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Businesses Don't Just Choose a City, They Choose a Specific Neighborhood

By Christopher H. Wheeler
Senior Economist
Federal Reserve Bank of St. Louis

Economic activity within metropolitan areas in the United States tends to be distributed unevenly. Within nearly any city, there are neighborhoods that grow—attracting businesses that provide jobs, goods and services—and there are those that do not. Why are some neighborhoods more conducive to economic development than others?

Between 1994 and 2002, for example, the St. Louis metropolitan area saw its total private sector employment grow by 12 percent, or nearly 130,000 jobs. During this same period, the number of business establishments grew by nearly 3,500, or roughly 5.3 percent.

What these aggregate figures fail to reveal, however, is a substantial difference in the

experiences of neighborhoods throughout the metro area. Across St. Louis' 226 ZIP codes, employment growth varied

area? This article attempts to provide some semblance of an answer to these questions by looking at the recent experiences

quantified by changes in the total number of business establishments, and identified some basic neighborhood characteristics that are associated with different levels of this development.¹



between -93 percent and 1,100 percent, while business establishment growth ranged between -50 percent and 200 percent.

Why does economic activity vary so much across a metropolitan

area? This article attempts to provide some semblance of an answer to these questions by looking at the recent experiences of a collection of approximately 15,000 neighborhoods (defined by ZIP codes) across a sample of 361 metropolitan areas in the United States. To do so, we studied the pattern of development,

Growing Neighborhoods Prosper

An obvious question that comes to mind when one begins to consider the issue of neighborhood growth concerns whether or not it really matters. That is, as long as there is job growth somewhere in a metro area, does it really matter if jobs do not grow in certain neighborhoods? Although it is certainly possible, and indeed likely, that the residents of a particular neighborhood would gain from business growth elsewhere within the metropolitan area, empirical evidence suggests that growth within one's ZIP code does indeed matter.

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To begin, significant financial gains accrue to the residents of growing neighborhoods. Larger increases in the number of business establishments in a ZIP code, for example, are associated with significantly higher rates of growth in two common measures of financial well-being: median household income and per capita income.² Increasing the number of newly created businesses by 100, for instance, corresponds to a three- to four-percentage point increase in the rate of growth in these two income series.

In addition, as ZIP codes accumulate more businesses, they tend to see their unemployment rates decline. The data indicate that, as the number of newly created establishments rises by 100, a neighborhood's unemployment rate drops by more than 0.2 percentage points (e.g., 5.1 percent to 4.9 percent). This relationship may reflect the fact that, for some proportion of individuals in a neighborhood, finding and holding a job in another part of a metro area may be prohibitively difficult. As the extent of economic activity taking place locally increases, therefore, their chances of finding employment rises.³

Increases in the number of business establishments also correlate significantly with the level of education among the local resident population.

In particular, as the rate of entrepreneurial growth rises, the fraction of a ZIP code's resident population with a bachelor's degree or higher also tends to rise significantly. An additional

100 businesses are associated with a 1.6 percentage point rise (e.g., 20 percent to 21.6 percent) in the fraction of a ZIP code's adult population with a bachelor's degree or more. This result may be due to the desire among highly educated individuals for proximity to economic activity.⁴

The benefits of a highly educated population, of course, are well known. Greater levels of education among a population have been shown to provide benefits in the forms of higher labor earnings, higher productivity, lower crime and better government.⁵

The Geography of Economic Activity in Cities

When deciding where in a metro area to locate, employers take into account a number of considerations, all of which bear upon the expected profitability of the enterprise. Although not meant to be complete, this study examined several basic neighborhood characteristics in an attempt to identify which ones tend to draw (or deter) business activity.⁶

Proximity to People

More than anything else, businesses rely on people to accomplish their daily tasks. People, of course, provide both the labor required for the production of goods and services and the ultimate demand for those products. It is, therefore, plausible that businesses would want to set up near concentrations of people to allow easy access for both workers and consumers.

On the other hand, with highly populated, dense areas comes congestion and higher prices for land. In addition, neighborhoods with large populations may be primarily residential, which may place restrictions (legal or otherwise) on the extent to which business activity can grow. The relationship between population and economic activity, therefore, is theoretically ambiguous.

Examining data from more than 15,000 ZIP codes between the years 1998 and 2002 reveals that more populous neighborhoods tend to see larger increases in the number of businesses than do less populous ones. As population roughly doubles in a cross section (e.g., comparing a ZIP code with 1,000 residents to one with 2,000 residents), the number of newly created business establishments rises by nearly six, on average.

At the same time, greater population density tends to be inversely associated with business growth. The data show that a doubling of the number of residents *per square mile* in a ZIP code is associated with one fewer business establishment created between 1998 and 2002. These results suggest that, while populated areas may tend to attract entrepreneurial activity, densely populated areas seem to deter it.

Local Population Characteristics

While population and density may influence the location decisions of businesses, the characteristics of those populations may also be important.

This study examined the relationship between the number of newly created businesses and the following four basic features of the local neighborhood: per capita income, percent with a bachelor's degree or higher, fraction between ages 25 and 44, and unemployment rate. The results indicate that each of these characteristics is strongly associated with the extent of business establishment growth.

