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# BRIDGES

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Exploring Innovation

THIS ISSUE OF *BRIDGES* IS DEVOTED TO TOPICS COVERED DURING THE EXPLORING INNOVATION CONFERENCE IN ST. LOUIS. FOR MORE IN-DEPTH COVERAGE OF CONFERENCE HAPPENINGS, VISIT [2011.EXPLORINGINNOVATION.ORG](http://2011.EXPLORINGINNOVATION.ORG)

## Reflections on Exploring Innovation

A commentary  
by David C. Reiling

In an article that appeared in the June 2011 issue of *Bank Technology News*, editor-in-chief Penny Crosman called for banks to look at a completely different business model—"to go after revenue in a different way because their core business is under threat." Or, in the words of Jeff Carter, former executive at MIT's Center for Future Banking, banks need to "lethally innovate."

Crosman's comment could not have come at a more important time in our industry. Recent historic changes to our financial systems, combined with an explosion of financial technology (fin-tech) innovations, are creating opportunities to modify how banking services

and community development organizations conduct business. In recognition of this extraordinary set of circumstances, the Federal Reserve Bank of St. Louis, in partnership with the Federal Reserve Banks of Atlanta, Dallas and Minneapolis, presented "Exploring Innovation: A Conference on Community Development Finance" this past May.

The conference, for which I was honored to serve as presenter, moderator and panelist, was billed as a "catalyst for unleashing ideas" and "a unique experience for re-imagining community development finance possibilities."

I am pleased to report that the conference did, indeed, deliver on these promises. From the inclusion of graduate students to voice their fresh

perspectives on advancing the New Markets Tax Credit program to alternative presentation formats and the coalescing of ideas from various groups, the conference itself was an example of innovation. The dynamic and articulate participants offered exciting, real-world examples of unique financing models addressing all aspects of thriving communities, from housing and infrastructure to community engagement and leadership development.

As exhilarating as the presentations and discussions were, I was struck during the conference by two particular points that are taking our industry into uncharted waters—points that need further consideration and subsequent action.



Technological innovations are taking the financial services industry in exciting but uncharted waters. Community banker David Reiling wonders on which side of the microchip banks, regulators and community developers will fall.

### A Cloudy Intersection

Elizabeth Duke, a member of the Board of Governors of the Federal Reserve System, said in her keynote address that the

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## Reflections

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Federal Reserve is at the intersection of government and the financial services sector, which caused me to wonder: What does the intersection of bank regulation and innovation look like? Moreover, what *should* it look like to accommodate the fin-tech boom?

At one end of the spectrum, there is the tremendous amount of innovation happening in the financial services sector. At the other end are regulators entrenched in existing rules and challenged to meet the new round of regulations through Dodd-Frank. Where the two ends of the spectrum intersect is a cloud—and it's not an Apple-connecting one. Rather, this cloud is made up of uncertainty of unprecedented proportions, which is causing bankers to postpone innovation trials due to the current high level of regulatory scrutiny and the threat of pending, unknown and new compliance regulations and regulators. The domino effect will be that less money and creativity will be invested in the fin-tech world because nothing is coming out the other side. Or, fin-tech experts will produce innovations without bank involvement, thereby realizing the threat alluded to by Crosman.

## Bigger Banks May Mean Less Innovation

At \$600 million in assets, my institution is as big as it has ever been. Yet, more and more frequently, I find that the bank I represent at community banking conferences is the smallest among the participants. I believe this trend will persist, which tells me that a new definition of “community bank” is emerging, that banks closer to \$1 billion will comprise the smaller end of the “community bank” scale.

What does that mean for communities served by these institutions? They may have stronger banks at the end of the day, but there will be fewer of them. I believe that the more community banks you have, the more creativity there is in the system. Therefore, the fewer chartered banks that exist will mean less creativity for the marketplace.

What's more, the larger a bank becomes, the more difficult it is to innovate on a small scale. At Sunrise's size, we can try numerous experiments that don't put the bank in jeopardy even if they falter. The bigger the bank, the less likely you are to try (and fail) because to impact the bank itself, you need to conduct a bigger experiment, which means more risk and more people from whom you need buy-in. In the long run, the trend toward larger community banks could stifle the degree of innovation we have enjoyed.

## What Happens Next?

Whether a bank is \$600 million or \$24 billion in total assets, all of us are trying to serve our communities to the best of our ability within the regulations and laws of the land.

Despite our industry's uncertain future, it never ceases to amaze me how concerned and focused community bankers are on their communities. This was demonstrated time and again during the conference when individuals described how they overcame the complexity of funding a unique facility, program or project. It was also demonstrated by the insightful questions posed, such as one put to me by a Federal Reserve employee. “Dave,” she said, “if there was one thing that you would work on that would have the most impact in somebody's life, what would it be?”

I don't think she expected my answer: The fact is that a person's psychological well-being centers on having work, being needed and providing for their family. Financial well-being is the basis for that psychological well-being. Therefore, in my opinion, the basis for everything is a person's job—preferably a job providing a living wage, but let's say a job with healthcare benefits and a retirement plan. “So, do you mean you would focus on job training and getting people ready for work?” she asked.

