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FALL 2017

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Apprenticeships, Skilled Trades and Small-Business Creation

By Andrew Pack

Recently, much has been written and policies have been put forth to increase apprenticeships in the United States with the goal of decreasing the skills gap in middle-skill occupations—jobs that require education beyond high school but do not necessarily require a four-year college degree. According to the National Skills Coalition, the demand for middle-skill jobs is stronger than the demand for low- and high-skill jobs. As college tuition costs continue to rise and the workforce continues to age, middle-skill jobs offer many people the opportunity to obtain some education beyond high school (e.g., a certification or associate degree) to improve their economic well-being without incurring the cost of a college education.

According to Georgetown University's recent report, "America's Divided Recovery: College Haves and Have-Nots," 99 percent of all jobs created post-recession require more than a high school education. Of the 11.6 million jobs created after the Great Recession, those requiring a high school education or less accounted for only 80,000 jobs.[1] Creating career pathways for individuals to gain certifications or on-the-job training such as apprenticeships and to improve overall educational attainment is critical to closing the middle-skills gap to provide a qualified workforce. The need has intensified post-recession and in the current tight labor market (Figure 1).

According to the Labor Department's Employment and Training Administration, there were 505,371 individuals in apprenticeship programs in 2016. There are a number of certified apprenticeship programs available

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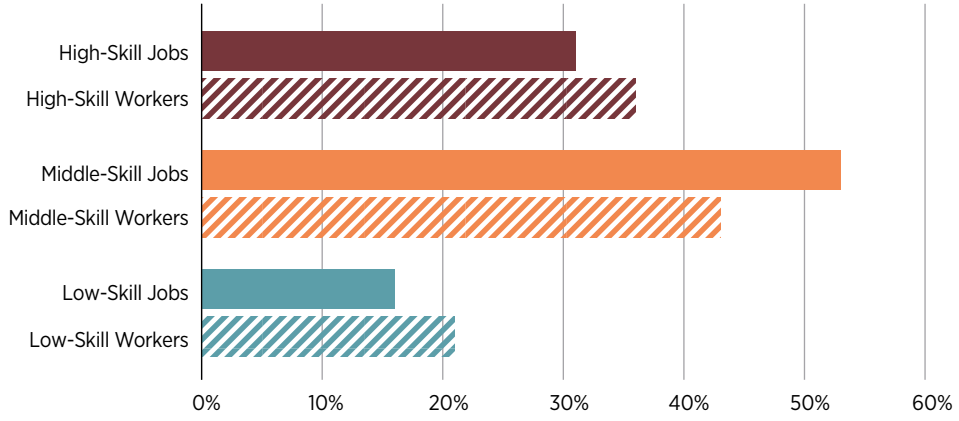
FIGURE 1

Jobs and Workers by Skill Level, United States, 2015

Middle-skill jobs account for 53 percent of the United States' labor market, but only 43 percent of the country's workers are trained to the middle-skill level.



SOURCE: NSC analysis of Bureau of Labor Statistics Occupational Employment Statistics by State, May 2015, and American Community Survey data, 2015. https://www.nationalskillscoalition.org/resources/publications/2017-middle-skills-fact-sheets/file/United-States-MiddleSkills.pdf

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Bridges is a quarterly 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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Calendar

JANUARY 2018

18 **Delta Communities—Workforce Development in the Delta**
Clarksdale, Miss.

Sponsor: Federal Reserve Bank of St. Louis
Visit: http://www.cvent.com/d/qtqx4b

FEBRUARY 2018

1-2 **ABA Forum on Affordable Housing and Community Development**
Phoenix, Ariz.

Sponsor: American Bar Association
Visit: https://shop.americanbar.org/ebus/ABAEventsCalendar/EventDetails.aspx?productId=281466682

23 **Community Development Workshop: Real Estate Development Workshop**
Kansas City, Mo.

Sponsor: Greater Kansas City LISC
Visit: www.eventbrite.com/e/real-estate-development-workshop-part-of-the-community-dev-workshop-tickets-39840268315

24 **6th Annual Community Development Workshop**
Kansas City, Mo.

Sponsor: Community Capital Fund
Visit: www.eventbrite.com/e/community-development-workshop-2018-tickets-37921834227

MARCH 2018

18-21 **2018 National Interagency Community Reinvestment Conference**
Miami, Fla.

Sponsors: Federal Reserve banks of Atlanta, Chicago and San Francisco; FDIC; OCC
Visit: www.frbsf.org/community-development/events/2018/march/2018-national-interagency-community-reinvestment-conference

Apprenticeships, Skilled Trades and Small-Business Creation

>> continued from Page 1

through the Labor Department, varying by the type of qualifications, experience, education, industry sectors and years of training needed to complete the program. The number of apprentices, individuals completing programs and actual apprenticeship programs has varied over the years, as has how active each state is in instituting these programs (Figure 2).

At the end of 2016, the Labor Department announced funding for $50.5 million for investments in states to expand apprenticeship programs across the U.S; 36 states received funding and one U.S. territory received grant money to expand apprenticeship programs in their respective geographies to "help states integrate apprenticeship into their education and workforce systems; engage industry and other partners at scale to expand apprenticeship to new sectors and new populations; support state capacity to conduct outreach and work with employers to start new programs; provide support to promote greater inclusion and diversity in apprenticeship; and implement state innovations, incentives, and system reforms."[2] In June 2017, President Donald Trump signed an executive order to increase the number of apprenticeships (currently just over 500,000) to 5 million in the coming years.[3] Increasing these opportunities continues to be a major priority and objective for improving workforce outcomes and strengthening the skills of those in the labor market.