Higher per capita income is associated with greater numbers of businesses. As per capita income doubles, for instance, the estimates suggest that an additional 45 establishments are created.

More educated neighborhoods also tend to see more sizable increases in their business activity. A 10 percentage point increase (e.g., 10 percent to 20 percent) in the proportion of a ZIP code's population with a bachelor's degree or more tends to be accompanied by an additional 11 businesses generated during this time period.

ZIP codes with higher fractions of individuals between the ages of 25 and 44 also tend to gain economic activity in larger quantities. A 10 percentage point increase in the fraction of a ZIP code's population between the ages of 25 and 44 tends to be accompanied by 28 more business establishments created over five years.

Higher rates of unemployment, on the other hand, tend to be negatively associated with the expansion of business activity. A one percentage point increase in a ZIP code's unemployment rate

(e.g., 5 percent to 6 percent) is associated with nearly three fewer business startups. To be sure, part of this association may stem from the fact that growing areas tend to see reductions in their unemployment rates. Nevertheless, it also suggests that neighborhoods with high rates of joblessness may find themselves in a vicious cycle where high unemployment deters new business startups, thus reinforcing high rates of unemployment over time.

Proximity to Other Businesses

There are a number of reasons to suspect that employers may also want to situate themselves near other employers.

To begin, there may be benefits to clustering in areas where customers do their shopping (e.g., malls) or where large numbers of workers already go to work (e.g., office parks). Second, employers may want to be close to the companies with which they do business because proximity reduces

the cost of transporting goods and people. Third, there may be a variety of advantages associated with seeing the operations of other businesses. Proximity allows businesses to learn from and keep tabs on competitors. It may also allow businesses to develop new products or enhance their day-to-day operations by observing a wide array of economic activity.

All of these reasons suggest that new business startups may

be especially prevalent in neighborhoods with large numbers of existing businesses. The data, as it turns out, strongly bear out this conclusion. As the number of establishments in a ZIP code doubles, the number of newly created businesses tends to increase by more than 10. Growth of business activity, interestingly, also tends to be positively related to a ZIP code's total employment. As employment doubles, establishment growth rises by more than seven businesses.

