LINKING LENDERS AND COMMUNITIES

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Fed Assesses Communities' Needs

Interviews Shed Light on Regional, Rural and Urban Issues

By Michael O. Minor, Senior Community Affairs Specialist, and Glenda Wilson, Community Affairs Officer, Federal Reserve Bank of St. Louis

Breathing new life into distressed neighborhoods is a challenging proposition. It requires government agencies, community organizations, financial institutions, corporations and individuals to come together to get the job done. Sometimes, these entities are unaware of the work each is doing … unaware of the possibilities collaboration would offer.

That's where the Federal Reserve comes in.

The Community Affairs Office at the Federal Reserve Bank of St. Louis works to foster community and economic development in low- and moderate-income (LMI) neighborhoods by bringing these entities together. Staff members keep a finger on the pulse of community development in the Eighth District by participating in local community development and asset-building collaboratives and conducting outreach meetings with constituents. The District includes all of Arkansas and portions of six other states: Missouri, Mississippi, Tennessee, Kentucky, Indiana and Illinois.

The Community Affairs team recently completed a district-wide environmental assessment that focused on community and economic development issues and opportunities. More than 80 individuals representing more than 60 organizations covering nearly the total breadth and width of the District were interviewed. Interviewees represented state and local governments, colleges and universities, financial institutions and other lenders, nonprofit developers, small business technical assistance providers, social service providers and others.

Low-skill/high-wage manufacturing jobs are being replaced with low-wage service jobs.

Assessment Outcomes

Several significant themes emerged from this assessment.

Regional economic factors having an impact on LMI individuals or communities:

- Low-skill/high-wage manufacturing jobs are being replaced with low-wage service jobs. A more diverse employer base is needed, but it is difficult in some parts of the District to attract industries. Contributing factors include a lack of education among residents and an unskilled workforce.
- Several times during the interviews, individual development accounts (IDAs)—matched savings accounts that enable low-income, working individuals or fami-

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lies to save, build assets and enter the financial mainstream—were mentioned as a tool in short supply in the District. The monthly savings and matched funds can be used toward purchasing an asset (most commonly buying a first home, paying for post-secondary education or starting a small business). The lack of matching funds for IDAs limits the number of successful programs.

Capacity and sustainability of nonprofit organizations

- In general, the District has an immature nonprofit (community and housing development) community. Too many nonprofits are lacking capacity, and the challenge to developing capacity is that a high level of staff know-how or expertise is not matched with salary.
- Agencies are challenged to support their existing infrastructures, not to mention any new programs they want to introduce. Competition for private dollars is getting more intense. Government funding and foundation support for community development corporations (CDCs) has diminished. Community organizations would benefit from increased participation by intermediaries that are often a source of capacity-building support.
- As nonprofits compete for a shrinking pool of funds, they are striving for operational efficiency and self-sufficiency. Some suggested ways to accomplish these goals include: starting for-profit ventures that can provide a regular funding stream, adopting a business approach to managing the organization, and developing CDC networks to achieve scale that would allow greater access to insurance and credit.

Effect of bank mergers on the ability of financial institutions to serve credit needs

- Many in the community believe that the loss of headquartered banks has a negative impact on LMI individuals because, when banks merge, credit standards may be tighter, and credit decisions are no longer made locally. However, a banker told us, "As for bank mergers, some would say this has had a negative effect on the availability of credit for LMI borrowers. I see positives and negatives. On the positive side, with each merger, we reviewed the products offered by both financial institutions and kept those that best meet the credit needs of the customers. In some instances, the bank merging with us had some products that we did not have, so we have added them to our offerings. On the negative side, mergers lead to the elimination and consolidation of the back office. When this happens, the back office functions may not be at the depositor's local institution. Therefore, credit decisions slow down and give the perception that credit is more difficult to get. With the loss of the local back office, we have also lost some of the ability to do special-case exceptions based on personal knowledge."
- A nonprofit developer said, "It is difficult to do business with non-local banks since project management requires decisions that are quicker/more timely. The challenge for the bank is in the complexity of markets and development structures. Most don't have in-house expertise. Some are trying to develop new expertise, but it may not be cost-effective for them to do so."