Many middle-skill jobs exist within the skilled trades, requiring some sort of technical education or other certification beyond a high school diploma. Along with certifications, apprenticeships and entrepreneurship can play a critical role in advancing individuals' careers into the skilled trades and increasing their income. So, what types of jobs exist within the skilled trades? The Michigan Department of Technology, Management and Budget's Bureau of Labor Market Information and Strategic Initiatives breaks these jobs into three groups: skilled construction trades, skilled industrial trades and skilled service trades.[4] The Bureau of Labor Statistics' Occupational Outlook Handbook provides much more detail regarding each occupation in the various types of skilled trades.[5] According to these sources, about 55 occupations are identified as skilled trades, which accounted for over 19 million jobs in 2014. The average job growth rate outlook from 2014-2024 is eight percent, with an average median wage in 2016 of $46,146; the median annual wage for all workers in 2016 was $37,040.

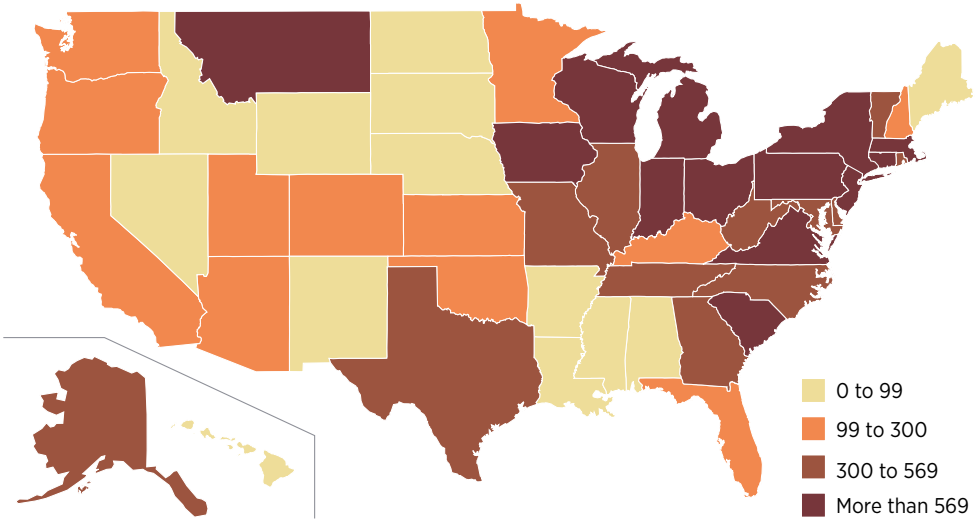
> Along with certifications, apprenticeships and entrepreneurship can play a critical role in advancing individuals' careers into the skilled trades and increasing their income.

Many workforce development professionals continue to work on improving career pathways for workers such as those in the skilled trades, creating various steps to achieve the credentials necessary to continue career progression. Depending on the occupation, this might involve internships, apprenticeships, certifications, stackable credentials, associate degrees or bachelor's degrees. For the skilled trades, on-the-job training (e.g., apprenticeships) is critical to having work-ready employees; most apprenticeships also include a mentor who helps to guide the worker through training. These are all critical to improving the economic future of an individual or family,

>> continued on Page 4

FIGURE 2

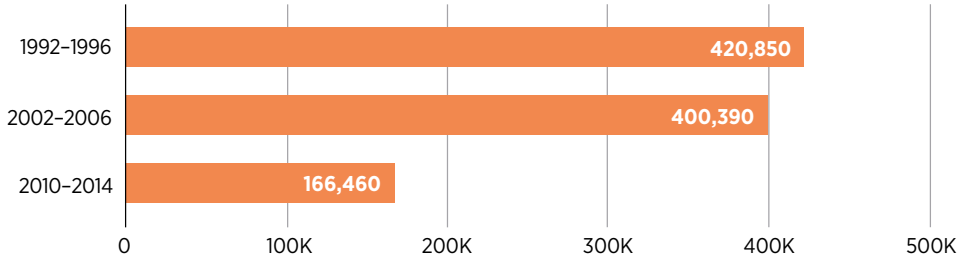
Active Apprenticeship Programs in the U.S., 2016



Source: U.S. Department of Labor, Employment and Training Administration. https://doleta.gov/oa/data_statistics.cfm

FIGURE 3

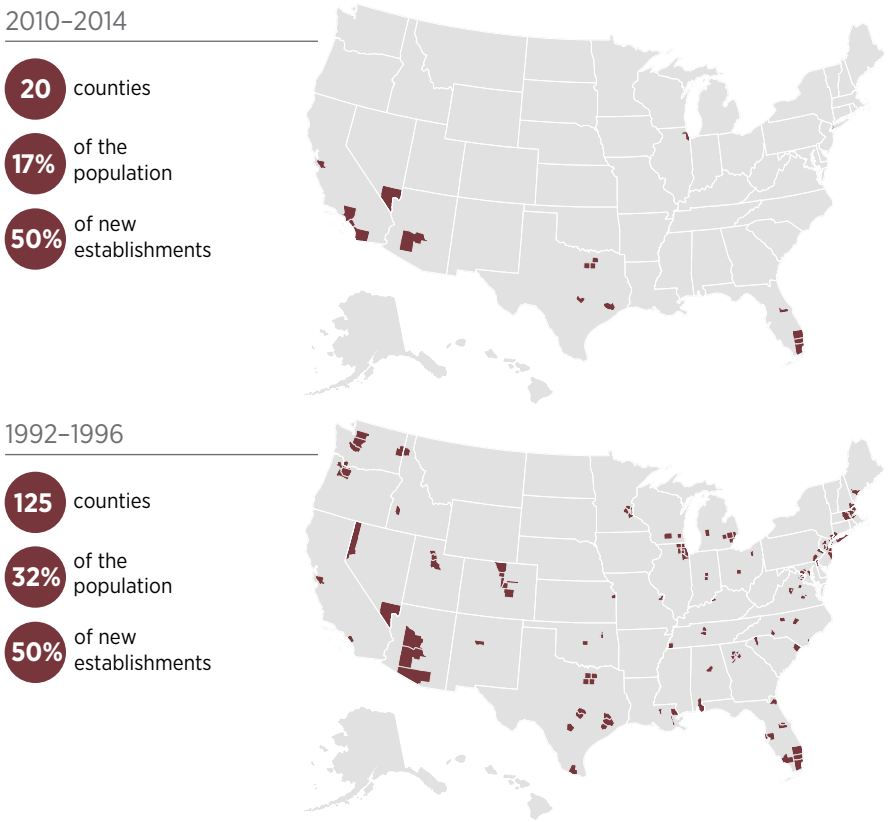
Net Change in U.S. Business Establishments