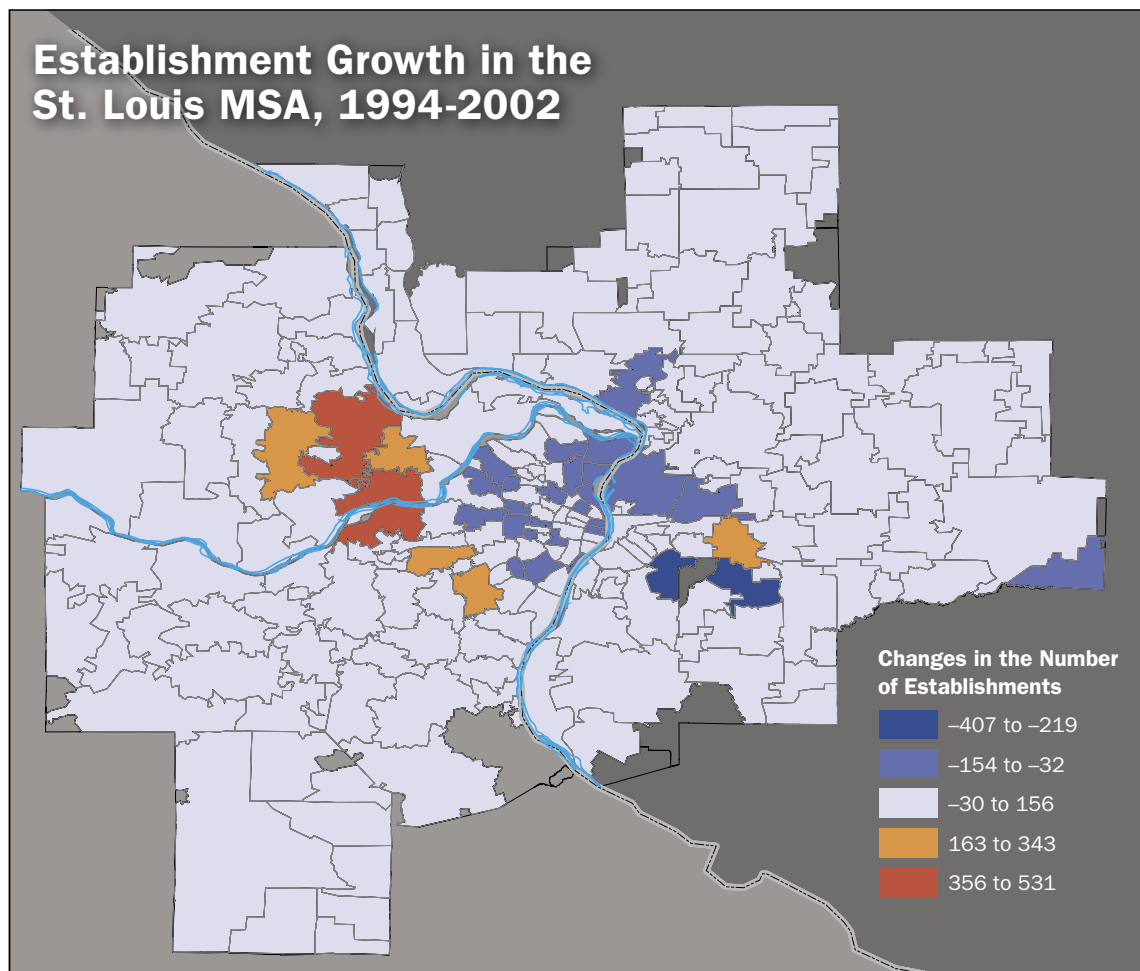
Differences by Industry

Not all business establishments, of course, are engaged in the same line of work. Retail outlets tend to be concerned with very different activities from those in manufacturing. The environment that each type of business seeks may, therefore, differ significantly from one industry to another.

Some of these differences are apparent from the Table, which summarizes the correlations between six basic ZIP code characteristics and the number of new business establishments created between 1998 and 2002 in each of 13 broad industries.

Several of the industries, including manufacturing and wholesale trade, tend to expand the most in ZIP codes with low population densities and small numbers of existing business establishments (either belonging to the same industry or total). Wholesale trade, construction, and transportation and warehousing all tend

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Business establishment growth varies greatly across ZIP codes within metro areas. In St. Louis, much of the growth between 1994 and 2002 occurred to the west of the city.

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to grow more in ZIP codes with fewer college-educated residents.

On the other hand, industries that tend to employ relatively highly educated workers and pay relatively high wages—such as real estate, finance and insurance, and professional, scientific, technical and health services—all tend to locate in densely populated neighborhoods. Employers in these sectors also tend to locate in ZIP codes with large numbers of established businesses (either of the same industry or overall) and larger numbers of college-educated individuals.

Interestingly, it is not simply “white collar” sectors that gravitate toward such environments. Employers in the accommodation and food services sector also tend to be drawn to neighborhoods

with high levels of density, education and business activity. This pattern is very likely the product of a demand effect: Neighborhoods with high levels of business activity and educated residents may also have a particularly strong demand for restaurants and coffee shops, for example.

The characteristic that has the most uniform association with the growth of business establishments of all types is the unemployment rate, which exhibits a strong, negative association in nearly every instance. Evidently, employers of all types tend to stay away from neighborhoods with high rates of joblessness.

Conclusion

Identifying the reasons why businesses settle where they do is crucial for any neighborhood development program. This

article has offered a brief look at this issue, documenting the types of characteristics that are associated with the expansion of business activity in a collection of ZIP codes in the United States.

One fundamental result from this study is that different types of employers tend to seek different environments. The types of businesses that do well in densely populated or highly educated neighborhoods, for example, tend to be quite different from those that seek areas with less activity and lower levels of education. As such, a plan to target development for, say, a traditional downtown area should involve a completely different set of employers than a plan to develop a suburban neighborhood.

ENDNOTES

- 1 The data on business establishments are derived from ZIP Code Business Patterns produced by the U.S. Bureau of the Census for the years 1994 to 2002. Population characteristics for these ZIP codes are taken from CensusCD, a data set prepared by Geolytics that summarizes Census data for the years 1980, 1990 and 2000 at a variety of geographies, including approximate ZIP codes (i.e., ZIP code tabulation areas).
- 2 These conclusions are drawn from regressions of median household income growth and per capita income growth between 1990 and 2000 on the change in the number of establishments between 1994 and 2002. Similar regressions are also estimated using changes in unemployment rates and the fraction of the population 25 years of age or older with at least a bachelor's degree. In all cases, the regressions account for differences in the average values of these quantities across metro areas.
- 3 This argument is very similar to that of the “spatial mismatch” hypothesis. See John Kain. “Housing Segregation, Negro Employment, and Metropolitan Decentralization.” *Quarterly Journal of Economics*. 1968, Vol. 82, pp. 175-197.
- 4 See E. Glaeser, J. Kolko and A. Saiz. “Consumer City.” *Journal of Economic Geography*. 2001, Vol. 1, pp. 27-50.
- 5 For a review of the local benefits of education, see Enrico Moretti. “Human Capital Externalities in Cities,” in V. Henderson and J. Thisse, eds., *Handbook of Regional and Urban Economics*. 2004, Vol. 4, pp. 2241-2291.
- 6 All of the results below are derived from regressions of establishment growth between 1998 and 2002 on characteristics from the year 2000, with the exception of total numbers of establishments, which are from 1998. All regressions account for differences in the average level of establishment growth across metro areas.

