short-run (i.e., month-to-month) changes in city economic conditions and deterrence influence changes in city crime growth rates. We used monthly data for 23 large cities in the United States, as well as the Eighth Federal Reserve District cities of St. Louis, Louisville and Little Rock (Memphis is included in the top 23). In addition, we empirically tested the hypothesis that arrests follow an increase in crime.

Our study found weak evidence across U.S. cities that changes in economic conditions significantly influence short-run changes in crime. However, we did find that short-run changes in economic conditions influence property crimes in a greater number of cities. This likely reflects the fact that nonviolent property crimes are more likely to result in financial gain than more violent crimes.

In addition, we found little evidence to support the deterrence hypothesis in the short run, as changes in arrests had no influence on crime in many U.S. cities. It may be that arrests are not the best measure of deterrence, and thus the lack of a large number of statistically significant relationships between arrests and criminal activity reflects this fact. This supports the suggestion by previous authors that criminals are myopic with regard to changing probabilities of arrest and do not consider the likelihood of the negative consequences of committing a crime.[4] Similarly, the results may reflect the reasonable possibility that criminals do not have perfect information regarding changes in deterrence and thus are not able to adjust their criminal activity accordingly.

The hypothesis that arrests respond to increases in crime was also empirically tested. We found much stronger evidence that, in many U.S. cities, an increase in the growth rate of crime results in an increase in the growth of arrests for that crime. In other words, arrests follow crimes. This supports the notion that law enforcement reallocates its resources in response to increases in crime. One interesting finding was that the causal relationship from robbery to robbery arrests was statistically significant for 17 of the 23 cities, and the relationship from vehicle thefts to vehicle theft arrests was statistically significant for 12 of the 23 cities in the sample.

It is reasonable to expect that, over time, an increase in all types of crimes would garner an increased response from law enforcement, especially the more violent crimes of murder and rape. Several factors explain why increases in less violent crimes garner a law enforcement response in the short run while increases in the most violent crimes do not.

First, violent crimes are committed with less forethought than property crimes and are often part of an overall increase in criminal activity, such as drugs and gangs. These activities may require years of law enforcement planning and strategy via task forces and interagency cooperation to reduce. A classic example is New York City in the 1980s. Second, preventing less violent crimes may also reduce the number of more violent crimes, as suggested by the "broken windows" hypothesis of law enforcement.[5] Thus, combating a rise in less violent crimes is relatively less costly in terms of law enforcement resources and may, in fact, reduce the number of violent crimes.

ENDNOTES

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5 The "broken windows" hypothesis suggests that preventing more minor crimes can lead to a reduction in more serious criminal offenses. See Wilson, James Q. and Keeling, George. "Broken Windows." *Atlantic Monthly,* March 1982, pp. 29-38; Corman, Hope and Mocan, H. Naci. "Carrots, Sticks, and Broken Windows." *Journal of Law and Economics,* April 2005, 48(1), pp. 235-66.

6 Benson, Bruce; Iljoong, Kim; and Rasmussen, David W. "Estimating Deterrence Effects: A Public Choice Perspective on the Economics of Crime Literature." *Public Choice,* July 1994, 61(1), pp. 161-8.

7 Garoupa, Nuno. "The Theory of Optimal Law Enforcement." *Journal of Economic Surveys,* September 1997, 11(3), pp. 267-95.

8 Miceli, Thomas J. "Criminal Solicitation, Entrapment, and the Enforcement of Law." *International Review of Law and Economics,* June 2007, 27(2), pp. 258-68.

Finally, it seems reasonable that crimes that are more visible to businesses and tourists—such as robbery, vehicle theft and assault—are likely to result in greater attention from law enforcement in the short run, possibly through a relatively inexpensive increase in police presence.

The degree to which the effect of crime on arrests persists over time is quite different across cities. For example, robbery arrests are a result of the change in robberies from only the prior month in some cities to the last 10 months in other cities. This may reflect differences in the effectiveness of law enforcement across cities to respond to crime.