SOURCE: The New Map of Economic Growth and Recovery, Economic Innovation Group. http://eig.org/wp-content/uploads/2016/05/recoverygrowthreport.pdf

FIGURE 4

Map of Counties Accounting for Half of Recovery-Era Establishment Growth



SOURCE: The New Map of Economic Growth and Recovery, Economic Innovation Group. http://eig.org/wp-content/uploads/2016/05/recoverygrowthreport.pdf

Apprenticeships, Skilled Trades and Small-Business Creation

>> continued from Page 3

the productivity of companies and the overall economy. Additionally, demand for employees in the skilled trades corresponds with the need for entrepreneurs and small-business owners to create businesses to employ those workers. It is also a major economic opportunity for individuals who have successfully learned a skilled trade to start their own business as a career pathway.

More small businesses are needed across the country to propel economic growth, and many of the skilled trades are necessary for communities across the country that need these businesses. According to "The New Map of Economic Growth and Recovery," a 2016 report from the Economic Innovation Group, there were very few new businesses created in the latest economic recovery compared with previous recoveries (Figure 3).

Even more striking is how concentrated new business formation was in the recovery period from 2010-2014. Only 20 counties accounted for over half of all new small-business formations. In comparison, during the economic recovery from 1992-1996, 125 counties accounted for half of all small businesses created (Figure 4).

Markets and population growth are certainly major factors in determining where businesses grow, but the location of the workforce that is necessary to grow or open a small business has become increasingly important as well. The 2015 Federal Reserve Small Business Credit Survey identified hiring and/or retaining qualified staff as the No. 1 issue for growing small businesses (Figure 5). It's very challenging to create a successful enterprise if the workforce is not prepared or adequate to meet the demand. Better career training not only helps businesses grow, it can also help to create more small businesses when entrepreneurship is paired with on-the-job training, apprenticeship, and increasing

entrepreneurial and business skills as part of the career pathways pipeline.

Overall outcomes that many workforce development professionals want to achieve will not occur in stand-alone programs. Offering multiple career pathways throughout a worker's career, using a myriad of different opportunities and transferable skills, will achieve greater outcomes. Much opportunity exists for employment opportunities and quality jobs in the skilled trades in America's smaller and/or rural areas and even in our larger cities. Improving incomes and creating jobs by connecting individuals who are skilled in the trades with entrepreneurial skills could take these opportunities to another level, generating the workforce and businesses needed to support a growing U.S. economy.

Andrew Pack is a senior community development specialist at the Memphis Branch of the Federal Reserve Bank of St. Louis.

ENDNOTES

1 https://cew.georgetown.edu/cew-reports/americas-divided-recovery/

2 https://www.dol.gov/apprenticeship/pdf/50m-state-grants-factsheet.pdf

3 http://fortune.com/2017/06/18/donald-trump-apprenticeships-programs-executive-order-millennials-news/

4 http://milmi.org/Portals/137/publications/Employment_Occupations_Skilled_Trades_Michigan.pdf

5 https://www.bls.gov/ooh/

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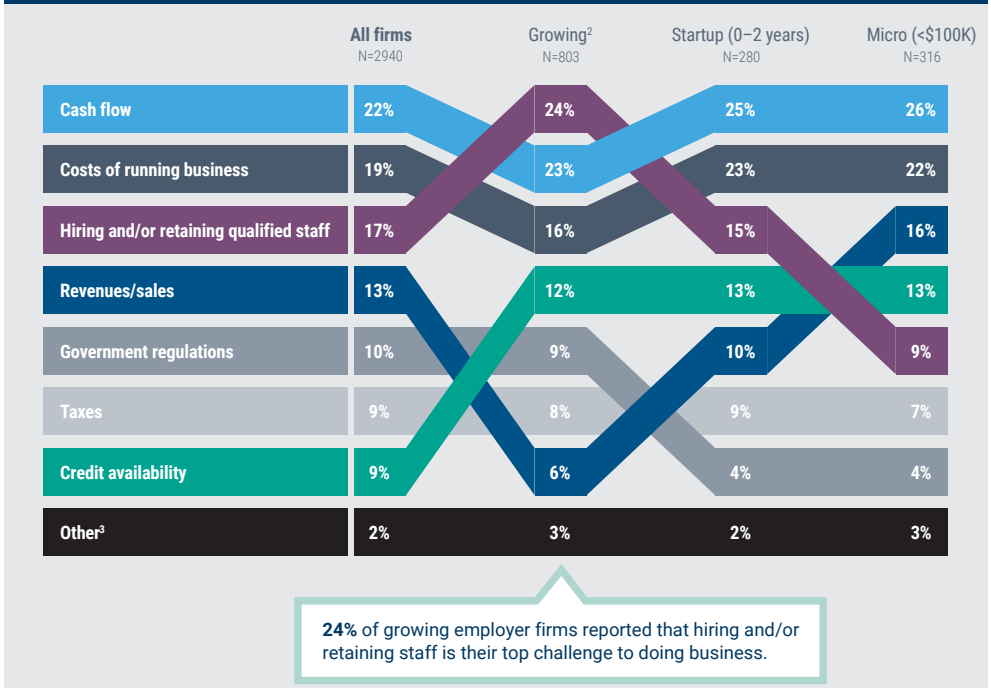
Department of Labor Occupational Outlook Handbook. https://www.bls.gov/ooh/