Table: Determinants of Business Establishment Growth by Industry

Industry	Population Density	Own Industry Establishments	Total Establishments	Percent of Population with College Degrees	Per Capita Income	Unemployment Rate
Construction	-	+	-	-	0	-
Transportation and Warehousing	-	-	+	-	0	-
Manufacturing	-	-	-	0	+	-
Wholesale Trade	-	-	-	-	-	-
Retail Trade	-	-	-	+	+	-
Information	+	+	+	+	+	0
Finance and Insurance	+	+	+	+	+	-
Real Estate	+	+	+	+	+	-
Professional, Scientific and Technical Services	+	+	+	+	+	-
Education Services	+	0	+	+	+	0
Health Services	+	+	+	+	+	-
Arts, Entertainment and Recreation	0	0	+	+	+	0
Accommodation and Food Services	+	+	+	+	+	-

Note: Significantly positive and negative associations are denoted, respectively, by a “+” and “-”. The “0” implies no significant correlation.

Creating a Communitywide Vision for Housing, Neighborhood Development

Frequently, cities react to housing and neighborhood needs. The merger of the city and county governments in Louisville, Ky., presented a unique opportunity to create a new vision for development and revitalization of housing. For the first time, the area could be viewed as an integrated community. This article stresses the benefits that can occur when a locality views itself with fresh eyes and creates an integrated housing strategy.



By Maria Gerwing Hampton

Cities that receive federal entitlement dollars must create a “Housing and Community Development Consolidated Plan” every five years, with annual action plans and performance reports to the Department of Housing and Urban Development (HUD).

Such plans often address an affordable housing strategy that is closely scrutinized by housing advocates and local nonprofits. However, traditionally, little input is received from developers, engineers, city planning and design technicians, and builders of both market-rate and affordable housing.

In Louisville, Ky., the recent merger of city and county governments offered an opportunity for planning that was much more expansive—an opportunity to review current and future housing demand metrowide and by specific neighborhoods, to create development strategies that were outcome driven and to overcome any developmental impediments to accomplishments.

Build a Housing Strategy, Not Just an Affordable Housing Strategy

Certainly the merger of the city and county governments demanded a new, more compre-

hensive look at housing. From the moment voters approved the merger, even before the new government was created, city leaders began to review the strengths and weaknesses of the city. The Brookings Institution was solicited to study the needs and opportunities that the new city faced; and HUD convened, at the new mayor’s request, a College of Experts to review systems in place and assess what should be kept and what should be changed.

Going beyond a system review, however, was necessary in order to create a strategy with metro-wide input and investment. Louisville community leaders were well aware that the current model of federal funding was changing dramatically, so much input was needed to determine how to allocate a limited amount of federal dollars. Furthermore, a new vision was needed for promoting choice, ensuring diverse housing prices and styles in all parts of the city.

According to Bruce Traugher, secretary of the Louisville Metro Cabinet for Community Development, “Demographics change, so cities and business must change. The written strategy should become a ‘policy North Star’ to guide all housing developments.”

Create a Process that Works

In June of 2004, Mayor Jerry Abramson of the newly merged city and county, Louisville Metro, invited local leaders to participate in a community-based process to create a new comprehensive housing strategy.

More than 30 people participated on the Housing Policy Advisory Team, including bankers, engineers, city planners, real estate attorneys, market-rate home builders, nonprofit affordable housing developers, zoning and code enforcement agencies.

The vision was to create a strategy for growth. Louisville had been experiencing only modest growth compared with contiguous counties, which were housing former residents of Louisville at a rapidly growing pace. This comprehensive strategy was to ensure growth within the new city and to ensure stabilization of deteriorating neighborhoods—not just areas of poverty, but older suburbs—while creating opportunities for different types of housing at all prices throughout the area.

There were five clear goals, namely:

1. define the emerging regional housing market and identify suitable locations throughout Louisville

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- Metro to support the development of housing that meets market demand;
2. create an atmosphere of learning, openness, partnership and trust among Louisville Metro government, private developers, neighborhoods, concerned citizens and other stakeholders;
 3. ensure adequate, equitable and efficient distribution of capacity—opportunities and resources—among housing consumers, private sector housing developers, interest groups and the various geographies of Louisville Metro;
 4. administer a transparent, fair and practical regulatory process that encourages developer participation and resident satisfaction; and
 5. facilitate access to private and public finance that expands residential production and supports homeownership opportunities.

Tactical processes included creating subcommittees around each goal and reporting findings to the larger group to create a written, measurable and timely plan.

Deliver a Market-Driven and Data-Driven Plan

To ensure a housing strategy resulting in neighborhoods of choice, Zimmerman/Volk Associates studied the market potential and the interaction of supply and demand that would result if appropriate strategies were put in place.

“It was impressive that the group was prepared to address a broad range of issues that will have strategic influence over the next 10 years,” says Laurie Volk of Zimmerman/Volk. “The resulting policies will permit builders and developers to respond more directly to market potential and future demands.”

An interesting vision was created by identifying the market in a new way. Formerly, residents were identified as “urban” (the

2. a lack of understanding by neighborhood leaders of true mixed-income development and density-related issues;
3. a lack of technical assistance for some urban neighborhoods in the area of finance, land assembly and infrastructure development;
4. existing segments of blight and decay;
5. regulatory barriers to density and innovation; and
6. insufficient access to capital.

