What Is a Community Land Trust?

By Linda Fischer
Assistant Editor

For more than 30 years, the Institute for Community Economics has touted community land trusts as a way to stabilize neighborhoods and provide affordable homes to low- and moderate-income residents. The concept has taken hold in coastal states like Massachusetts and Washington, where real estate costs have been escalating for years, but it is not as well-known in the Middle West or the Mid South, where, until recently, prices have remained fairly reasonable.

The institute describes a community land trust as a private, nonprofit organization that buys land and holds it in trust for the benefit of a community. Typically, the community land trust sells the houses that are on the land or builds new residences on it. The organization retains ownership of the land while providing a 99-year renewable land lease for a nominal fee to the homeowner. By subtracting the cost of the land from a home purchase, the community land trust makes homeownership a possibility for low-income buyers.

The homeowner can make improvements to the land, such as fences and gardens, and pass on the house to heirs. The one thing the homeowner cannot do is realize a windfall profit if he decides to sell the house.

To ensure that the housing remains affordable for future generations, there is a cap on the profit a homeowner can make. Resale formulas vary, but most trusts use appraisal-based formulas that set the maximum price as the total of what the house cost the homeowner plus a percentage of the increase in market value.

Community land trust developments come in a variety of shapes and sizes. They have been used in urban neighborhoods and in rural settings. Although most are established to create affordable housing, some support local businesses or parks or even community gardens.

In Bloomington, Ind., Housing Solutions Inc. has an ongoing mission to develop community land trust neighborhoods. It started its first project, a 29-lot subdivision called Autumnview, in 1993 in partnership with the city and county governments. The city used grant funds to construct roads, sidewalks, and water and sewer lines on undeveloped land that had been donated to the county. Housing Solutions, a local nonprofit organization, was selected to be the steward of the land. Energy-efficient, affordable, custom homes were built and sold. As each home was sold, the city deeded the lot to Housing Solutions. Today, Housing Solutions is working on two more subdivisions, which will feature 77 houses in mixed-income areas.

For a wealth of information on community land trusts, visit the Institute for Community Economics web site at www.iceclt.org and the Housing Solutions web site at www.housingsolutionsinc.net.
A Commentary

Community Land Trust: It’s Time to Back a Proven Winner

By Jeff Stone
Executive Director
Housing Solutions Inc.

Is the glass half-empty or half-full? It’s the classic question that pits optimism against pessimism. As a community land trust developer of affordable housing, I see it as the quintessential metaphor for capitalism. Pour the contents into a smaller glass, and it is a full glass of water. Pour it into an even smaller glass, and your cup runneth over. Pour the same volume of water into a larger vessel, and it is a drop in the bucket. To someone who thirsts, these comparatives are a moot point. It’s a glass of water, plain and simple.

Housing Solutions Inc., in Bloomington, Ind., is the only community land trust developer of affordable housing in the state. Our first home was completed almost 10 years ago. Our 50th will be completed this year.

With unequivocal success as purveyors of truly affordable, custom-built homes, why are we still the only game in Indiana? There are approximately 100 community land trusts nationwide. The concept is a proven winner and dates back to previous centuries. With a charge from the Department of Housing and Urban Development to boost home ownership opportunities for low- and moderate-income families, why are communities slow to take the lead?

A home buyer who takes this opportunity is also providing opportunity for future home buyers. Buying a land trust home is building and buying with a sense of social conscience. The nonprofit developer, together with the home buyer, is building something that is affordable to buy, affordable to own and that will be sold affordably one day to someone who needs a good home at a great price.

As each land trust home and neighborhood is built, an increasing stock of permanently affordable homes is created.

The classic American dream of home ownership has evolved through the years. In its original form, it was having a piece of land, a place to call your own, free and clear...no one tellin’ ya what to do.

The evolving American dream of home ownership represents a free-market mentality. In this dream, home ownership is a way to make gobs of money. Buy low. Sell high. Get the most you can as quickly as possible. For these folks, the land trust glass is half-empty.

For a society where more is better, community land trusts are a niche market. For home buyers who embrace the concept, they are allowed into the game of home ownership through an unconventional theory that is imperceptible in its differences, except for the substantial savings. And they are no longer thirsty.