Economic Innovation Group. http://eig.org/wp-content/uploads/2016/05/recoverygrowthreport.pdf

Federal Reserve Bank of New York. https://www.newyorkfed.org/medialibrary/media/smallbusiness/2015/Report-SBCS-2015.pdf

FIGURE 5

TOP BUSINESS CHALLENGE BY TYPE OF FIRM, 2015[1] (% of employer firms)
In order of importance



1 Approximately Q3 2014 through Q3 2015.
2 Growing firms are defined as those with increased revenues over the past 12 months, increased employees over the past 12 months and plans to increase or maintain number of employees over the next 12 months.
3 "Other" includes costs related to employee benefits, business climate and market competition.

NOTE: Because of rounding, percentages sum to >100%.

SOURCE: 2015 Small Business Credit Survey: Report on Employer Firms, Federal Reserve System. https://www.newyorkfed.org/medialibrary/media/smallbusiness/2015/Report-SBCS-2015.pdf

ONLINE ONLY

Appendix 1 includes information on the number of jobs, job outlook, and median wage for the skilled industrial, construction and service trades.

Read online >>
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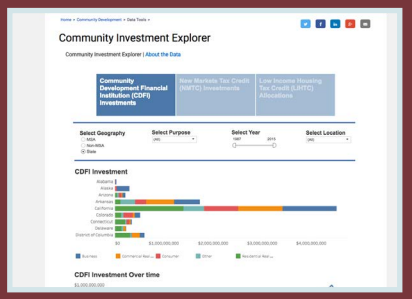
HAVE YOU
Heard?

New Tool Explores Trends in Community Investments for States, Metro and Nonmetro Areas



The St. Louis Fed recently launched the Community Investment Explorer (CIE), an interactive tool that aggregates customizable data from the Community Development Financial Institution (CDFI), New Markets Tax Credit (NMTC) and Low Income Housing Tax Credit (LIHTC) programs to show geographic comparisons and trends over time. The CIE draws on publicly available data from over 460,000 investment transactions. Collectively, these programs are responsible for several billion dollars of investment into low- and moderate-income (LMI) communities each year. The investments support a range of activities, from affordable housing to commercial real estate development, consumer and business lending, and more.

Check out the CIE at www.stlouisfed.org/community-development/data-tools/community-investment-explorer.

When Banks Work Together
Lessons from a CRA Association

By Robyn Heidger

In January 2012, staff from the Federal Deposit Insurance Corp. (FDIC) and the Federal Reserve Bank of St. Louis gathered a few local bankers together to suggest the formation of a professional organization to actively promote efforts to meet the credit needs of the community. The Metropolitan St. Louis Community Reinvestment Association (MSLCRA) was established. After just one year, we had 28 member banks and had sponsored or participated in several community outreach events, provided professional development and networking opportunities to local bankers, and shared presentations from local community-based organizations.

The MSLCRA's purpose is to:

- work to identify the credit needs of the community and actively promote efforts to meet those needs;
- assist small-business owners to maintain and increase their capacity through providing technical assistance and training, which will result in job creation and promotion of economic development; and
- provide and promote professional development for community development professionals in the banking industry.

Any bank or savings bank that has an assessment area in the St. Louis MSA and is subject to the requirements of the Community Reinvestment Act is encouraged to join the association. Member banks pay dues of $500 annually. General body meetings are held quarterly and are open to members only.

"Signature" Events

Poverty Simulations

One of MSLCRA's signature events is the Poverty Simulation, which allows participants to experience what life is like for families faced with poverty as a daily reality. Participants are mixed together to form various "families." They role-play scenarios that are inspired by actual events that take place in the lives of low-income families every day.

Member banks are encouraged to send all employees—including executives—to experience the Poverty Simulation. We also encourage nonprofits, religious organizations and other individuals who work in low- and moderate-income (LMI) communities to participate, continually adding new partners to our list.

The outcomes we hope to achieve are to:

- increase understanding of poverty and create a dialogue for ways to help combat it;
- encourage member banks to take steps to assure their products and services are designed and provided in a manner that takes into consideration the needs of low-income bank customers; and
- create partnerships between banks, nonprofits, community organizations and other individuals who work with the LMI community.

Speed Networking

Similar to the dating version, the MSLCRA Speed Networking event is a great way to meet individuals and become aware of organizations that are working in the community development space. Bank representatives are set up around the room, and organizations are given seven minutes to connect/re-connect with them. Participants have reported that this is a wonderful opportunity to introduce your organization or catch up with existing partners, all in one evening. The event provides a platform to discuss issues ranging from a nonprofit's initiatives to the banking needs of its staff.

Annual Conference

In September 2017, we hosted our third annual professional development conference, which once again kicked off with a community tour led by host guides from Beyond Housing, St. Louis Equity Fund and Rise STL. Our goal was to provide a grand tour of some of the spectacular work being done in our local communities, showcasing the work of these three fine organizations.

Participants from previous conferences found them to be an impactful two days of networking and learning the latest information about the regulatory hot topics for both compliance and community development professionals.