Many low- and moderate-income individuals still lack the basic skills, fundamentally and financially, to become home owners.

Support services for the Hispanic community

- In some parts of the District, the Hispanic population is growing, but the growth has been relatively slow, so that many Hispanics have assimilated into the community. Other parts of the District, particularly Arkansas, have seen a large increase in the number of Hispanics.
- Language barriers are a challenge to offering services, and because some Hispanics are undocumented, it is hard to connect them to services. Financial institutions, as well as service providers, that do not have bilingual employees identified the language barrier as a major issue. Also, while some banks have established programs for outreach to Hispanics in their service areas, others cited the concern about legal status as an issue that was hindering them from providing more services.
- Although several organizations are supporting immigrant or refugee populations, the lack of financial resources for these organizations is diluting their impact.

Workforce development

- Workforce development efforts have been hindered by a lack of accessibility (transportation and location). Also, the lack of adequate, affordable child care makes it difficult for low-income parents to maintain employment.

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Investing in the Future

Child Care Plays Important Role in Community Development

By Jean Morisseau-Kuni
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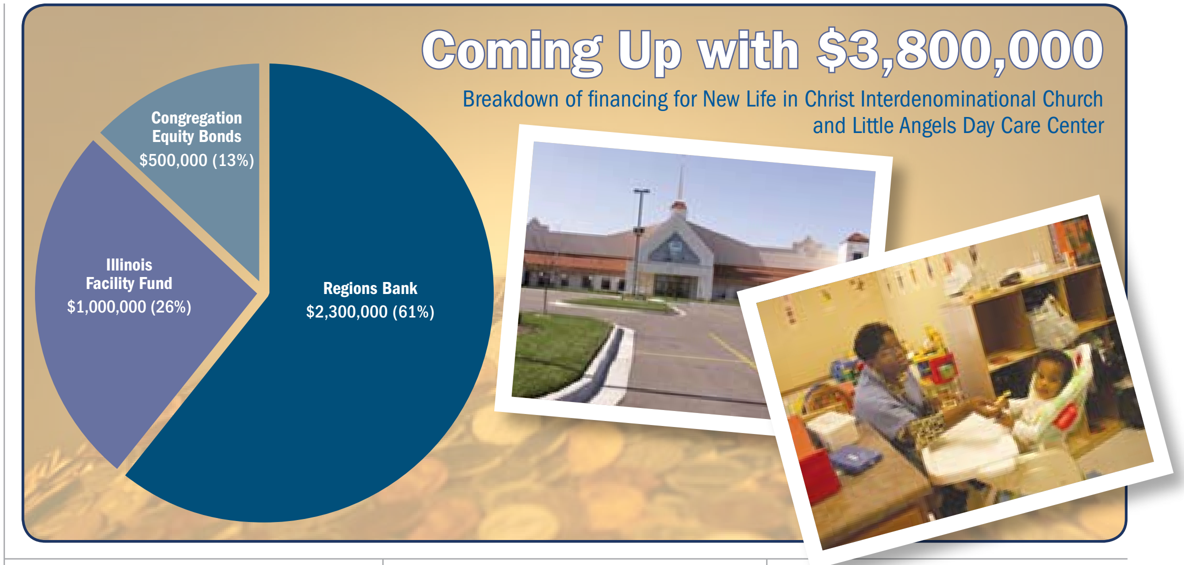

Working parents need safe, reliable and affordable child care. For low-income parents moving from welfare into the workforce, that can be hard to find. Many depend on friends and family to watch their children while they work.

Although this may be a good option for some parents, others may not have such support. In addition, children in home care may not receive educational and social opportunities that state-regulated child-care centers offer.