The acceptance of community land trusts as a viable, marketable alternative requires more than understanding from the consumer. Land trusts only work with governmental cooperation and strong partnerships with local lending institutions. Local governments must support the concept by assisting nonprofits with grant funds or by purchasing or developing areas dedicated for land-trust neighborhoods. And banks have to move off center. Conventional thinking alone is not thinking at all. It’s safe. It’s easy. But it is not innovative. And innovative thinking is not necessarily risky business.

Fannie Mae urges its lenders to purchase its land trust mortgage product because it means positive growth. And that’s good business. Fannie Mae is taking the risk out of conservative underwriting criteria by backing this less conventional purchase model. And how risky is it, anyway? A “normal” mortgage covers the lot and house value. In case of default, the value is, presumably, in the entire package. The loan is collateralized by the house and land. In the land trust model, only the improvement—the home—is financed. There is a lesser value and, therefore, a lesser loan. The collateral is realized. The value of the lot is removed and owned by the nonprofit. It is outside of the mortgage structure. Different? Not really—just smaller.

There are a number of challenges with niche markets. There is NIMBY-ism...the “not in my backyard” cry of adjacent property owners. There is the basic fear of purchasing something that is so different. However, lending...
institutions that hide behind conventionality as conservatism exacerbate these inherent challenges in the marketplace. There is nothing more or less conservative in a home mortgage for traditional home purchasing than there is in a home mortgage for a land trust home. The collateral model is served in both cases.

What happens if the nonprofit goes out of business? On the one hand, the answer is in protections written into the nonprofit's bylaws. Provisions are in place to ensure that the management and ownership, and therefore the survival of the concept, are passed along either to another nonprofit or, temporarily, to local government. On the other hand, a more flippant response is: What's the difference? The loan is not on the land. The mortgage is on the value of the improvement and is a contract with the home owner. The stewardship of the land is separate and does not enter into foreclosure concerns. The bank's interest is in the improvements only. Foreclosure (a word we all hate to say) would be with the consumer, as with any traditional purchase.

To entice lenders to the table, there is the further incentive of the Community Reinvestment Act (CRA). For doing the morally commendable act of lending to lesser economic demographics, lending institutions receive credit.

Do the right thing out of a moral obligation to help your community, and you get more than an inner glow. It's the proverbial win-win situation.

Some small local banks have chosen to place in-house loans for land-trust mortgages in portfolios. It's a way to take small steps, minimizing risk. Some banks will limit these loans to a case-by-case basis. Others will commit to a spate of five or 10 loans. Some will forgive PMI or provide a percentage break. The scenarios are endless.

One of the most significant aspects of partnering with a local nonprofit community land trust is the economic development that it represents. Each home built, bought and sold represents local laborers put to work, local materials purchased, mortgage and insurance products written and sold, an increase in the local tax base, neighborhoods upgraded, real estate values appreciating and lives stabilized. This needed but under-attended market niche is an economic engine itself.

Thin profit margins are unattractive to for-profit developers; therefore, larger and more expensive homes drive market conditions and leave little choice for the working poor. In the hands of nonprofits, land trusts are a vital alternative for viable and eligible home buyers disenfranchised by an inflated, profit-driven housing market.

Housing Solutions has been breaking the mold for what affordable housing looks like and feels like. By custom building each home, people with a little less are treated with dignity. Full rights and opportunities are available, and the process is as exciting as building your own dream home should be. The old model provided static plans. Buy this or don't.

By providing a real voice, grateful home buyers are vested in the process and even prouder of the choices they have made. By choosing a land trust home, there is the added pride of putting something into place for the future of the community and future generations. For everyone who has a hand in this—providing a glass of water to those who thirst—our cup runneth over.

It has been well-established and documented that home ownership provides a stable environment for families. School-aged children who come from owner-occupied households have a better chance at success. And parents, given the opportunity to better themselves through home ownership, are relieved of some economic uncertainties by controlling more of their finances and their future. The benefits of equity have been well-known and accessible to the well-off, but have been largely kept from folks of more modest means.