“If that's how you interpret it in your setting, then that's what it means,” I replied.

## Call to Action

The Exploring Innovation conference has been over for a couple of months now, and I challenge its organizers and participants to keep alive the momentum that was created there. For the Federal Reserve that may mean—or require, quite frankly—a renewed focus and additional initiatives on job creation and small-business support.

For attendees: Ask yourselves how you can take what you learned and apply it in your marketplace.

To everyone involved: We created a network of people interested in and dedicated to innovation and community. Let's not allow it to disappear. How can we leverage this network to further what we're doing or inquire about new products and services that are being tested elsewhere?

And for myself, I continue my quest to understand more deeply what my own question posed: What does the intersection of bank regulation and innovation look like? What *should* it look like? I invite you to help me discover the answer.

*David C. Reiling is the CEO of Sunrise Community Banks, which is comprised of University Bank, Park Midway Bank and Franklin Bank in Minnesota.*

# Keynotes: Collaboration for Innovation

By Maureen Slaten

Three keynote speakers set the tone for the 2011 Exploring Innovation conference—Federal Reserve Gov. Elizabeth Duke; Jessica Jackley, co-founder of Kiva and co-founder and CEO of ProFounder; and Ray Boshara, senior advisor in the Community Development department at the St. Louis Fed. These speakers shared their unique experiences and personal insight, encouraging continued dialogue and focusing participants on the conference goals—to be open, ready to share and learn, and then act on the information gleaned.

In her opening keynote, Duke spoke about the Federal Reserve System's efforts to help alleviate some of our nation's biggest problems, including the housing crisis and diminishing credit availability for small businesses, by promoting collaborative activities among community development finance industry experts.

Duke said the Fed's response to the housing crisis was to participate with national and regional partners in a multifaceted effort involving guidance for banks, updated regulations, monetary policy changes, strategies to enhance foreclosure mitigation and prevention, neighborhood stabilization, online Foreclosure Resource

Centers, and resources for managing vacant properties.

Credit availability is another area in which the Fed leveraged relationships with lending institutions, small-business owners and community groups to deepen understanding of the dynamics of supply and demand for small-business credit, identify credit gaps, and learn of promising ideas for improvement. The Small Business Jobs Act was passed to improve access for CDFI (Community Development Financial Institutions) loan funds and expand access to low-cost, long-term capital. Going forward, the Fed will coordinate a series of regional forums on the use and deployment of small-business programs authorized under the Act.

Duke pointed out that “the Federal Reserve has a long history of using anecdotal information...to better understand regional economies and economic conditions,” and is working to use this data to identify early warning signs of future economic challenges. The Fed's Community Data Initiative will provide a systematic approach to gathering and disseminating grassroots intelligence on current conditions and emerging challenges facing low- and moderate-income communities.

Jessica Jackley expanded on Duke's discussion of collabora-

tive innovation with a moving description of what microfinance is and how she became one of its strongest advocates. Recounting life-long teachings about helping the poor and equally lifelong feelings of guilt and frustration about her inability to reach them in any meaningful way, Jackley reported that she found herself giving not out of a genuine sense of hope and generosity, but in a more transactional mode. “Truth be told,” she said, “I was buying my right to go on with my day and not be bothered by this bad news.”

Then she attended a presentation by Dr. Muhammad Yunus, who won the Nobel Peace Prize for his work in pioneering modern microfinance. Suddenly, Jackley saw the opportunity for a “new method of change in the world, a way to interact with someone and to give, to share a resource in a way that wasn't weird and didn't make me feel bad.” As Dr. Yunus explained that microfinance could be understood as financial services for the poor, Jackley realized that far from being the stereotypical “poor people” she had imagined since childhood, the people Dr. Yunus was helping were strong, smart, hardworking entrepreneurs who needed only a small amount of capital to make their lives, their families' lives, and the communities

in which they lived just a little bit better.

From this insight grew a project now known as Kiva. After a visit to East Africa, Jackley returned to the U.S. and co-created a web site featuring seven East African entrepreneurs; visitors to the site loaned small amounts of money to provide the help these people needed to grow a business. From this start-up, Kiva grew to more than a million lenders and entrepreneurs in 200 countries around the world. Jackley's latest venture is ProFounder, a crowdfunding platform for small businesses to raise what they need through investments—not donations or loans—from friends, families and investors. These organizations began with the power of individual stories and continue because of the stories' power to move the mind and heart to act in new and unique ways.

In the final keynote, Ray Boshara suggested a way for America to harness the power of innovative collaboration to move forward into the “next Progressive Era.” He pointed out that the Industrial Revolution in America was a time of stunning change, much like today. The social contract that was forged during the first decades of the 20th century is the one we are still living with—and it no longer reflects our globalized, information-rich, flexible and mobile world.

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# homeWORD Wins First-Ever Innovation Award

By Heather McMilin, Julie Stiteler and Liz Stoeckel

homeWORD Inc., a Missoula, Mont.-based grassroots housing developer, is the recipient of the 2011 Innovation Award, which was presented during the closing plenary session of the Exploring Innovation conference in St. Louis. Heather McMilin, housing development director for homeWORD, accepted this prestigious award, which honors applicants for innovative commitment to funding initiatives that promote affordable green building or green job creation.