Advice on Starting an Association

- Identify leaders within the banking community and include representatives from all size banks.
- Utilize a local university for legal advice on creating articles of incorporation, bylaws and reporting requirements.
- Identify your community needs and community partners.
- Hold regular meetings with formal minutes.
- Create an annual budget that includes dues, assessments, fees and expenses.
- Build a website.
- Address miscellaneous items: antitrust policy and compliance guide, board member job descriptions, code of conduct, directors and officers (D&O) liability insurance, and ethics policy.

Lessons Learned

- Commitment from and availability of board members is critical.
- Early recruitment of all local institutions helps to insure all voices are heard.
- May be better suited as 501(c)(6) than 501(c)(3).
- Doesn't conflict with individual bank programs/opportunities.
- Banks really can work together!

Benefits to the Community

- One-stop shop—provides the ability to reach the majority of local banks through one organization.
- Develops easier access to financial education opportunities.
- Creates better-informed banking partners.

Benefits to Banks

- Provides affordable local access to professional development.
- Working together to address regional credit needs creates a collaboration that helps everyone.
- Contributes to increased knowledge of local events and CRA opportunities.
- Generates heightened awareness by senior management of CRA issues.

To learn more about the MSLCRA, including membership information, visit http://mslcra.org.

Robyn Heidger is the senior vice president of Strategic Alliances & Inclusion at Enterprise Bank & Trust.

CDAC SPOTLIGHT

Building Support for Affordable Housing in Louisville

By Christie McCravy

Like most urban cities across the country, Louisville, Ky., is experiencing an affordable housing shortage for lower-income residents. Recent studies show that about 60,000 low-income households are cost-burdened, spending more than 30 percent of their income on housing costs and utilities. Additionally, households in some parts of our community are extremely overburdened, meaning their housing cost outlay is more than 50 percent of their income.

The Louisville Metro Affordable Housing Trust Fund (LAHTF) was created by Metro Council as a tool to address this issue. More specifically, its purpose is to provide a mechanism for local government to invest additional local public funds to address the affordable housing shortage. "A place to call home" opens the door to opportunity. The whole community does better when everyone has a decent place to call home. Those are the mantras of the LAHTF.

The fund is designed to be flexible and responsive to evolving community needs through grants and loans for a range of affordable housing-related activities. All projects are underwritten and reviewed by a committee made up of local lenders, housing finance representatives, developers and staff; they are ultimately approved by the board of directors. Eligible activities include new development, acquisition, preservation and rehabilitation of affordable homes and apartments for renters and owners; improvements in energy efficiency for existing housing; homeownership counseling and down payment assistance; and foreclosure prevention. Eligible applicants for LAHTF funds are

>> continued on Page 8

CDAC Member Spotlight

Christie McCravy is the executive director of the Louisville Affordable Housing Trust Fund (LAHTF). She has been involved in every aspect of community and housing development in Louisville, Ky., for almost 20 years. Her experience includes both nonprofit and for-profit development, a focus on rental and homeownership opportunities and a strong background in homeownership counseling, including serving as the director for Housing & Financial Empowerment with the Louisville Urban League.

McCravy is a certified Housing Development Financial Professional through the National Development Council. She is also certified through the NeighborWorks Homeownership and Community Lending Program of Study, National Council of LaRaza Housing Counseling Program Management, and National Association of Home Builders HCCP program. McCravy is the immediate past president of the board of directors of the Metropolitan Housing Coalition, former chair of the African American Heritage Foundation, a member of the board of directors for the LAHTF, a former member of the JPMorgan Chase National Community Advisory Board and a member of the Community Development Advisory Council (CDAC) for the Federal Reserve Bank of St. Louis.

CDAC members are experts in community and economic development and financial education. They complement the information developed through outreach by the Eighth District's Community Development staff and suggest ways that the St. Louis Fed might support local efforts. A list of current members is available at www.stlouisfed.org/community-development/community-development-advisory-council.

Building Support for Affordable Housing in Louisville

>> continued from Page 8

for-profit and not-for-profit developers and qualified housing organizations.

Financial support for the fund has built over time. Capitalized in 2009 with $1 million of administrative funds, the LAHTF spends $100,000 annually for operations and other administrative support. In 2012, a $400,000 revolving loan pool was created from the Kentucky Attorney General's award of $250,000 from the National Mortgage Settlement Funds, a $100,000 match provided by the mayor's office and $50,000 raised by the LAHTF's board. In 2014, the LAHTF was entrusted with $1 million in HOME funds, used to rehab and sell 23 single-family homes, 17 of which were vacant and abandoned.

I was hired as the executive director of LAHTF in March 2016 and given the charge to work with Louisville Metro government to prove that the organization was ready to take on the charge of administering millions of dollars of public funds. Efforts to do so by a group of local advocates, board members and other stakeholders included attending bimonthly Council meetings to provide information about families affected by the housing shortage; setting up guidelines and priorities for spending public funds; and presentations to various Council committees explaining every phase of housing development and the funding needed to make it successful.

In 2016, city officials passed a $2.5 million budget allocation for the LAHTF, the first significant contribution since its inception. For the first time, we had enough revenue to demonstrate what the fund could accomplish.

The results have been impressive. With the budget allocation, the fund assisted in the creation or preservation of 326 affordable homes and apartments in the community. Since its inception, the LAHTF has been able to assist in the creation and preservation of 363 units of housing. Projects have included both rental and homeownership units.

One of the seven projects made possible through this year's funding is a 41-bed permanent supportive living program through the Chestnut Street Family YMCA. One of the only local programs taking men from homelessness to self-sufficiency, the shelter was in danger of losing its ability to access HUD Section 8 funding due to the derelict condition of the building. A $477,000 forgivable loan from the LAHTF will help keep the locally acclaimed project up and running.

An additional $25,000 in supportive housing program grants was established and awarded to four agencies that pay for housing counseling and education, employment training programs, and seed funds for a program that will reimburse landlords for damages incurred by housing the homeless.