Housing Solutions Inc. of Bloomington, Ind., builds houses in a variety of sizes and styles. They currently range in price from $70,000 to $119,000.
By Linda Fischer
Assistant Editor

Since the Community Reinvestment Act (CRA) was written into law in 1977, scores of bankers have brought their institutions into compliance with the regulation and scores of experts have studied the resulting impact, particularly on lending patterns. Some praise the CRA as an effective tool for increasing the amount of credit available to low- and moderate-income people. Others criticize it as an unnecessary regulation.

Less attention has been paid to the CRA’s impact on communities and to whether CRA agreements actually bring about change in banks’ behavior. Two papers that tackle those topics are summarized here. They were presented this past spring at the Federal Reserve System’s 2003 Community Affairs academic research conference in Washington, D.C., and can be found in their entirety at www.chicagofed.org. (Click on “Consumer and Economic Development Research Information Center.”)

“The Effects of the Community Reinvestment Act on Local Communities”

The CRA requires federal regulatory agencies to encourage banking institutions to help meet the credit needs of the entire community in which they are chartered to do business. To accomplish this, the agencies review banks’ records and take their CRA performance into account when considering their applications for a charter, merger or acquisition.

Whether the CRA has significant, little or no impact on communities is unclear, according to a study by researchers at the Board of Governors of the Federal Reserve System.

“Results are mixed and could potentially provide support for very different views of the effects of the CRA,” they said.

“One view is that the CRA does matter and contributes to favorable outcomes for lower-income neighborhoods.”

The outcome of the study on the socio-economic effects of the CRA on local communities was no surprise. This type of research has been scarce precisely because it is difficult to assess what would have taken place had the law not been enacted, the researchers said.

“The CRA does not exist in a vacuum; many changes have taken place over the years that affect the same markets as those targeted by the CRA,” they said. Examples are changing regulatory or economic environments.

With that in mind, the researchers developed a framework and tested for changes that may have occurred between 1990 and 2000 in census tracts most likely to show marginal effects: those just below and those just above the income threshold for CRA designation. They examined whether differences between the two were related to CRA mortgage-lending activity.

Supporting the conclusion that the CRA has a positive effect, the analysis found that in CRA-designated census tracts, there were lower vacancy rates, higher homeownership rates and higher growth in owner-occupied units than would have been predicted when compared with changes in the census tracts that were not CRA-eligible. The results, which were statistically significant, appeared to be related to CRA activity. Banks that had outstanding CRA ratings had a higher market share of mortgage lending in the CRA-eligible tracts than in the tracts just above the eligibility threshold.

On the other hand, results for the effect of CRA on crime and median home values showed that lower-income neighborhoods fared worse than would have been predicted. In addition, even though homeownership rates and the growth of owner-occupied units were favorable, the results were not robust. Finally, banks with satisfactory CRA ratings had a lower market share of mortgage lending in CRA-eligible tracts.

The authors point out that one explanation for a lack of definitive results could be limitations in the designs of the tests. Because CRA has historically targeted lower-income census tracts, the tests focused on these neighborhoods. “However, it may be the case, that in practice, compliance with the law focuses more on lower-income borrowers or groupings of neighborhoods that can cut across census tracts both above and below the CRA-eligibility threshold. This may occur because an individual census tract is simply too small to effectively target. If so, then our tests might fail to detect the real impact of the law.”

The authors of “The Effects of the Community Reinvestment Act on Local Communities” are Robert B. Avery, Paul S. Calem and Glenn B. Canner.
“What Makes CRA Agreements Work? A Study of Lender Responses to CRA Agreements”

Another study suggests that CRA agreements do, in fact, bring about change in banks’ lending behavior. The preliminary results indicate that when lenders enter into a CRA agreement, they increase their targeted lending in a community. Mortgage counseling appears to be particularly important in spurring increased lending, while the existence of review committees seems to depress lending somewhat.