Founded in 1994, homeWORD is a nonprofit Community Housing Development Organization (CHDO) committed to providing safe, healthy, affordable housing for Montanans using sustainable methods. The organization is also dedicated to promoting strong communities through housing counseling and education for those most in need.

homeWORD and its projects have received much recognition and many awards over the years, including the Charles L. Edson Tax Credit Excellence Award in the Green Housing category for the Equinox development, and the Home Depot Foundation's Award of Excellence for Affordable Housing Built Responsibly in Rental Housing for Orchard Gardens. The Gold Dust, completed in

2003, is nationally recognized for its application of sustainable building principles and won the Integrated Design Award from Homes Across America; it is featured on their web site ([www.homes-across-america.org](http://www.homes-across-america.org)). But the Innovation Award from the Federal Reserve is a first for the organization.

homeWORD received the award for the development of the second phase of the two-stage Equinox-Solstice project—Solstice-Confluence, located just off the Clark Fork River in Missoula. Construction on the project began in Sept. 2010 and will be completed this fall. The Innovation Award was granted based on the project's original merits. Solstice is:

- Montana's first commercial and affordable housing "mixed-use" development registered for Leadership in Energy and Environmental Design (LEED) Gold certification;
- the first mixed-use development in the state to receive a gray water permit; and
- the first development in Montana to combine Low-Income Housing Tax Credits (LIHTC) with New Markets Tax Credits (NMTC) to finance the transaction.

Solstice is homeWORD's 12th affordable housing development, ninth LIHTC project, and third mixed-use development. It will provide a mix of 34 studio, one-bedroom and two-bedroom



homeWORD's Solstice-Confluence project is scheduled for completion in fall 2011.

rental apartments. Households earning less than 60 percent of the area median income are eligible to apply for a unit; in Missoula, that means a two-person household earning \$28,380 per year or less would qualify. Solstice will include additional commercial space (known as "Confluence") that will house homeWORD's administrative and counseling offices and a training center known as the HomeOwnership Center (HOC), in addition to office space for other similar organizations to lease or purchase.

Completing Solstice-Confluence has not been a simple task. homeWORD had to fit together all the moving parts—including requirements of financiers, government programs, homeWORD development goals and

legal parameters—in order to use a combination of LIHTC and NMTC. The financing was a complicated matter that demanded a lot of patience and perseverance from all parties involved. Many times, the organization was told it was impossible to combine LIHTC and NMTC on a small, semi-urban infill project. As McMilin stated at the conference, "There were a lot of attorneys on the phone during financial negotiations, and I really appreciate everyone's patience in getting this project to come to fruition."

While discussions arose during the Exploring Innovation conference around the effectiveness of CRA, the viability of community banks vs. large national banks, and the relevance of intermediaries,

McMilin clearly stated that this project would never have happened without all of these tools and important resources. “What lender in their right mind would be willing to give a predevelopment loan to a nonprofit that was using their own computers and equipment as collateral? Well, our community bank did. Every player had an important and unique role in the project.”

NeighborWorks America was a co-sponsor of the Innovation Award. Spokesman Steve Hermes praised this project as a model for tax-credit builders, and noted that it is a great example of innovation in affordable housing. homeWORD is a partner agency of NeighborWorks Montana, located in Great Falls, and since 1997 the organization has been providing first-time homebuyer and financial education classes, as well as free one-on-one housing counseling services, through its HOC. To date, homeWORD has served approximately 4,500 households through these programs, with more than 700 households purchasing homes after completing the “Get Ready for Home Ownership” course.

“Many of our clients are lower-income and can take advantage of a full continuum of housing services through our HOC at little or no cost,” said Kellie Battaglia, operations and program director for homeWORD. “We truly believe education and counseling go hand in hand with keeping families in their homes and in control of their finances. Our programs

empower people to make healthy, sound choices and help them to achieve stability in their lives with limited resources.”

Equinox, the first phase of the development, was completed in July 2009 and features 35 rentals for people who earn less than 50 percent of the area median income. All units rented quickly and it has remained full. McMilin said, “Equinox had many applicants who earned just over 50 percent of the area median income and therefore did not qualify to move in. So, the second phase targets those who earn 60 percent and below. There was a clear and present demand.” This increase in the number of rental units available will meet a critical need for workforce housing in Missoula.

McMilin noted that the award honors not just homeWORD but all of the organization’s partners in this project who assisted in making the deal work—U.S. Bank, NeighborWorks Montana, City of Missoula HOME and CDBG programs, Montana Board of Housing, Montana Department of Commerce, First Security Bank, Missoula Redevelopment Agency and Montana Community Development Corporation.

The Innovation Award illustrates why so many homeWORD residents, Missoula elected officials, community organizations and businesses supported the organization’s LIHTC application for Solstice. Future residents and commercial tenants will soon benefit from the project’s

innovations, strengthening the entire community as a result.