Nonprofit organizations can play a critical role in bringing child care to parents in low- and moderate-income areas. However, many nonprofits that operate child-care facilities lack the expertise or income to develop and fund a capital project and must look outside of their organizations for help. That help can come in the form of public-private partnerships with lenders.

Partnerships: Getting the Right People Involved in the Project

A public-private partnership exists when the public sector (federal, state and local officials and agencies) joins the private sector (families, employers, nonprofits, financial institutions, civic groups and service providers) to attain a shared goal. The partnership allows each sector to contribute its resources—including time, money and expertise—to complete the project.

The Department of Health and Human Services, which recognizes that collaborative efforts are needed to complete capital projects, established the Child Care Partnership Project. As a result, states are working to build and sustain partnerships with the private sector that bring together innovative efforts and technical and financial assistance. Those public-private partnership efforts have become an important vehicle to expand affordable quality child care.

The Growing Need

The need for more and better child care in low-income neighborhoods grew out of the 1996 Personal Responsibility and Work Opportunity Reconciliation Act. Congress realized that, in order for low-income people to move into the mainstream, the government needed to create programs that encouraged self-sufficiency. Temporary Assistance for Needy Families (TANF) and social service block grants are a result of those plans. TANF requires program recipients to have a job within two years of receiving benefits. The social service block grant programs allow states to create social programs, including child care, that work best in their communities.

Parents moving from welfare into entry-level jobs find that having a job doesn't mean earning a living wage. They also find that child care is the largest expense they have when joining the workforce.

States use portions of their social service block grants to ease the high cost of child care for low-income working parents, but that alone is not enough. Research has found that, even with assistance, low-income parents spend a much larger percentage of their income on child care than their middle-income counterparts. In 2003, a single parent who earned $8 to $9 an hour spent on average 15 percent to 22 percent of his or her income

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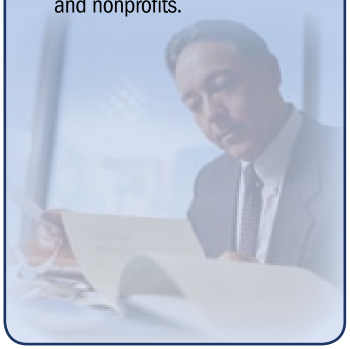
A Double Bottom Line for Banks

Building a child-care facility in a low-income neighborhood is an important tool that helps families become self-sufficient. Banks are an important element in funding these projects. In return for their investment, banks reap double bottom-line benefits—investments in child-care projects are long-term investments in their community and future customers.

Banks also receive Community Reinvestment Act (CRA) credit. CRA's definition of community development includes: community or tribal-based child care; educational, health or social services targeted to low- or moderate-income persons; or services that revitalize low- or moderate-income geographies.

How banks can get involved:

- Make loans or provide grants to child-care facilities in low- to moderate-income communities.
- Lend, make investments or provide grants to intermediaries, loan pools or consortiums that make loans to nonprofits.
- Serve on boards and share knowledge and technical expertise with intermediaries and nonprofits.



on child care, and those who earned minimum wage spent more than 28 percent. However, middle-income parents spent on average 8 percent to 10 percent of their take-home income on child care.

Creating a Haven for Little Angels

A child-care center in southern Illinois is a perfect example of a public-private partnership's success.

In 2001, Dr. G. Vincent Dudley and his newly formed congregation established New Life in Christ Interdenominational Church. The congregation created the framework for a holistic ministry that brings the spirit of community back to neighborhoods.

Church members envisioned building a church that would be more than just worship space. They wanted a community center where members would meet, learn, share, worship and care for each other. The congregation also knew the community would not be complete without a safe and affordable space for working parents to leave their children.

The young congregation quickly outgrew the space it was renting and began looking for land. After purchasing 11.5 acres of land in Lebanon, Ill., the congregation began working with a construction company that has experience in building faith-based facilities.