But the best was yet to come. Earlier this year, Metro Councilwoman Barbara Sexton-Smith negotiated a $634,000 contribution to the LAHTF from a private developer who had requested tax increment financing (TIF) to build 200-plus luxury apartments in an area close to downtown Louisville. Sexton-Smith offered the donation as a compromise to developing 18 workforce housing units. Instead, the developer is creating fewer workforce housing units and will contribute the funds to the LAHTF prior to lease-up. These funds will be leveraged in other affordable housing projects.

In June, Metro Council passed the Fiscal Year 2017-2018 budget, allocating $9.57 million to the LAHTF. Funding will be used to create a revolving loan fund, an adopt-a-block project designed to address the vacant and abandoned property problem in the urban core, preservation/rehab funding and new unit construction. Funds also will be used to produce an updated needs assessment in collaboration with Louisville Metro.

For more information about the LAHTF, please visit https://louisvilleky.gov/government/housing-community-development/louisville-affordable-housing-trust-fund.

Tips in Transitioning
Intermediate Small to Large Bank

This article is part of a series on CRA best practices from an examiner's perspective. Although this column focuses on CRA best practices for financial institutions, the content may provide insights to community development organizations working with financial institutions to meet credit and community development needs. As a disclaimer, this series is only meant to represent best practices; financial institutions should consider the information presented in context of the requirements or guidance of their primary regulator and the business needs of their financial institution.

By Dustin L. Sanders

Many banks find the transition from intermediate small (ISB) to large bank status to be overwhelming, as staff are sometimes apprehensive about the additional work this might entail. This article is designed to give some best practices for banks experiencing that transition.

The first thing banks should know is that the transition, unlike the one from small to ISB, is not instantaneous upon exceeding the asset threshold. The asset size threshold (as of Dec. 31, two consecutive years) classifies the bank as large, which triggers the requirement of CRA data collection beginning Jan. 1 of the following year. CRA data is collected during that given year but reported in arrears, meaning that a bank transitioning from ISB to large has an extra year before it can be examined as a large bank under CRA procedures. For example, if a bank exceeds the large bank asset threshold as of Dec. 31, 2015, and Dec. 31, 2016, it is defined as a large bank beginning Jan. 1, 2017, and must collect 2017 CRA data beginning on that date. That data is reported on March 1, 2018. Once reported, the bank can be examined as a large bank under the CRA.

When transitioning to this level, processes and systems should not be developed overnight. Using the example above, as the bank anticipates crossing the asset threshold at the end of 2016, the bank's senior management and CRA staff should understand the requirements of large banks well ahead of time and develop a timeline for implementing, testing and training staff on data collection software and its compatibility with current platforms. This should be done early enough to have this process in place and tested prior to the first day a bank is required to collect CRA data—Jan. 1, 2017, in the example above. Some entities offer training for this transition; the Federal Financial Institutions Examination Council (FFIEC) has step-by-step guidance on its website (https://www.ffiec.gov), and outside consultants also offer this service for varying fees.

> Preparation is the key to achieving your CRA performance goals when transitioning from ISB to large bank examinations.

Finally, the bank should be aware of examination expectations and their effect on the bank's administrative functions. Large bank footprints often span numerous geographies with several assessment areas across one or more states. While manual collection of community development (CD) activities may have sufficed before, most large banks find this inefficient. As banks are developing or testing software for CRA data collection, they should look for more streamlined, electronic ways to track CD activities across the institution. These methods should be integrated into existing platforms where possible to reduce problems. As a general rule, front-line loan officers or loan administration personnel are the best real-time staff to point out potential CD loans because they enter the information into the loan platform and have direct communication with borrowers. Those employees should be flagging loans in the loan system as they are booked, and CRA staff should be running periodic reports to check those loans for appropriate documentation. This requires lending and CRA staff to have a strong understanding of what qualifies as CD. CD investments, donations and services should be tracked in a similar way. The CRA Questions and Answers is the primary resource to assist financial institutions in identifying CD activities (https://www.ffiec.gov/cra/qnadoc.htm). Additional guides for identifying CD activities for large banks can often be obtained through the bank's primary regulator.

In conclusion, preparation (including advance training and development of processes) is the key to achieving your CRA performance goals when transitioning from ISB to large bank examinations.

Dustin L. Sanders is an examiner at the Federal Reserve Bank of St. Louis.

The Financial Diaries Authors Discuss Income Volatility

By Jeanne C. Marra

In a word association game, the term "income volatility" would likely spur thoughts of two experts—Jonathan Morduch and Rachel Schneider. Morduch, a professor of public policy and economics at New York University, and Schneider, a senior vice president with the Center for Financial Services Innovation (CFSI), are authors of *The Financial Diaries: How American Families Cope in a World of Uncertainty*. Through data around cash flows and personal stories of study participants, the book shares insights from the lives of 235 low- and middle-income families as they navigate through a year of financial transactions, and challenges popular assumptions about how Americans earn, spend, borrow and save.

The authors brought the issue of income volatility and its framework from the U.S. Financial Diaries (USFD) research study to a recent event in St. Louis, co-sponsored by the Federal Reserve Bank of St. Louis and Washington University in St. Louis.

The Great Job Shift

Schneider attributes a portion of income volatility to shifts in the labor market, or "the great job shift." Broader than simply a drop in manufacturing, she describes a decline in middle-skill jobs, coupled with an increasing amount of variability and volatility in work schedules, resulting in income spikes and dips. With more than half (58.7 percent) of wage and salary workers in the U.S. paid hourly in 2016, according to the Bureau of Labor Statistics, this volatility is especially pronounced for low-income workers and those in jobs most affected by just-in-time scheduling.