To view a video about homeWORD and Solstice-Confluence, visit [www.homeWORD.org](http://www.homeWORD.org).

*Heather McMilin is housing development director, Julie Stiteler is housing project manager and Liz Stoeckel is fund development coordinator at homeWORD Inc.*

## Keynotes

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Right now, said Boshara, we have a once-in-a-century opportunity—to negotiate a new social contract that will transform our world. While we don’t know which idea or innovation will form the basis of a new public policy, one lesson we have learned is that the health of low-income persons and communities is tied to the health of the broader economy. Boshara noted that when we think about the future of community development, we need to think of low-income communities not as pockets of poverty and renewal, but as epicenters of innovation and growth whose success will help drive the success of the broader economy.

Boshara said that a new paradigm must replace the belief that the American consumer is the ultimate engine of economic growth. This model no longer works. Instead, emerging markets will stimulate global demand and reduce America’s trade deficit in the process. The green economy will also stimulate economic growth. A new

public consensus about global climate change, coupled with the national security risk that comes from relying on imported oil, will create an investment boom in new energy sources and technologies. And finally, a new government commitment to higher wages and increased public investment—including health care, education and public infrastructure—will help restore consumer purchasing power and make U.S. consumerism more sustainable and socially healthy.

Each of these speakers identified collaboration and teamwork as essential to getting things done. As Duke concluded, it will take all of us, working together, to solve the changing nature of the problems now being encountered in our country and the world.

*Maureen Slaten is a senior editor at the Federal Reserve Bank of St. Louis.*

*Jessica Jackley was interviewed by community development specialist Daniel Davis; view the video at [www.stlouisfed.org/jackley](http://www.stlouisfed.org/jackley).*

# Can the New Markets Tax Credit Program Be Transformed Through Leverage of its Real Estate Bias?

By Katie Codey

In December 2000, the Community Renewal Tax Relief Act authorized and established the New Markets Tax Credit (NMTC) and New Markets Venture Capital (NMVC) programs to stimulate private investment in low-income communities. The NMTC program aims to subsidize and increase the amount of equity investment in low-income communities via investments in qualifying businesses by allowing investors to take a tax credit equal to 39 percent of their equity investment in a certified community development entity (CDE). The program leverages the expertise of sophisticated financial intermediaries to channel equity to neighborhoods in need of reinvestment.

## What's Not Working...and Why

Although the NMTC program has generated over \$50 billion in financing for businesses,<sup>1</sup> critics charge that it manifests too strong a bias in favor of real estate investment and results in overly complex transaction structures. This article proposes a solution designed to simplify the transaction structure and augment the amount of investment available to businesses in low-income areas by: 1) transforming the NMTC

program into a pure real estate investment vehicle, and 2) reauthorizing the NMVC program to funnel non-real estate financing to qualifying businesses. Through fiscal year 2008, 65.3 percent of NMTC loans and investments flowed to real estate projects.<sup>2</sup> Certain characteristics of the program help explain this tilt. First, such investments raise fewer compliance concerns than non-real estate investments; real estate is fixed geographically and cannot “move out” of compliance. Further, a real estate project necessitates a longer invest-

on transaction costs for these larger investments, and the opportunity to package NMTC credits with local, state and federal incentives on real estate projects. If tax credit investors see a higher potential for return on capital for real estate investments due to these factors, they may be able to avoid having to solicit a leveraged investor for transactions. Eliminating the need for a leveraged investor not only streamlines the transaction structure, potentially reducing third-party fees, but it can also reduce the loan payments over the term of the loan.

projects and the size of NMTC investment. By limiting the scope, CDEs will expend larger “chunks” of their allocation on a single project, increasing the likelihood that they will fully utilize their allocation within the stipulated five-year period. Further, an increase in project size will reduce the impact of third-party fees and costs by spreading them over a larger project, since legal and consulting fees are typically fixed irrespective of project size. In addition, on a real estate project, the property itself will necessarily secure the invest-

**This article proposes a solution designed to simplify the transaction structure [of the NMTC program] and augment the amount of investment available to businesses in low-income areas.**

ment horizon than an operating equity investment in a business, reducing the likelihood that a CDE will face a return of its capital within the seven-year holding period and have to scramble to reinvest that capital. The reduced compliance risks help simplify the transaction structures for these deals as less third-party expertise is required, reducing both transaction costs and closing time. Second, real estate investments offer greater profitability margins due to securitization effects, better economies of scale

## A Potential Solution to NMTC's Problems

Given NMTC's demonstrated success with real estate investments, I propose that the CDFI Fund streamline the program and end the issuance of tax credits for non-real estate investments. These projects can instead be serviced through alternative federal programs, including a resurrected version of the NMVC program. Transformation of NMTC into a pure real estate program will increase the scale of

ment of a tax credit investor or leveraged lender. This securitization lowers investor and lender risk and thus the interest rates charged to the business over the term of a debt investment. A below-market-rate loan can yield positive benefits, such as allowing the business to keep more of its operating capital over the term of the loan for future refinancing needs and encouraging the developer to offer more favorable lease terms to tenants. Lastly, transforming the NMTC program will simplify

deal structures while retaining the program's community reinvestment mission. In a pure real estate program, the CDFI Fund can hold applicants for tax credit allocations to an even higher standard since an "apples-to-apples" comparison will be more easily made across applicants and their proposed investments. The CDFI Fund would also be able to improve its capture of data regarding job creation and community impact since allocatee business models and project deal structures would be more likely to share similar characteristics.