Two points should be considered, however, when attempting to infer the effectiveness of law enforcement.

First, the initial level of crime and arrests is an important factor in evaluating the effectiveness of changes in law enforcement. For a city that is already allocating a large percentage of its law enforcement resources to combat robberies, for example, the opportunity cost of allocating further resources to robberies is much higher than it would be in cities that have a lower level of initial law enforcement resources allocated to combat robberies.[6] Thus, cities already having a relatively large percentage of their resources allocated to combat robberies may be unwilling (or unable) in the short run to allocate further resources to combat a further increase in robberies.

Second, our analysis does not consider the optimal allocation of law enforcement resources to combat other crimes.[7] Clearly, zero crime in a city is not an optimal level of crime, given the nearly infinite resources it would require to achieve this objective, if it could be achieved at all. The optimal level of each crime and the desired level of resources to combat each crime certainly differ across cities and are based on the preferences of the citizenry, public officials and law enforcement, as well as different law enforcement strategies.[8]

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The report, Local Crime and Local Business Cycles, *is available online at www.stlouisfed.org/community/other_pubs.html#research. Print copies are available by calling Cynthia Davis at 314-444-8761.*

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Habitat To Build "Green" Subdivision in Memphis

Habitat for Humanity of Greater Memphis will start work this year on Trinity Park, its first affordable housing subdivision.

The 38-home development in the Oakhaven neighborhood just south of Memphis International Airport will feature all "green," or energy-efficient, homes. The development is the result of a partnership between Habitat for Humanity International and the Home Depot Foundation. The two organizations teamed up to create "Partners in Sustainable Building," a $30 million nationwide grant program to make 5,000 Habitat houses sustainable and energy efficient over the next five years.

The Memphis Habitat chapter is one of 30 affiliates selected for the pilot program. The pilot will target a variety of markets, including rural and urban areas, warm and cold climates, and new construction and rehabilitation. Groundbreaking for the Memphis development will occur in 2009. The project is slated for completion in 2011.

Green building is not new to Habitat for Humanity of Greater Memphis. Since 2006, Habitat has completed 22 EcoBUILD certified homes. EcoBUILD is a voluntary green building program created by Memphis Light, Gas and Water to stimulate energy and environmental awareness through the use of energy-efficient and environmentally friendly technology, materials and techniques in new home construction.

Arkansas Offers Teachers Housing, Rental Incentives

High-performing teachers who are willing to work in distressed Arkansas school districts may be eligible for rental and homeownership incentives.

The Arkansas Teacher Housing Development Foundation, a state agency established in 2003, oversees the program. It works with school districts that have difficulty recruiting and retaining high-performing teachers for grades K through 12, have a critical shortage of teachers qualified to teach any grades K through 12, and have 50 percent or more of district students performing below "proficient" on any or all benchmark examinations.

Since October 2007, when the agency first began taking applications, 18 teachers have received down payment and closing cost assistance under the homeownership incentive program. Another 30 teachers have received rental assistance. The recipients are predominantly in rural areas of the state where the majority of the distressed school districts are located.

For more information, contact Melanie R. Yelder, foundation director, at 501-683-5401 or by e-mail at melanie.yelder@dfa.arkansas.gov.

Neighbors Help Neighbors Repair, Clean Up Homes

Neighbors Assisting Neighbors (NAN) has recently come into the spotlight as a grassroots, nonprofit organization in St. Louis County, Mo., working on problem properties. The group's mission is to stabilize neighborhoods by empowering residents to interact with each other and to help their neighbors with cleanup, home repair and vacant property issues.

Target neighborhoods are selected in partnership with county government and existing neighborhood organizations. NAN has been active for some time, but just recently received its 501(c)3 tax exempt status.

With foreclosures and vacant property problems in the news, NAN emphasizes that, if these problems can be addressed by neighbors in a timely manner, more serious issues like crime and falling property values may be prevented.