In about half of the months during the study, pay was 25 percent more or less than the average month, and the average spike and dip was actually 50 percent, which turns on its head the idea that budgeting is what really matters, especially when budgets are typically based on fixed incomes. Layering spending that was just as volatile as earning was very surprising.

While flexibility in the workplace can have benefits for both workers and firms, the real concern is around the locus of control; in lower-wage jobs, unlike those of higher-wage counterparts, a variation in schedule is often the choice of the employer and not the employee, who is least equipped to deal with this variability.

"Sometimes Poor"

The authors—anchored on a core financial model of a lifecycle arc that frames thinking around how to guide savings and inform tax subsidies and investment strategies—challenge the conventional model of poverty that is based on an annual income line. They assert that, in addition to looking at income and assets, a third element—cash flow—is an important addition and provides what Schneider calls "a new lens for understanding poverty."

Case in point: Jeremy and Becky, a couple featured in *The Financial Diaries*, are not poor according to standard poverty measures. Yet for six months of the year, when Jeremy's commission-based income wavered, their income dipped below the local poverty line; thus, they were what Schneider and Morduch refer to as "sometimes poor," a condition they say is increasingly common. In fact, almost a third (32 percent) of households whose annual incomes are two times higher than the supplemental poverty measure spent at least one month below it during the year. This instability, coupled with the lack of liquidity or coping method, constitutes a major challenge to low-income families.

Now, Soon and Later

Families in the USFD study employed strategies for managing their financial lives amidst this volatility, processes the authors referred to as coping and smoothing. Less about having a certain amount of money, "It's about having the right money at the right time," Morduch says.

The authors noted three different phases of expenses that families save for: those incurring now, soon and later. It's in the middle phase—soon, such as holiday shopping, returning to school or fixing a roof—where families often face the hardest choices. Some resort to self-imposed barriers to maintain control (e.g., purposely forgetting account numbers or cutting up bank cards). Another popular strategy is to employ "bank of far away," which aims to increase savings by intentionally making it less convenient to withdraw money from a particular account (e.g., opening multiple accounts at banks far from home, opting to forgo access tools outside of visiting in person). Morduch attributes the success of strategies like these to having the "optimal level of inconvenience."

While financial coaching can be an effective strategy, researchers could provide better guidance about what people really need to hold in reserve. There is an opportunity cost to saving—it is money that's not used to pay down debt, not being invested in education, not being used to replace a car that could be breaking down.

Even broadly promoted wealth-building strategies, such as automated savings, should be evaluated in this context. Many people feel like they are paying another bill, even if they are paying themselves. Morduch agrees that such decisions should be made case by case. "It's a good way to save if you already have a buffer, but it doesn't work for everyone. Behavioral economics is often about locking up your money so you can't touch it. But what we saw, because of the instability, is that this often backfires; [people are] looking for ways to have structure but also flexibility."

A Hidden Inequality

While income volatility affects approximately 30 percent of white households, it affects 40 percent of black households and 41 percent of Hispanics, according to the Federal Reserve's Survey of Household Economics and Decisionmaking report. But there's another facet of inequality that Schneider also describes through the example of Sarah, profiled in the *Financial Diaries*, who pursued additional education to get a better-paying job. Like many, Sarah had to make a choice—take a risk—to earn less in the short term and take on additional debt in order to seek mobility. The math one has to do to decide about whether this risk is worth it is really complicated.

"If you want people to take the risks of striving for mobility, then you need to help them solve for stability now," Schneider said. "We want to think that mobility is a right of all Americans, but the reality is that the ability to take this risk is not equally distributed in our society."

Social service organizations are helping individuals like Sarah take this risk, stepping in to provide a safety net of support services, such as affordable child care and emergency payments to help mitigate common risks and overcome barriers for those seeking transitional steps like educational opportunities. Social networks are also very important.

Schneider is "very optimistic about what technology can do," citing innovations such as Homebase (a mobile app that gives employees more control over their schedules) and Even (a bank app that helps balance variable paychecks), adding that we are on the verge of an increased use of data, improved analytics and expanded use of artificial intelligence to better assess people's well-being.

Schneider credits co-sponsors Ray Boshara, senior adviser and director of the St. Louis Fed's Center for Household Financial Stability, and Michael Sherraden, director of the Center for Social Development at Washington University in St. Louis, with being pivotal in influencing her career. "The idea that wealth would matter as much as income completely changed my way of thinking about the world," Schneider said, adding that she and Morduch wanted to build on work that was already known. Morduch added that St. Louis "is the place in which some of the hardest, most important thinking about the financial lives of poor households and assets has taken place."

Jeanne C. Marra is a senior community development specialist at the Federal Reserve Bank of St. Louis.

Financial Diaries authors Jonathan Morduch and Rachel Schneider discuss income volatility at an event co-sponsored by the St. Louis Fed and Washington University in St. Louis.

Resources ...

Digital Divide Index (DDI)

Nationally, about 31 million people—nearly 10 percent of the U.S. population—have no access to broadband, as defined by the Federal Communications Commission, leaving them at risk of falling behind in the modern information economy. Purdue University's Center for Regional Development says that the digital divide—the gap between high-speed internet haves and have-nots—is the No. 1 threat to community economic development in the 21st century. This new index, created by Purdue researchers, assigns scores from 0 to 100 to counties and census tracts across the nation, with 100 indicating the highest digital divide. See the complete rankings at https://www.pcrd.purdue.edu/signature-programs/digital-divide-index.php.

Small City Economic Dynamism Index

What factors influence economic growth and development in small and midsized cities? This updated interactive tool and data set from the Atlanta Fed allows users to explore this question. The latest version of the index comprises 13 indicators across four categories (demographics, economics, human and social capital, and infrastructure) and includes data on 400 metro- and micropolitan areas with populations between 50,000 and 500,000. The index enables policymakers and practitioners to examine local trends and compare cities across several measures of economic dynamism. Access the index at www.frbatlanta.org/community-development/data-and-tools/small-city-economic-dynamism.aspx.