To accommodate non-real estate investments, the CDFI Fund should explore the reauthorization of the NMVC program to funnel investment to small businesses. Housed within the Small Business Administration (SBA), the program guarantees debentures of certified venture capital companies and offers matching grants for operational assistance provided to qualified businesses. Although the venture capital program has been largely dormant while the tax credit program has thrived, it retains the potential to help offset the unmet equity needs of businesses in underserved areas, as well as providing needed technical assistance.

With respect to the NMTC program, many venture capital companies remain on the sidelines, unable to work within the 7-year investment horizon and scared off by compliance

challenges associated with short-term operating investments. However, venture capital investors are more flexible than traditional tax credit investors and have a higher risk tolerance. Under a reauthorized NMVC program, SBA debenture guarantees and matching grants for operational assistance would capitalize upon these strengths and encourage venture capital investment in non-real estate entities. It would also allow for transaction structures that permit participating venture capital companies to retain and leverage their flexibility and investment approach.

### How To Do It

Multiple U.S. representatives and senators have co-sponsored legislation to reauthorize the NMVC program, but all have been unsuccessful. In addition to these political hurdles, there are also the financial and practical implications of shifting non-real estate investments to this reauthorized version to consider.

The appeal of a tax credit program like NMTC is that it requires little initial outlay from the government; rather, its cost is the opportunity cost of lost tax revenue. Eliminating non-real estate investments from the NMTC will lower the cost of program administration, realized through less time and expense required to review allocation applications and simplified compliance audits due to fewer types of permissible NMTC investments. The

CDFI Fund will also save on administration costs by shifting responsibility for non-real estate investments to the SBA. However, reauthorization of the NMVC would require Congress to allocate a considerable amount of money to the SBA in a time of budgetary constraint. This reality must be considered, as well as the SBA's capacity to accommodate non-real estate investments previously covered by the NMTC program.

Additionally, the CDFI Fund must evaluate relevant practical considerations. From an administrative perspective, the NMTC program can grandfather in non-real estate investments made by CDEs with current NMTC allocations and modify future applications to reflect its forward-looking pure real estate focus. The CDFI Fund and SBA must also assess whether SBA regulations governing the size of eligible businesses would eliminate any investments previously covered by the tax credit program, and change them accordingly. Also, this transition is likely to disproportionately affect CDEs established or controlled by nonprofit entities, since this segment makes the majority of its investments in business-related projects. Accordingly, the CDFI Fund may explore whether nonprofits can remain involved through partnerships with NMVC companies to provide additional funding or technical assistance within the NMVC program.

Lastly, the CDFI Fund and SBA can lobby Congress to ensure that any reauthorizing legislation includes language to align the geographic focus of the NMVC and NMTC programs so that both programs target the same communities. The language is already nearly identical, but precisely mirroring the geographic targets of these programs will enhance their ability to increase the frequency, concentration and scale of private investments in low-income communities and may even encourage end users to layer NMTC and NMVC investments on the same project.

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*Katie Codey is a graduate student at the University of Georgia in Athens, Ga. She is the winner of the 2011 Community Development Finance Competition, an academic research and writing competition sponsored by the Federal Reserve Banks of St. Louis, Atlanta, Dallas and Minneapolis, which was awarded at the Exploring Innovation conference.*



# The Living Cities Integration Initiative

By Robin Hacke

In 2010, Living Cities—an innovative philanthropic collaborative of 22 of the world's largest foundations and financial institutions—invited 19 cities to propose ways to accelerate existing efforts for improving the lives of low-income people as part of our Integration Initiative.

Living Cities has been working for the past 20 years to revitalize underinvested communities. The Integration Initiative is a new \$85-million effort that encourages public, private, philanthropic and non-profit leaders to work together to implement game-changing innovations that improve the lives of low-income people and the cities where they live. Rather than dictating the issues or systems on which applicants should focus, we required that they explain how they would put our principles into practice for the benefit of low-income communities.

The 19 cities submitted 23 proposals, and we selected nine for further review. A selection committee of our member foundations and financial institutions chose five urban regions to participate in the Initiative: Baltimore, Cleveland, Detroit, Newark, N.J., and the Twin Cities of Minneapolis and Saint Paul, Minn.

These regions face significant

**The Initiative is demonstrating new ways of blending capital, including philanthropic grants, commercial debt, low-cost loans and public subsidies, thereby better engaging private markets to work on behalf of low-income people.**

challenges such as shrinking budgets, and opportunities such as the prospect of harnessing the billions of dollars of economic power controlled by local anchor institutions, including hospitals and universities, for the benefit of low-income people and neighborhoods. Several themes run through multiple Initiative sites: For example, Baltimore, Detroit and the Twin Cities are looking at the potential of transit-oriented development to create access to opportunity for low-income people. Job creation and workforce development strategies are important in all of the cities; promoting the success of small businesses is another key goal.