New Life in Christ Church was blessed with good cash flow and a growing membership, but it lacked experience in real estate and facility management. Members also found that, without a proven track record, traditional lenders were reluctant to loan them a large amount of money. Knowing they were struggling to find a way to build, their construction company told them about the Illinois Facilities Fund (IFF), a nonprofit organization that lends money to other nonprofits for facility building and renovation projects.

IFF is a community development financial institution (CDFI) and a partner in the Child Care Partnership Project. IFF works with nonprofits that serve low-income or special needs populations to assemble community stakeholders from both the public and private sectors to develop and complete capital projects. Currently, the CDFI is working with nonprofits in Illinois, Wisconsin, Iowa and Indiana. It plans to expand into Missouri in 2007.

IFF had the expertise the congregation lacked—experience in real estate development and management—and capital to get the project off the ground. After looking at the church's cash flow and vision, the IFF helped them develop a plan for a larger and more functional facility.

Dr. Dudley found that working with IFF was different from working with banks. The CDFI was willing to take risks that, due to safety and soundness matters, banks cannot. He said he was pleasantly surprised when IFF agreed to lend them money at a cheaper rate than they could get from a traditional lender. Although IFF does not lend money for worship space, it could lend the congregation $1 million for a child-care facility. The cost for the entire church facility, including the day care, was $3,800,000.

Because IFF was willing to take the second position on the loan, the capital project was more attractive to Regions Bank, which then became the lender in the first position on the loan, creating a layered financing package.

Today, New Life in Christ Church and Little Angels Day Care Center stand on part of the 11.5 acres the congregation purchased. The community worship center includes a sanctuary, gym, bookstore, snack bar, industrial kitchen, offices and an education and meeting space. Future development plans include a school, family center and housing.

Little Angels Day Care Center is a bright, colorful, interactive and state-certified facility that serves children aged 6 weeks through preschool. In addition, parents of school-aged children can take advantage of a before- and after-school program. Current enrollment at the center is 53 and quickly growing to full capacity of 105 children. While the center offers market-rate child care, it also works with the Children's Home and Aid Society of Illinois to provide free or greatly reduced care to low-income families.

The Rise in the Residential Concentration of Joblessness in America's Cities

By Christopher H. Wheeler
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Within any city or metropolitan area in the United States, there are vast differences in the economic well-being of individuals residing in different neighborhoods. Some areas tend to be populated by individuals with high incomes and large stocks of wealth; others, by those with substantially lower incomes and fewer assets.

Differences in neighborhood-level economic outcomes can also be seen in the incidence of unemployment, which can vary substantially from one residential area to another. Among the block groups (i.e., neighborhoods consisting of approximately 500 households and 0.33 square miles of land) located within the St. Louis metropolitan area, for instance, the unemployment rate in the year 2000 ranged from 0.3 percent to more than 98 percent.

While it is hardly surprising that unemployment rates differ across neighborhoods within a metropolitan area, between 1980 and 2000, there was a striking increase across the country in the variation in neighborhood-level unemployment.

During this period, rates of joblessness among block groups with the lowest levels of unemployment dropped even further, whereas rates of unemployment among neighborhoods with the highest levels of joblessness grew even larger. In other words, the unemployed within the nation's metropolitan areas became increasingly concentrated within relatively few residential areas between 1980 and 2000.

Why did this occur? Three possible explanations are: urban decentralization (i.e., the movement of individuals from dense city cores into less dense suburban fringes), industrial and institutional changes in the labor market, and increases in the sorting of individuals across neighborhoods by income and education.

The National Trend

Based on data from the decennial U.S. Census covering more than 165,000 block groups across 361 metropolitan areas, it is apparent that, between 1980 and 2000, unemployment became less evenly distributed across the nation's residential areas.[1] For example, in 1980, the median unemployed worker lived in a block group with an unemployment rate of 7.5 percent. That is, the unemployment rate within a worker's own block group of residence was 7.5 percent or greater for at least 50 percent of all unemployed workers.[2] Two decades later, this worker lived in a block group with an unemployment rate of 7.9 percent. This trend is particularly striking because the average metropolitan area unemployment rate declined from 6.9 percent to 5.9 percent during this period.