Understanding Banking from the Ground Up

A commentary by Ray Boshara

Weak U.S. family balance sheets have driven more Americans to the "fringe" of the American banking system. But is this necessarily a bad thing?

The Federal Reserve's Board of Governors recently released a shocking report showing that, if confronted with an unanticipated $400 expense, nearly half (44 percent) of Americans would have to sell something, borrow or simply not pay at all.[1]

Other surveys have been equally concerning:

- A survey from the Center for Financial Services Innovation (CFSI) showed that 57 percent of Americans lack financial health, including having high levels of debt, irregular incomes and insufficient savings.[2]
- And the Pew Charitable Trusts found that 70 percent of Americans are income constrained, debt challenged and/or savings limited.[3]

This balance sheet fragility, especially illiquidity, is fueling the demand among Americans—and clearly, as the above data suggest, among middle-class Americans—for "alternative" financial services, including those from payday lenders, auto title lenders, check cashers and the like.

But should we be too critical of their financial choices? Is patronizing an alternative provider necessarily a poor or irrational choice? And do we ban payday lenders and the like because of annual percentage rates that are often in excess of 300 percent?

A Conversation with Lisa Servon on Unbanking

I wrestled with these questions following a recent St. Louis Fed event titled "The Banking and Unbanking of America"—featuring Lisa Servon, author of *The Unbanking of America: How the New Middle Class Survives*—and I think the answer to these questions is no.

Servon wondered: If these services are so bad, why have check-cashing transactions grown 30 percent between 1990 and 2010 while payday lending transactions tripled between 2000 and 2010?

According to Servon, it turns out that banks (with a growing number of encouraging exceptions) haven't been serving these customers well, including charging more and higher fees for account opening, maintenance and overdrafts. Meanwhile, struggling consumers are turning to alternative providers (as well as to community development credit unions) because they value:

- Greater transparency (with actual costs clearly displayed like signs in a fast-food restaurant)
- Better service (including convenient hours, locations and friendly, multilingual staff)

What I really liked is that Servon—an East Coast, Ivy League academic—didn't just arrive at these conclusions by only reading reports and talking to experts. She actually became a teller at both a payday lender in Oakland, Calif., and a check casher in the South Bronx, N.Y.

Mapping Financial Choices

I also like that several of my Community Development colleagues here at the St. Louis Fed have embraced this community-driven understanding of financial decision-making as well through a "system dynamics" research study, which maps the actual factors that influence the financial choices consumers make.

Like Servon's work, the forthcoming version of this study will focus less on the narrow "banked/unbanked" framework and more on the broader, CFSI-inspired idea of "financial health."

Other Areas to Address

Beyond adopting the financial health framework, Servon also suggests rethinking the government/banking relationship and supporting smart regulation so financial innovation or risk taking can thrive with some protections.

Most importantly, in my view, she recommends addressing the macro problems—for example, flat or declining real wages, less full-time and stable employment, and weaker unions—that underlie the demand for the immediate cash that alternative providers offer so well, albeit not so cheaply.

But it's also true that weak balance sheets—the micro—contribute to the macro problem: Strapped consumers just don't spend as much. So, we really must address both.

NOTES AND REFERENCES

1 "Report on the Economic Well-Being of U.S. Households in 2016." Board of Governors of the Federal Reserve System, May 19, 2017.

2 Gutman, Aliza; Garon, Thea; Hogarth, Jeanne; and Schneider, Rachel. "Understanding and Improving Consumer Financial Health in America." Center for Financial Services Innovation, March 24, 2015.

3 "The Precarious State of Family Balance Sheets." The Pew Charitable Trusts, January 2015.

Reprinted from the *On the Economy* Blog (2017, July 25). Understanding Banking from the Ground Up [Blog post]. Retrieved from www.stlouisfed.org/on-the-economy/2017/july/understanding-banking-ground-up.]

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SPANNING the Region

The region served by the Federal Reserve Bank of St. Louis encompasses all of Arkansas and parts of Illinois, Indiana, Kentucky, Mississippi, Missouri and Tennessee.

Taxpayer Assistance Program in Kentucky

The Housing Partnership Inc. (HPI) has a taxpayer assistance program available to help homeowners with property tax bills in Jefferson County, Ky. Eligible homeowners will have their property taxes paid and will no longer be considered delinquent with Louisville Metro Government. Homeowners will be provided with one-on-one counseling sessions to review the homeowner's budget and to determine eligibility and repayment terms.

Some requirements include:

- Homeowner must demonstrate a need for assistance.
- Past-due taxes must not exceed $2,500 for the property.
- Property must be owner-occupied (no investment properties).
- Total liens on the property cannot exceed $200,000.
- There is a maximum of two liens per owner-occupied property.
- Homeowner must provide a completed application and all required supporting documents.
- Homeowner's liquid assets cannot exceed $5,000.

For more information, call HPI at 502-585-5451.

Memphis Selected to Replicate Financial Empowerment Center Model

The Cities for Financial Empowerment Fund (CFE Fund) has announced plans to dramatically scale the Financial Empowerment Center (FEC) model through their new FEC Public platform—launched with $7.75 million from Bloomberg Philanthropies—bringing this proven model of free financial counseling to up to 50 local governments across the country. They recently announced that Memphis, Tenn., is among the first cohort of 12 local government partners selected to replicate the FEC model for their low-income residents. The FEC model helps individuals manage their money, pay down debt and increase their savings, build their credit and open bank accounts, helping them become more financially stable.

For more information, contact Tamara Lindsay at TLindsay@cfefund.org.