Living Cities and its members are providing each site with at least \$15 million in grants, below-market-rate loans and commercial debt. Each site is receiving three years of grant support, between \$3 million and \$4 million in 10-year,

below-market-rate loans, and between \$9 million and \$15 million in commercial debt with terms of up to seven years.

But investing dollars isn't enough. We also are providing the support that can help make these sites successful and establish them as nationally significant models. We have developed a learning network that meets both in person and virtually to share lessons learned and to chart necessary interventions. We also included ongoing local and national evaluation, and have committed to sharing what we learn—through our successes and challenges—with our members and the field at large.

As attendees at the Exploring Innovation conference in St. Louis learned, the Integration Initiative aims to promote systems change by disrupting obsolete approaches. Many essential systems that affect low-income people and limit their access to opportunity are

based on outdated assumptions, such as the notion that a nine-month school year is necessary to accommodate a harvest season. The Integration Initiative also is working to foster the development of a resilient civic infrastructure in America's cities by breaking down silos and cultivating integration across sectors and issues. Finally, the Initiative is demonstrating new ways of blending capital, including philanthropic grants, commercial debt, low-cost loans and public subsidies, thereby better engaging private markets to work on behalf of low-income people.

## Role of Community Development Financial Institutions

CDFIs are pivotal players in The Integration Initiative. Early in the application process, we required that every potential site identify a qualified financial intermediary to partner with the lead applicant. The involvement of the CDFI had to be more than transactional; the financial partner was to be an integral part of the governance table, bringing a market perspective and expertise in blending capital to the initiative as a whole.

The financial intermediaries are blending capital from multiple sources. These include commercial debt from seven Living Cities member financial institutions, flexible debt from our Catalyst Fund, government subsidies



and foundation grants. They are using the capital to lend to priority areas such as small business development, preservation of affordable housing, mixed-use projects near transit, grocery stores, charter schools and community facilities.

### Early Lessons

The Integration Initiative is still in its early days. However, just a few months into it, Living Cities has learned some key lessons about the ability to absorb capital in underinvested communities, the integration of program and finance, the potential of a resilient civic infrastructure and ways to promote the spread of CDFI capacity.

Many of the applicant cities struggled to find an appropriate CDFI partner. Some had CDFIs that were too small to accept the \$10 million or so of commercial debt that came with participation in the Initiative. In other cities, CDFIs specialized in a type of lending different from the focus of the local initiative.

We have addressed this challenge by implementing a variety of models. In Baltimore, we are working with a regional CDFI that hired a local loan officer to provide on-the-ground support. In Detroit, we are working with a national CDFI that transferred a loan officer to Michigan to work on this effort. A national CDFI is creating a special-purpose entity backed by a local foun-

dation guarantee in Cleveland. In Newark, a for-profit financial institution is creating a special-purpose entity and matching Living Cities' investment dollar for dollar. Local and national CDFIs in the Twin Cities are partnering on the different types of lending called for by the Initiative.

We believe we will learn from these models how we can intervene in places that lack the capacity to absorb capital for community development efforts.

### Early Lessons: Program and Finance

The Integration Initiative creates a new, tighter relationship between program and finance. We have realized that program experts and finance people often speak different languages. To be effective, partners in the Initiative need to be "bilingual." We are facilitating this through training in financial concepts and by providing opportunities for partners to learn each other's priorities, business models and ways of operating.

To foster development of a shared vision, each team has been asked to define what makes for a "catalytic investment" in their site. And we have required that the lead applicant certify the priority of an investment as a condition of each draw.

### Early Lessons: Civic Infrastructure

Already, we have begun to see the power of "one table." Bringing together leaders from public, private, nonprofit and philanthropic sectors can foster creation of a shared vision, cement relationships that can overcome obstacles and improve utilization of scarce resources. Working together, these leaders can invent and test solutions to persistent problems.

### Early Lessons: CDFI Participation

Finally, we have learned that including a national or regional CDFI at the cross-sector local table helps the CDFI become "local" quickly. Sitting with local leaders helps a CDFI to understand local priorities, cut through red tape and assemble resources. Without access to the civic infrastructure, CDFIs are less effective in their efforts.

### Next Steps

The Integration Initiative will help us understand how cities can provide opportunities to low-income individuals and revitalize communities, particularly at a time when subsidy is likely to be scarce. We look forward to sharing our journey with the field. For more information, please visit the Living Cities web site at [www.livingcities.org](http://www.livingcities.org).

*Robin Hacke is the director of capital formation for Living Cities.*

## 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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# Priorities for Action—Closing Plenary Results

By Faith Weekly

Often conferences rely on experts to determine priorities, but we recognize the shared expertise that participants gain from working daily in the field of community development. During the town hall-style closing plenary, attendees were divided into three areas of community finance—policy, products and tools/resources—and given the opportunity to voice their ideas regarding the top issues that should be addressed in this field.