Neighborhood-level percentile differences reveal a qualitatively similar pattern. In 1980, the average difference between the neighborhood at the 90th percentile of the unemployment distribution (i.e., the unemployment rate that is larger than 90 percent of the block-group level unemployment rates within a metropolitan area) and the neighborhood at the 10th percentile was 7.3 percentage points. Two decades later, the difference was 11.2 percentage points. As noted previously, the rise in this gap is the result of a simultaneous increase in unemployment among block groups with already high levels of unemployment and a decrease in unemployment among block groups with already low levels. The average 90th percentile increased from 11 percent in 1980 to 12.5 percent in 2000. The average 10th percentile decreased from 3.7 percent in 1980 to 1.3 percent in 2000.

Some Local Trends

By and large, these national trends were also observed within the metropolitan areas of the Eighth Federal Reserve District. Consider, for example, the experiences of Little Rock, Louisville, Memphis and St. Louis. In 1980, the gap between the 90th and 10th percentiles of the block group unemployment distribution in Little Rock stood at 7.5 percentage points. By 2000, this figure had widened to 11.9 percentage points. Memphis and St. Louis saw even larger increases in unemployment differences between neighborhoods. Between 1980 and 2000, the 90-10 gap rose from 11.4 to 15.1 percentage points in St. Louis, and expanded from 13 to 17.1 percentage points in Memphis. Although it was modest in comparison, Louisville also experienced an increase in its unemployment concentration. Its 90-10 difference rose from 10.3 percentage points in 1980 to 10.5 percentage points two decades later.

Three Possible Explanations

Urban Decentralization

One of the most prominent theories in urban economics over the past half century

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suggests that the movement of population and employment away from city centers toward suburban locales has created an underclass of unemployed workers in central cities. This idea, known widely as the spatial mismatch hypothesis, was first studied by the economist John Kain.[3]

The basic rationale behind this theory is straightforward. As city populations and employers move away from traditional central business districts, it becomes more difficult for workers who choose to remain in those central cities to find and secure jobs. Increased spatial isolation from employment opportunities presumably increases commuting costs and makes the job search process more difficult. In addition, increased distance may limit access to information about available jobs or create negative attitudes about central city workers among employers. Thus, as employers move farther away, it becomes less likely that the residents of historical city centers will be able to locate and maintain a job.

Urban populations in the United States, of course, began moving from central cities to suburban locales more than a century ago and have continued to do so in recent decades. For example, population density, which measures the extent to which residents within a city are concentrated or spread out, decreased from a level of 3,080 residents per square mile in 1980 to 3,004 in 2000.

Industrial and Institutional Change in the Labor Market

The last several decades have been characterized by decreasing employment in certain sectors, but increasing employment in others. Most notably, manufacturing employment has decreased while service employment has increased. In addition, rates of unionization have fallen substantially.

Between 1980 and 2000, the average share of manufacturing in total employment declined from 22 percent to 14 percent across the 361 metropolitan areas in this study's sample, whereas the fractions of workers employed in education and health services rose from 17 percent to 20 percent. Rates of unionization decreased from an average of 24 percent in 1980 to 14 percent in 2000.

How might these changes influence the geographic distribution of unemployment within a metropolitan area? If workers in certain neighborhoods tend to be employed in similar types of industries, or if unionization is relatively concentrated among the residents of certain neighborhoods, these changes may have produced differential rates of unemployment across different areas within a city. In other words, rather than there having been a change in the way that residents of a metropolitan area sort themselves across neighborhoods (e.g., into areas populated primarily by either high-skill workers or low-skill workers), it may simply be that changes in the labor market have differentially influenced workers of different neighborhoods.