The study, conducted by a professor at the University of Southern California and a professor at the University of Delaware, focused on 51 CRA agreements made between 1993 and 2001. Such agreements are growing in popularity with banks that are eager to improve their CRA ratings. In the last 20 years, more than 300 CRA agreements have been forged between banks and community groups or government entities. Typically, a bank promises to engage in a specified volume of lending to targeted groups or communities, such as lower-income and minority individuals.

The researchers faced a number of challenges when collecting data for the study. “Identifying and tracking lending institutions...was complicated by the fact that the banking industry underwent considerable consolidation during the 1990s,” the study says.

“Many of the lenders that entered into the CRA agreements in our data were subsequently purchased by or merged into other institutions and no longer exist.”

Even if the researchers could track the original bank through mergers, they could not directly compare loans made toward the end of the study period with the earlier years because the later years included activity by the larger institution.

To compensate for these circumstances, the researchers constructed hypothetical institutions, including the original lender who entered into the CRA agreement and all independent institutions the lender was affiliated with through consolidation between 1993 and 2001.

The data indicated that, during the years the agreement was active, most lenders increased their lending by 65 percent, when measured by number of loans, and 94 percent, when measured by dollar volume. However, the study also showed significant differences among lenders. Some had dramatic increases in lending—more than 25 percent had a two-fold increase in their lending (increases of more than 100 percent). But between 35 percent and 45 percent of the lenders reduced their lending.

A more detailed statistical analysis confirmed the finding that lenders generally increased their targeted lending upon entering a CRA agreement. In addition, the increase in lending occurred gradually over time, with the largest increases being observed in the second and third years after the initiation of an agreement. Beyond this point, there was a great deal of variation in lender experiences, and the authors were unable to conclude that there was a uniform increase in lending.

The most effective agreements included mortgage counseling or other technical assistance for individuals, which would indicate that collaboration between the banks and community organizations is important. However, the study found that when community groups established review committees to oversee the lender’s activities, possibly an adversarial move, the level of lending was adversely affected.

Future work will focus on whether lenders satisfied the pledges outlined in the agreements.

The authors are Raphael W. Bostic, associate professor at the University of Southern California, and Breck L. Robinson, assistant professor at the University of Delaware. A portion of this research was conducted while Bostic was an employee of the Board of Governors of the Federal Reserve System.

### Characteristics of CRA Agreements in the Sample

(The authors examined 51 agreements, each lasting approximately five years. All figures, except dollar amounts, represent a percentage of the agreements.)

| Average total pledge amount (cumulative) | $2.3 million |
| Average mortgage pledge amount (cumulative) | $1.1 million |

**TYPE OF AGREEMENT**

| Formal contract | 82.4 |
| Voluntary lender pledge | 17.6 |

**MONETARY PLEDGES**

| Other mortgage-related | 37.3 |
| Small business-related | 68.6 |
| Minority-, women-owned businesses | 23.5 |
| Community development | 66.7 |
| Other | 49.0 |

**SERVICE-RELATED PLEDGES**

| Mortgage technical assistance and counseling | 45.1 |
| Small business technical assistance | 17.6 |
| Branch-related | 39.2 |

**OTHER COMMITMENTS**

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ON THE INTERNET AT WWW.STLOUISFED.ORG
IDA Investors Get Tax Breaks in Missouri, Indiana, Arkansas

Tax credits are available to investors in individual development accounts (IDAs) in three states in the Eighth Federal Reserve District. Missouri, Indiana and Arkansas all have state-lagged programs that offer the tax credits for contributions to IDAs.

Other states in the Fed's Eighth District that have some form of IDA programs are Illinois, Tennessee and Mississippi.

Federal legislation under consideration, the Savings for Working Families Act of 2003, includes a proposal for a federal IDA tax credit for financial institutions that invest in the programs.

IDAs are savings accounts that help lower-income people build assets by providing matching funds from public and private sources.

For information on IDA programs and policies by state, visit www.idanetwork.org/.

St. Louis Temp Agency Trains Bilingual Bank Employees

Three St. Louis groups have teamed up to provide qualified bilingual employees for banks.

TelTemps, along with the St. Louis Agency on Training and Employment (SLATE) Career Center and the International Institute of St. Louis, have formed the Bi-Lingual Bank Training & Employment Project. The collaboration is working to address the needs of banks that have a growing customer base of immigrants from Latin America, Bosnia, Vietnam and other countries.