## Community Finance Policy

With current high unemployment rates, the top priority in this area was no surprise: Support innovation in education and workforce development. Participants concluded that collective policy and action are required to address failing educational attainment levels.

Coming in second was another education-related issue: Financial education in schools should be a funded priority.

Ranking third was the need for local, state and federal savings policies to promote savings and support matched savings accounts for children and lower-income communities.

Fourth was a tie between expanding civic infrastructure so that more communities and households are able to participate, and making tax credits and deductions more equitable

across geographies and income groups. In fifth place was changing usury laws by supervising alternative financial services to improve neighborhood stability and household economic mobility.

Another topical issue ranked sixth: Improve local and state policies for land banking. Participants recognized that this is a critical issue for areas with large numbers of vacant or abandoned real estate. The need for the National Housing Trust Fund ranked seventh.

## Community Finance Products

Overwhelmingly, conference participants voted microlending as the top product needed to provide funds for small-dollar loans to consumers and small businesses. They also considered important priorities to be funding for intermediaries to provide technical assistance and microloans, as well as developing scalable and replicable products that could be used nationwide.

Financial education ranked second not only in the policy category, but also in products. Overwhelmingly, participants believed that financial education needs to be mandated in schools from kindergarten to 12th grade, as well as attached to lending products.

Savings and reserves were ranked third. Participants believed that financial institutions need to work with low-

income borrowers to come up with innovative savings products. They also recommended building in reserve products attached to home mortgage loans to ensure sustainability.

Expanded availability of innovative banking products, such as stored value cards and mobile banking, ranked fourth, followed by microbusiness venture capital funds with local and state seed funds, and mortgage loan products that incorporate sweat equity.

## Community Finance Tools/Resources

The top priority here was enhancing the Community Reinvestment Act as a tool for innovation and consistency, and serving as a catalyst to allow banks to be flexible.

Developing resources that will support financial institutions in their creation of small-value loans came in second place, followed closely by preserving federal tax credits as a community development tool.

Fourth and fifth place were both tied to financial education: Crafting tools and curriculum that are relevant and timely to low-income communities, and developing a consistent, standardized approach to financial education in schools.

In sixth place was developing alternative financing tools and resources for nonprofits and local governments, including bonds and tax incentives

for charitable deductions. This was followed closely by developing a rigorous evaluation process and tools for nonprofits, as well as providing a funding source and technical assistance.

Developing a standardized process for financial institutions and nonprofit organizations to deploy microenterprise programs through technical assistance, loans and grants was eighth. And the final priority was developing a factor financing tool kit to help small business entrepreneurs manage their cash flow.

The purpose of the closing plenary was twofold. We wanted to provide an opportunity for participants to create a priorities list to use in building an agenda for action to make sustainable impact in their communities. And we also wanted to use what we heard to help inform the work of the Fed's community development team.

It is hoped that wellthought-out policies at the local, state or federal government levels will result in regulations that produce tools and/or resources that lead to the development of products that in turn ultimately enhance the quality of life in our communities.

*Faith Weekly is a community development specialist at the Louisville Branch of the Federal Reserve Bank of St. Louis.*

# SPANNING THE REGION

## Justine PETERSEN Offers MicroMentor

Justine PETERSEN is a non-profit organization that focuses on credit building and small business lending. MicroMentor is a free online service that connects small business owners with business mentors. Now, in an effort to directly support local small business owners, Justine PETERSEN is offering MicroMentor, providing help for entrepreneurs facing business challenges like writing a business plan,

addressing cash flow problems or expanding specialized skills.

For more information, visit [www.micromentor.org/groups/view/101](http://www.micromentor.org/groups/view/101).

## Arkansas Entrepreneurial Opportunity: Adult Family Homes

Adult Family Homes (AFH), an alternative to nursing homes or assisted living facilities, are residential homes licensed to care for non-related residents,

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providing a warm, loving home in a clean, safe and positive family environment for senior adults who need daily living assistance—an ideal blend of independence and care.

In Arkansas, alt.Consulting has been working with the Arkansas Department of Human Services to evaluate a new entrepreneurial opportunity around AFHs. They have

built a business model and developed a toolkit, including everything from client policies to managing cash flow to determining payroll taxes and everything in between. And they've tested the model by helping to start four AFHs.

For more information, contact alt.Consulting at 901-312-9797.

## HAVE YOU HEARD

### List of Distressed/Underserved Nonmetropolitan Middle-Income Geographies Now Available

The 2011 list of distressed or underserved nonmetropolitan middle-income geographies where revitalization or stabilization activities will receive Community Reinvestment Act consideration as "community development" is now available, along with information about the data sources used to generate the list. Find the list on the Federal Financial Institutions Examination Council web site ([www.ffiec.gov/cra](http://www.ffiec.gov/cra)).

## RESOURCES

### Avoid "Card Skimming" at ATMs and Other Money Machines

The Office of the Comptroller of the Currency released a Consumer Advisory that discusses how high-tech thieves target consumers at ATMs and other money machines. The advisory also offers tips on safeguarding personal information. Visit [www.occ.gov/news-issuances/consumer-advisories/2011/consumer-advisory-2011-2.html](http://www.occ.gov/news-issuances/consumer-advisories/2011/consumer-advisory-2011-2.html).