The Housing Policy Advisory Team itself is a merger success story. Through it, Mayor Abramson brought together stakeholders who may have considered themselves “urban” or “suburban” before the merger.

old city) or “suburban,” that is, residing in the county. The new vision, however, identified three rings of development: the urbanized area, the suburbanized area and the new developing area. This reinvention of the new city shook people out of old perceptions and development patterns and stimulated discussion relevant to sustaining and guiding infill, rehab and new development.

Identify Barriers

By approaching the challenge from the perspective of both market-rate and affordable housing development, the capacity to grow was enhanced and operational impediments were more readily addressed. A few barriers noted, for example, were:

1. delays in the development review process;

Involve Bankers

Bankers live in communities and care about development. Moreover, a bank community development corporation is continually looking for business opportunities and meaningful impact.

“Comprehensive planning helps us make more focused decisions on where strategic investment, loans and grants should be made to optimize opportunity for positive community economic development,” says Marita Wills of PNC Bank.

Bankers also say that involvement in this type of planning results in more understanding of the ongoing challenges of the development process.

“Financing successful real estate projects demands knowledge of the business and an awareness of the risks that the community

development process sometimes fosters,” says David Howard of National City Bank, who participated on the city’s housing strategy team. “A seat at this table not only enhances understanding of the process, but gives us focus on where investment can be best targeted,” he says.

Recommendations for further financing opportunities included the creation of a local affordable housing trust fund, initiating a new Community Development Fund, providing down-payment assistance to families within 80 percent to 110 percent of the median income, and a renewed rental rehab program.

In the end game...

The successful outcome of this process will be based on delivery of actionable and measurable goals and objectives that are evaluated on a regular basis. Such a process gives a thicker patina of legitimacy so that all advocates and stakeholders can refer to “the plan” and stay the course. Perhaps not all communities can accomplish this in such a comprehensive fashion, but it seems all should consider it.

For a copy of the Louisville plan, call (502) 574-2879.



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Strategies for Rural Development

It Takes a Region to Raise an Entrepreneur

By Amy Simpkins
Community Affairs Specialist
Federal Reserve Bank of St. Louis

Regionalism—a buzzword in community and economic development for years—is key to building economically and socially competitive communities. Community leaders have used regional approaches, for example, to manage natural resources and utilities, provide transportation, and respond to a myriad of other community development needs. With small business development emerging as a core strategy for economic growth and community sustainability, regionalism is again in the forefront.

Regional partnerships are particularly important to rural communities where scarce resources for entrepreneurs can be maximized through cooperation. Rural policy-makers wishing to support entrepreneurship are looking beyond traditional political boundaries to regional collaborations.

As an indication of this trend, both regionalism and entrepreneurship are cornerstones in a 2005 report by the Strengthening America's Communities Advisory Committee, issued to the U.S. Secretary of Commerce. Recommendations include a call to "establish regional competitiveness as the overriding goal for federal economic



and community development policy." Additionally, the authors maintain that "innovation and entrepreneurship are the new engines for job creation, productivity, growth, economic prosperity, and healthy communities."

The Regional Difference

Regions can make a difference for entrepreneurs in the services they offer, the access to capital they afford, the diversity they encourage and the public policies they influence.

Regions often have a range of assistance for entrepreneurs that is not available in individual communities. In addition, the experience and skills each partner brings to the table are used more efficiently when redundancies are eliminated. Each partner can focus on the resource or service that they do best.

Access to capital and credit is essential to entrepreneurial development. Regional development systems improve access to capital by acting as a conduit, linking financial services and potential investors to entrepreneurs. Investors and financial institutions also may be more likely to fund a new business that has access to a broad range of educational and capacity-building services.

Increasingly, community developers recognize the importance of diversity for encouraging entrepreneurial growth. Regionalism can offer such diversity by focusing on a population beyond the borders of a single community, with a greater range of ideas, experiences and practices. Diversity influences many factors critical to entrepreneurship, including innovation and increased market opportunities.

In addition, the partnerships that develop from a regional collaborative can be influential in creating public policies that support entrepreneurial development.

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Simply put, regions that create supportive environments for entrepreneurs influence the way resources, investments and opportunities are allocated.

The Depth of Regional Entrepreneurship

Entrepreneurs are important to rural communities not only for the number of jobs they create, but also for the impact they have on local economies.

The Federal Reserve Bank of Kansas City looked at both the number of new jobs and the wealth created by small businesses to assess the impact of entrepreneurship on regional economic growth. The resulting study, *Gauging a Region's Entrepreneurial Potential*, found that regional characteristics—including education, quality of life and infrastructure—affect the depth

and breadth of entrepreneurial activity. If regional development systems can strengthen these key factors, the influence entrepreneurship has on local economic growth may be enhanced.

Regions Take on Entrepreneurship

Recognizing the critical role regional partnerships play for entrepreneurial development in rural areas, the W.K. Kellogg Foundation is funding six projects focused on supporting entrepreneurs.

The projects represent regional collaboratives from rural areas across the country. Each project will leverage significant investment, promote entrepreneurial activity in its region, produce entrepreneurial models for other communities, and stimulate national and state interest in rural entrepreneurship policies and strategies.