The organization is seeking support for operating expenses and is planning to add a staff member who can provide planning expertise.

For more information about the NAN model, visit: www.nanstl.org.

St. Louis Business Incubator Designed To Help Homeless

A new business incubator in St. Louis is drawing national attention because of the clients it serves. The BEGIN New Venture Center is the first business incubator in the nation to focus on the homeless or those at risk of homelessness. The center is an innovative community partnership program of business incubation and entrepreneurship, skills and trades training.

The incubator is the brainchild of officials at St. Patrick Center, the largest provider of services to the homeless in Missouri. The incubator builds on St. Patrick's existing concept of providing a one-stop care facility to those in need.

The acronym BEGIN expresses project goals to

stimulate business, employment, growth, incomes and neighborhoods. The mission is to provide training, education and mentorship that result in sustainable employment and entrepreneurial opportunities.

The BEGIN Center has four critical components:

- The BEGIN New Venture Center is the business incubator within the homeless center. It will provide new venture creation.

- The BEGIN Training & Education Center will provide pre-training assessment, pre-incubation assessment, trades/skills training and business/entrepreneurial training.

- Clients will have a complete network of wraparound social support services available to them.

- The operation of social enterprises will provide clients with transitional jobs training and employment opportunities.

For additional information, visit www.BEGINSTL.org or contact Jan DeYoung at 314-802-0995.

Indiana's Homebuyer Course Exceeds Expectations

The Indiana Housing and Community Development Authority (IHCDA) announced in September that Indiana's latest tool to educate prospective homebuyers has surpassed expectations. The free online homebuyer education course, IHCDA University, has attracted twice as many registered users than projected during its first five months of operation.

IHCDA officials originally anticipated that 1,500 prospective homebuyers would use the program in the first year. Instead, in the first five months it was available, the program exceeded that expectation with 2,438 prospective homeowners registered in the system. Of that number, 1,800 have successfully completed the course; and, of those, 803 are in the process of closing or have already closed on their homes.

IHCDA University was designed as a tool to educate prospective homeowners to make smart purchasing decisions. The course is free and available 24 hours a day via the Internet to allow prospective homebuyers to take it at their leisure. IHCDA University takes about six to eight hours to complete and walks potential buyers through several lessons, including getting ready to buy a home, managing money, understanding credit and getting the right mortgage loan to meet their needs. Completion of the course also satisfies the homebuyer education requirement that is necessary for all homebuyers seeking the 0.125 percent mortgage rate reduction offered through the agency's single-family purchasing programs.

For more information about IHCDA University, visit http://ihcda.knowledgefactor.com.

BRIDGES

Bridges is a publication of the Community Development Office of the Federal Reserve Bank of St. Louis. It is intended to inform bankers, community development organizations, representatives of state and local government agencies and others in the Eighth District about current issues and initiatives in community and economic development. The Eighth District includes the state of Arkansas and parts of Illinois, Indiana, Kentucky, Mississippi, Missouri and Tennessee.

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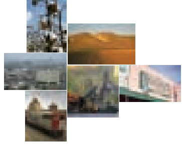
Case Studies Shed Light on Poverty in America



A new report from the Community Affairs offices of the Federal Reserve System and the Brookings Institution examines the issue of concentrated poverty.

The Enduring Challenge of Concentrated Poverty in America: Case Studies from Communities Across the U.S. profiles 16 high-poverty communities, including immigrant gateway, Native American, urban and rural communities.

One of the case studies focuses on Holmes County, Miss., located in the district served by the Federal Reserve Bank of St. Louis. With a poverty rate that stood at more than 41 percent in 2000, Holmes County is both geographically and economically isolated. It has lost many jobs during past decades—and continues to do so.

The information collected on all the communities in this report contributes to an understanding of the dynamics of poor people living in poor communities and the policies that will be needed to bring both into the economic mainstream.

The report is available at www.stlouisfed.org/community.

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