TelTemps will prescreen and train bilingual and multilingual employees.

For more information, contact Casandra Brown at TelTemps Inc. at (314) 367-1400 or 1-877-835-8367 (toll free).

Indiana Counties Eligible for Housing Assessments

The Southern Indiana Rural Development Project's (SIRDP) Housing Task Force has started a new housing needs assessment program for eligible counties.

With this program, the task force can help counties determine neighborhood needs, the types of housing that are lacking, key housing and economic trends, and available, affordable housing resources.

The assessments will be funded by grants from the Indiana Housing Finance Authority (IHFA). Participating counties must provide a 10 percent funding match, which can be made through in-kind services. Strategic Development Group Inc. (SDG) staff will handle the technical work, including demographic research and market studies.

Indiana counties eligible for IHFA housing grants are: Crawford, Daviess, Dearborn, Decatur, Dubois, Fayette, Floyd, Franklin, Gibson, Greene, Harrison, Jackson, Lawrence, Martin, Monroe, Ohio, Orange, Owen, Perry, Pike, Posey, Ripley, Scott, Spencer, Switzerland, Union, Vanderburgh and Vigo.

For more information on the program and the next funding round, call Scott Burgins or Ron Walker at SDG at 1-800-939-2449.

Arkansas Legislators Pass Law to Combat Predatory Lending

The Arkansas General Assembly passed in April its first legislation aimed at predatory lenders.

The Arkansas Home Loan Protection Act (Act 1340) prohibits predatory lending in the home mortgage market. The law will become effective in mid-July. The Fair Mortgage Lending Act (Act 554), which establishes licensing standards for mortgage brokers, will take effect Jan. 1, 2004. Legislators are hoping that the two laws will work together to eliminate predatory lending in Arkansas.

For the full text of these acts, log on to www.arkleg.state.ar.us and type the act number into the space provided.

FreshRate Provides Aid on Mortgage Down Payments

Coming up with a down payment for a house can be a daunting task. FreshRate, a new program from Kentucky League of Cities (KLC) Financial Services, helps potential home buyers overcome this obstacle.

With FreshRate, qualified home buyers can receive up to 5 percent of the purchase price of their home through a forgivable government grant. FreshRate is supported by KLC bonds with assistance from the Fannie Mae Kentucky Partnership Office.

For more information on FreshRate, contact Anthony Wright at KLC at 1-800-876-4552, ext. 3781, or at awright@klc.org.
Solutions for America—The Pew Partnership’s web site showcases best practices in community development in 16 states. The partnership’s research presents information that other communities can use when developing and operating similar programs. Visit www.pew-partnership.org.

Building Creative Economies: The Arts, Entrepreneurship and Economic Development—Produced by Americans for the Arts, the document shares the stories of rural communities that revitalized their economies through the arts, crafts and heritage of their regions. The document, available at www.arc.gov/entrepreneurship, is a summary of the proceedings of a conference held April 28-30, 2002, in Asheville, N.C.

2002 State of the Business Incubation Industry—The National Business Incubation Association reports that 950 business incubators were operating in North America in 2001, up from 587 in 1998. Nearly half were mixed-use incubators that accepted a variety of clients. Academic institutions were the most common sponsor of incubation programs. To obtain the report, call (740) 593-4331 or visit the association’s online bookstore at www.nbia.org/bookstore.

Where We Stand—The East-West Gateway Coordinating Council in St. Louis revises its signature publication on the state of the St. Louis metropolitan area every three years. Where We Stand compares the social, fiscal, economic and physical health of the St. Louis region with 34 similar regions in the United States. The most recent publication was released last fall and uses information from the 2000 census. For a complimentary copy or to have a speaker come to a meeting, call (314) 421-4220 or (618) 274-2750 or go to www.ewgateway.org.

Directory of Rural Community Developers—This directory identifies more than 1,000 rural, community-based development organizations across the country and summarizes their activities in four areas: affordable housing, essential facilities, businesses and jobs, and basic services. The directory is available at www.ruralamerica.org.