Kellogg also is working with several partner organizations to sponsor a series of roundtable discussions in regions that expressed an interest in creating entrepreneurial development systems. The goal of these sessions is to promote dialogue, planning and action among individuals and groups working in a specific geographic area.

To find out more about these initiatives or the communities involved, contact Caroline Carpenter at (269) 969-2265 or visit the W.K. Kellogg Foundation at www.wkcf.org.

Within the Federal Reserve's Eighth District, the University of Missouri Extension Community Enterprise and Entrepreneurial Development (CEED) office is focusing on revitalizing rural economies through entrepreneurship. CEED's goal is to help communities build entrepreneurship by

forging regional partnerships. Regional resources will be leveraged to respond to the needs of entrepreneurs and create economic growth. Ultimately, the regional specialists working at CEED hope their multidisciplinary approach will lead to an entrepreneurial development system. Contact Gwen Richtermeyer at richtermeyerg@missouri.edu or (573) 884-0669 for more information.

Resources for Building Regional Partnerships for Entrepreneurship

- Corporation for Enterprise Development: www.cfed.org
- Rural Policy Research Institute: www.rupri.org
- Center for the Study of Rural America: www.kc.frb.org/RuralCenter

Have you HEARD

ACCION Offers Business Loans Based on Borrower's Initiative

ACCION USA, a nonprofit microlender, provides small business loans to help entrepreneurs realize the dream of starting and expanding their own businesses. Using a character-based lending methodology, ACCION USA doesn't make loans based on credit history or collateral alone. Instead, it focuses on a potential borrower's initiative, knowledge of his or her business and market, and on references from customers and neighbors.

ACCION USA and the U.S. ACCION Network provide loans ranging from \$500 to \$25,000. Loans can be used for many

business purposes, such as new equipment, inventory, advertising and business expansion. For startup businesses, the maximum loan amount is \$10,000, and a complete business plan and cash flow projection are required.

To learn more, go to the ACCION USA web site at www.accionusa.org/makingloans.asp.

Grants Available for 'Green' Housing

Developers of affordable housing may be eligible for up to \$50,000 in grants from Green Communities, an initiative that promotes energy-efficient housing.

Green Communities is a project of the Enterprise Foundation in partnership with the Natural Resources Defense Council. The program has \$4.5 million available for affordable housing developments that conserve energy and natural resources and provide easy access to jobs, schools and services. Nonprofit organizations, for-profit entities, public housing authorities and tribally

designated housing entities can apply.

Grants can be used for new construction or rehabilitation of residential units at an estimated cost of more than \$3,000 per unit. Home-ownership developments must have at least 15 homes that will be sold to buyers with incomes below 80 percent of the area's median income. Rental housing developments must provide permanent, not transitional, housing and must have at least 25 units for renters with incomes below 60 percent of the area's median income.

Go to www.enterprisefoundation.org and click on "Major Initiatives" for more information.

Hotlines for Hurricane Victims

Help is just a phone call away for those facing financial problems caused by Hurricanes Katrina and Rita.

A national, nonprofit organization and the Internal Revenue Service (IRS) have both set up hotlines to assist those with questions

about financial matters or federal taxes.

Trained volunteers from the banking, insurance, mortgage, finance and accounting industries provide free, one-on-one counseling through two call centers run by Operation HOPE. The toll-free number is 1-888-388-HOPE (4673).

Callers can get information on emergency credit management, deferring loan payments, filing insurance claims, locating lost documents and applying for federal or private assistance.

Operation Hope is a national, nonprofit social investment bank based in Los Angeles. The call centers are managed through Operation HOPE's emergency preparedness division, HOPE Coalition America, a partner with FEMA.

Hurricane victims can also find a wealth of tax-related information at www.irs.gov or by calling a special IRS disaster hotline at 1-866-562-5227.

CDFIs: Putting the Best Foot Forward

By Linda Fischer
Editor

Perception is everything, even in the world of community development finance.

That's one of the messages Mark Pinsky, president and CEO of National Community Capital Association (NCCA), brought to St. Louis recently when he spoke at a conference sponsored by the Federal Reserve Bank of St. Louis. Titled *Improving Access to Community Capital*, the Nov. 17 event was a forum for thought-provoking discussion on the future of community development finance.

Pinsky has been taking his message across the country for some time. Those who have heard him know he is passionate about helping community development financial institutions (CDFIs) grow... helping them come to scale, as he puts it. In fact, the industry must "grow, change or die," he says.

Although community development finance has grown tremendously in the last 30 years, from a \$1 billion industry to a \$14 billion industry, Pinsky would like to see it become a \$40 billion industry during the next four or five years. That will only happen if the industry changes how traditional lending institutions and other investors perceive CDFIs, he says.

"In the current policy environment, our industry takes a defensive stand," he says. "We

feel we have to apologize for what we do. We need to go on the offense. We need to change our language and how we talk about what we do."

The pervasive notion about community development finance is that if an organization is working with low-income people, it doesn't have money, Pinsky says. In fact, the perceived risk is much greater than the real risk, he says.

that CDFIs must take a brutally honest look at how they operate and be willing to evolve. Banks are moving into the industry and there is a generational change with new professionals working in community development finance.