### CreditScoreQuiz.org

The Consumer Federation of America and VantageScore offer a web site with useful information about credit reports, including a quiz for consumers to test their knowledge of credit scores. Go to [www.creditscorequiz.org](http://www.creditscorequiz.org).

### 12 Good Money Habits to Start on the Path to Financial Health

The Financial Planning Association offers information for recent college graduates—or anyone hoping to increase their financial literacy—to help them better manage finances. For more information, visit [www.fpanet.org/ToolsResources/ArticlesBooksChecklists/Articles/FinancialPlanning/GraduatingLearn12GoodMoney-Habits](http://www.fpanet.org/ToolsResources/ArticlesBooksChecklists/Articles/FinancialPlanning/GraduatingLearn12GoodMoney-Habits).

## >>> Only Online

[www.stlouisfed.org/publications/br](http://www.stlouisfed.org/publications/br)

In addition to the print version, each issue of *Bridges* offers articles that are exclusively online. Online articles for the summer issue of *Bridges* expand on topics in the current issue:

>>> Bringing Innovation to Life: Lessons in Engagement from a Collaborative Conference.

>>> 10,000 Hour Challenge Shines Light on Pioneering Activities

For more in-depth coverage of conference happenings, visit [2011.exploringinnovation.org](http://2011.exploringinnovation.org)



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## CALENDAR

### AUGUST

#### 10-11

**Get Plugged In...Downtown (Missouri's Premier Revitalization Conference)—Kansas City, Mo.**

Sponsor: Missouri Main Street Connection  
<http://getpluggedindowntown.org>

### SEPTEMBER

#### 14-15

**Mobilizing Rural Communities—Great Falls, Mont.**

Sponsors: Rural Dynamics Incorporated, Montana State University, 3 Rivers Communications, Bison Ford, IRS  
[www.ruraldynamics.org/mobilizing-rural-communities-central](http://www.ruraldynamics.org/mobilizing-rural-communities-central)

#### 19-20

**Financing Sustainable Housing and Community Development—San Francisco**

Sponsors: Partnership for Sustainable Communities, Reznick Group, Gateway Planning Group, On-Site Insight, Clearinghouse CDFI, Enterprise, Lincoln Institute of Land Policy, Local Government Commission, Low-Income Investment Fund, Nonprofit Housing Association of Northern

California, Volunteers of America  
[www.p4sc.org/san-francisco-conference-overview](http://www.p4sc.org/san-francisco-conference-overview)

#### 21

**CRA Roundtable for Bankers—St. Louis, Mo.**

Sponsors: Federal Reserve Bank of St. Louis, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency  
Contact: Jean Morisseau-Kuni at 314-444-8646 or [Jean.B.Morisseau-Kuni@stls.frb.org](mailto:Jean.B.Morisseau-Kuni@stls.frb.org)

#### 21-23

**2011 Governor's Conference on Economic Development—Springfield, Mo.**

Sponsors: Missouri Association of Realtors, Empire, Ameren Missouri  
[www.ded.mo.gov/Conference/GovConference.aspx](http://www.ded.mo.gov/Conference/GovConference.aspx)

#### 25-27

**Governor's Conference on Tourism—Biloxi, Miss.**

Sponsor: Mississippi Tourism Association  
[www.mstourism.com](http://www.mstourism.com)

### OCTOBER

#### 7

**Social Compact St. Louis DrillDown Kickoff Event—St. Louis, Mo.**

Sponsors: Social Compact Inc., Federal Reserve Bank of St. Louis, Friedman Group Ltd.  
[www.socialcompact.org](http://www.socialcompact.org)  
Contact: Matt Ashby at 314-444-8891 or [Matthew.W.Ashby@stls.frb.org](mailto:Matthew.W.Ashby@stls.frb.org)

#### 16-17

**Missouri Community Betterment Conference—Jefferson City, Mo.**

Sponsor: Missouri Community Betterment  
[www.mocommunitybetterment.com](http://www.mocommunitybetterment.com)

#### 20-21

**Closing the Wealth Gap: Building Family and Community Economic Success—Point Clear, Ala.**

Sponsor: Southern Regional Asset Building Coalition  
[www.eassets.org/news/2011-srabc-conference](http://www.eassets.org/news/2011-srabc-conference)

### NOVEMBER

#### 14-20

**Global Entrepreneurship Week—Global**

Sponsors: Ewing Marion Kauffman Foundation  
[www.gewusa.org/](http://www.gewusa.org/)

#### 16

**FastTrac Global Women's Summit—Kansas City, Mo.**

Sponsor: Ewing Marion Kauffman Foundation  
<http://fasttrac.org/women>

#### 16-18

**Economic Development Finance Programs—Baltimore, Md.**

Sponsors: International Economic Development Council, Maryland Economic Development Association  
[www.iedconline.org/?p=Training\\_Finance\\_MD](http://www.iedconline.org/?p=Training_Finance_MD)