FIELD Best Practices Guide—The Microenterprise Fund for Innovation, Effectiveness, Learning and Dissemination (FIELD), a program of the Aspen Institute, has produced a series of guides offering microenterprise trainers and service providers information they need to identify and train clients. The guides can be found at www.fieldus.org/publications/index.html.

State Asset Development Report Card: Benchmarking Asset Development in Fighting Poverty—The report card uses 68 socioeconomic and policy measures to compare states on how assets are accumulated, distributed and protected among their citizens, particularly those not in the economic mainstream. The report, a product of the Corporation for Enterprise Development, has up-to-date data on asset distribution and policy for each of the 50 states. Visit www.cfed.org.

BRIDGES

Bridges is a publication of the Community Affairs department 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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Free subscriptions and additional copies are available on request by calling (314) 444-8761 or by e-mail to communityaffairs@stls.frb.org.
Treasury Awards New Markets Tax Credits

Sixty-six organizations recently were awarded $2.5 billion in tax credit allocations to help low-income neighborhoods. The organizations are the first to receive allocations from the Department of the Treasury under the New Markets Tax Credit (NMTC) program. The tax credits are designed to stimulate economic opportunity and job creation in low-income communities.

Organizations either located in or planning investments in the St. Louis Federal Reserve Bank’s Eighth District are:

**The Illinois Facilities Fund**
Headquarters: Chicago
Allocation: $10 million
Contact: Trinita Logue (312) 629-0060
tlogue@iffund.org

All of the fund’s activities will be concentrated within the state of Illinois.

**Urban Development Fund LLC**
A subsidiary of Aries Capital
Headquarters: Chicago
Allocation: $15 million
Contact: Michael Qualizza (773) 960-1181
mqualizza@yahoo.com

UDF has a nationwide service area but anticipates conducting most of its activities in Arizona, California, Florida, Illinois, Michigan, New York and Texas.

**CBSI Development Fund Inc.**
A subsidiary of the Community Bank of Southern Indiana
Headquarters: New Albany, Ind.
Allocation: $3 million
Contact: Kevin Cecil (812) 981-7347

All of its activities are likely to be concentrated in low-income communities in urban areas (principally New Albany, Ind., and Louisville, Ky.).

**Southeast Indiana Community Development**
A subsidiary of the Area 12 Council on Aging & Community Services (dba LifeTime Housing Group)
Headquarters: Dillsboro, Ind.
Allocation: $3 million
Contact: Sally Beckley (812) 432-6204
housing@lifetime-resources.org

Most of its investments will be in the cities of Aurora and Versailles, Ind.

**Citizens Business Development Co. LLC**
A subsidiary of Citizens Bank & Trust Co. of Jackson, Ky.
Headquarters: Jackson, Ky.
Allocation: $3 million
Contact: Burton Bellamy
(606) 666-7575
bbellamy@citizensbankjackson.com

The company will concentrate all of its activity in rural Kentucky.

**Community Trust Community Development Corp.**
A subsidiary of Community Trust Bank, N.A.
Headquarters: Pikeville, Ky.
Allocation: $7 million
Contact: Kevin Stumbo (606) 432-1414
stumbo.kevin@ctbi.com

The organization will concentrate its activities in central, eastern and southern Kentucky.

**Community Ventures Corp.**
Headquarters: Lexington, Ky.
Allocation: $12 million
Contact: Kevin Smith (859) 231-0054
ksmith@cvcky.org

CVC will be serving low-income communities throughout Kentucky.

**Enterprise Corp. of the Delta**
Headquarters: Jackson, Miss.
Allocation: $15 million
Contact: William Bynum (601) 944-1100
wbynum@ecd.org

Investments will be made in Arkansas, Louisiana, Mississippi and Tennessee.

**First State Development Corp.**
A subsidiary of First State Bank
Headquarters: Union City, Tenn.
Allocation: $7 million
Contact: John Clark (731) 886-8851
johnc@cfbanc.com

First State will focus its activities on Fulton County in Kentucky and Lake and Obion counties in Tennessee.