One of the ideas that came out of NCCA's planning process was to start referring to "community development finance" as "opportunity finance."

If there's a story about CDFIs, it's that we can change the behavior of markets by changing the perception of risks in the market.

— Mark Pinsky
President and CEO,
National Community Capital Association

"If there's a story about CDFIs, it's that we can change the behavior of markets by changing the perception of risks in the market," Pinsky says.

NCCA, a national network of financial institutions whose goal is to finance community development projects, undertook a process in 2001 to identify changes it needed to make to remain viable in the future. "We've gone through a grueling, strategic assessment of who we are and what we do, and why and where we're going," Pinsky says.

Changes in the economy, in philanthropy, in public policy and in the industry itself mean

The organization even went so far as to change its name to Opportunity Finance Network, which takes effect in January 2006. The change came after research in which investors were presented with two identical investment proposals—one called a finance "opportunity" and one called a "community development" investment. Investors responded positively to the "opportunity" but not to the "community development" plan. The perceived "opportunity" interested investors, while the "community development" proposal was perceived as risky. NCCA hopes that investors come

to look at community development as "American opportunities."

Other changes Pinsky promotes are:

- modernizing community reinvestment by extending the Community Reinvestment Act;
- leveraging existing funds;
- making tax reform compassionate; and
- saving America's assets by preventing predatory lenders from stripping wealth from individuals.

As Pinsky travels the country spreading his message about change and perception, he sees more discussions now about new ways of doing business and new ways of collaborating. Traditional lending institutions and alternative finance institutions are learning to trust one another and to cooperate in ways they never thought they would, he says.

"A lot of the money is being poured into affordable housing, small business and microbusiness and broadly defined community development, ranging from child care facilities to charter schools and a whole range of other things. It's an industry that's grown, and it has had successes in many ways that I don't think were imaginable 30 years ago," he says.

"We need to look at ways now to build scale in some areas and increase efficiency and productivity."

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.

Louisville Refinancing Program Targets Predatory Mortgages

Louisville home owners facing foreclosure may be eligible for a new loan product designed to refinance loans that have predatory terms.

In recent years, Louisville has experienced a spike in the number of foreclosures, partially as a result of predatory loans. To respond to the problem, Christie McCravy of The Housing Partnership and Kevin Dunlap of the Louisville Urban League led an effort to design the Anti-Predatory Loan Program. The goal of the program is twofold: to help home owners avoid foreclosure and to help them maintain their homes after the refinancing.

The designers said the success of the program depended on variances from Fannie Mae's underwriting criteria. Fannie Mae agreed to nine variances that include expanded back-end ratio, expanded loan-to-value ratio, credit score exemption and income eligibility flexibility.

For example, if a home owner's income is below 80 percent of the area median income, Louisville Metro government will provide funds for rehabilitation through a forgivable loan. The maximum loan-to-value ratio is 125 percent.

A home owner can earn up to 100 percent of the area's median income and still be eligible for the Anti-Predatory Loan Program. However, anyone above 80 percent of the area's median income is not eligible for Louisville Metro government funding.

All loans are reviewed by a committee composed of representatives from The Housing Partnership, Louisville Urban League, Louisville Metro government, Old National Bank and Republic Bank.

Those interested in obtaining more information can e-mail McCravy at cmccravy@housingpartnershipinc.org or call (502) 585-5451 or e-mail Dunlap at kdunlap@lul.org or call (502) 585-4622.

Housing Focus of Help for Hurricane Victims

The Federal Home Loan Bank of Cincinnati has announced its New Neighbors program, which provides permanent housing assistance for households displaced by 2005 hurricanes. The Federal Home Loan Bank of Cincinnati has made \$15 million available for this new program. Displaced people can apply through financial institution members in the three states

covered by the bank: Ohio, Kentucky and Tennessee.

The New Neighbors program will focus on home ownership and rental, with the ownership assistance grants available on a first-come, first-served basis and the rental assistance grants available through competitive offerings.

The home ownership program will make down-payment and closing cost assistance grants of up to \$20,000 available to displaced persons who wish to buy a home. Applicants must work through member financial institutions.

The rental program will make up to \$20,000 available per unit for up to eight units to the owner of the rental property. That owner, or sponsor, can be a nonprofit, for-profit or government organization with an ownership interest in the property and the capacity for developing and providing rental housing. The sponsor must partner with a member financial institution to submit an application.

Both programs have no income limits for buyers or tenants but do require them to be FEMA-eligible.

For more information, contact Carol Peterson, senior vice

president, or Jeff Reynolds, vice president, at 1-888-345-2246.

Wal-Mart Invests in Firms Owned by Minorities

Wal-Mart Stores Inc. of Bentonville, Ark., has created a \$25 million private equity fund to invest in businesses owned by women and minorities. The fund will provide equity capital to the business owners for acquisitions, joint ventures and other growth and expansion initiatives. The first investments could be available as early as mid-January.

To be considered for investment, candidates must either operate companies or be in the process of acquiring companies that distribute or have the capacity to distribute products and services to major retailers. Candidates must also be certified as a minority or women-owned or minority-controlled business as defined by the National Minority Supplier Development Council and the Women's Business Enterprise National Council.

For information on this program, call Linda Brown-Blakley at (479) 273-4314.

Eileen Wolfington Joins St. Louis Fed

Eileen Wolfington has joined the Federal Reserve Bank of St. Louis as a community affairs specialist.

She will provide advisory services to community organizations, government agencies, bankers and others on community and economic development issues, particularly those regarding financial services for the Hispanic/Latino immigrant population in the St. Louis region. Her focus will be on services and products that are related to affordable housing,

access to credit and small business development.

Prior to joining the Fed, and after completing 27 years in consumer banking, Wolfington worked as an AmeriCorps*VISTA volunteer in economic development for the International Institute of St. Louis. A first-generation, bilingual American of Mexican and Puerto Rican descent, she refers to herself as “Mexi-Rican.”

Wolfington may be reached at (314) 444-8308 or at eileen.wolfington@stls.frb.org.



Eileen Wolfington

CALENDAR

JANUARY

26, 27

Building Communities from the Inside—Springfield, Mo.

Sponsor: Missouri Community Development Society Annual Conference
www.mocds.org

FEBRUARY

16

Illinois Get Checking Program—Belleville, Ill.

Sponsor: Federal Reserve Bank of St. Louis
www.stlouisfed.org

20-24

NeighborWorks Training Institute—Atlanta

Sponsor: Neighborhood Reinvestment Corp.
www.nw.org/training
1-800-438-5547

MARCH

7-10

Advancing the Field—Atlanta

Sponsor: Social Enterprise Alliance
www.se-alliance.org

16

Local Predatory Lending Laws: Going Beyond North Carolina—St. Louis

Sponsor: Federal Reserve Bank of St. Louis
www.stlouisfed.org/community

19-22

National Community Reinvestment Conference—Las Vegas

Sponsors: Federal Reserve Bank of San Francisco, Office of Thrift Supervision, Office of the Comptroller of the Currency and Federal Deposit Insurance Corp.
(415) 974-2765

27-29

Community Development Venture Capital Alliance Conference—New York

Sponsor: Community Development Venture Capital Alliance
www.cdvca.org

27-31

Community Development Academy, Courses 1 and 2—St. Louis

Sponsor: University of Missouri Community Development Extension Program
www.ssu.missouri.edu/commdev/cda/cda.htm

APRIL

3-7

NeighborWorks Training Institute—Dallas

Sponsor: Neighborhood Reinvestment Corp.
www.nw.org/training
1-800-438-5547

19-21

Cambio de Colores: Latinos in Missouri—Columbia, Mo.

Sponsor: University of Missouri
www.cambio.missouri.edu

5-7

Reinventing Older Communities—Philadelphia

Sponsors: The William Penn Foundation, The Brookings Institution's Metropolitan Policy Program, The Reinvestment Fund, the Federal Reserve Bank of Philadelphia and others
www.philadelphiafed.org/cc/a/conferences.html

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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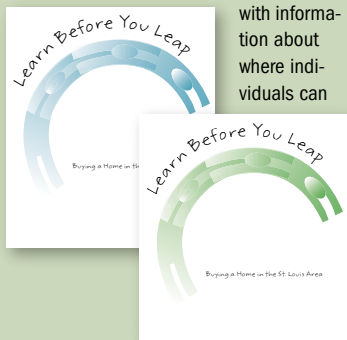
If you have an interesting community development program or idea for an article, we would like to hear from you. Please contact the editor.

Free subscriptions and additional copies are available by calling (314) 444-8761 or by e-mail to communityaffairs@stls.frb.org.

Pamphlets List Home Counselors

Buying a home can be a daunting task, especially if a consumer falls into the low- to moderate-income category or is looking at home ownership for the first time. A number of agencies offer home-buyer counseling, but getting the word out to potential home owners is sometimes difficult.

The Federal Reserve Bank of St. Louis recently updated brochures it has available



with information about where individuals can

go for help to learn about the home-buying process. The agencies provide advice on topics such as negotiating a contract, closing on a loan, preventing foreclosure and maintaining a home. Most of the services are free or have a modest charge.

Each of the new brochures, called *Learn Before You Leap*, targets one of four areas in the St. Louis Fed's district: St. Louis, Little Rock, Louisville and Memphis. Community organizations can order quantities for distribution by calling:

- St. Louis: Cynthia Davis at (314) 444-8761
- Little Rock: Julie Kerr at (501) 324-8296
- Louisville: Kendra Keller at (502) 568-9202
- Memphis: Gloria Richmond at (901) 579-4101

The brochures are also available at www.stlouisfed.org/community.

Financing Community Development: Learning from the Past, Looking to the Future

Call for Papers

The Federal Reserve System is seeking research into the factors that control the availability of credit and capital to individuals, businesses and communities.

To that end, the Fed's community affairs officers have issued a call for papers on the topic, which will be presented at their fifth biennial research conference in Washington, D.C., in 2007. The papers also will be considered for publication in the *Journal of Economics and Business*.

For more information about the research topics and detail on submitting papers, interested parties can go to www.stlouisfed.org/community.



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