Segregation by Income, Education

The rise in the concentration of unemployment may, on the other hand, be the product of greater segregation of individuals by income and education. If the manner by which individuals sort themselves into residential areas has created neighborhoods with concentrations of either high- or low-skill individuals, we should see increasing disparity between the unemployment rates of different neighborhoods. Low-skill individuals, after all, tend to experience higher rates of unemployment than high-skill individuals.[4]

On the surface, this explanation seems related to the urban decentralization hypothesis sketched above. In fact, previous work has suggested that as city populations spread out, households become increasingly sorted into high- and low-income neighborhoods. Recent research, however, has found little association between the extent to which urban populations spread out and the income differentials they exhibit across block groups.[5]

In general, there was a rise in income variation across block groups in the urban areas of the country between 1980 and 2000. On average, the variance of block-group level household income nearly doubled during this period. Additionally, college graduates became increasingly segregated from

REFERENCES

1 These data are taken from Census extracts compiled by GeoLytics Inc., which assembles Census data using constant geographic definitions over time. See www.geolytics.com.

2 This figure is calculated by taking a weighted median across all block groups within a metropolitan area, where the weights are the number of unemployed individuals within each block group.

3 John F. Kain. "Housing Segregation, Negro Employment, and Metropolitan Decentralization." *Quarterly Journal of Economics,* May 1968, 82(2), pp. 175-97.

4 For example, the Bureau of Labor Statistics reports that the average rate of unemployment tends to decrease with education attainment. See www.bls.gov/news.release/empsit.t04.htm.

5 See, for example, Christopher H. Wheeler. "Urban Decentralization and Income Inequality: Is Sprawl Associated with Rising Income Segregation Across Neighborhoods?" Working Paper No. 2006-037A, Federal Reserve Bank of St. Louis, 2006.

6 Christopher H. Wheeler and Elizabeth A. La Jeunesse. "Trends in the Distributions of Income and Human Capital Within Metropolitan Areas: 1980-2000." Working Paper No. 2006-055A, Federal Reserve Bank of St. Louis, 2006.

7 The analysis is based on regressions of unemployment concentration on numerous metropolitan-area-level characteristics. For more details, including all of the results, see Christopher H. Wheeler, "Trends in Neighborhood-Level Unemployment in the United States: 1980-2000." Working Paper, Federal Reserve Bank of St. Louis, 2006.

8 Anne C. Case and Lawrence F. Katz. "The Company You Keep: The Effects of Family and Neighborhood on Disadvantaged Youths." NBER Working Paper 3705, National Bureau of Economic Research, May 1991.

9 Giorgio Topa. "Social Interactions, Local Spillovers and Unemployment." *Review of Economic Studies,* April 2001, 68(2), pp. 261-95.

10 William Julius Wilson. *The Truly Disadvantaged: The Inner City, The Underclass, and Public Policy.* Chicago: University of Chicago Press, 1987.

individuals with less schooling, suggesting that, in recent decades, the highly educated have sought neighborhoods populated primarily by other highly educated individuals.[6]

The Findings

Results from the statistical analysis of these patterns indicate that, of these three possible explanations, rising segregation of individuals by income and education is the most likely culprit.[7] After controlling for a number of characteristics that may influence the residential distribution of unemployment, including the basic demographic makeup of each metropolitan area, the findings indicate that there is essentially no correlation between rising unemployment concentration and any of the following three quantities: population density (a measure of urban decentralization), industrial composition of a metropolitan area and extent of unionization among the local workforce. In contrast, there is a significantly positive association between unemployment concentration and the extent to which neighborhoods are segregated by income and educational attainment.

The Implications

Why should the rise in the concentration of unemployment within relatively few residential areas concern us? The answer, quite simply, relates to the idea that we are all influenced by our immediate surroundings. For decades, economists and sociologists have argued that the characteristics of an individual's residential area greatly influence his or her economic outcomes. The evidence largely supports this notion.

Economists Anne Case and Lawrence Katz, for instance, have found evidence of strong peer effects characterizing a variety of behaviors, including criminal activity, drug and alcohol use, schooling, and employment status within a sample of residential areas in Boston.[8] Giorgio Topa, an economist at the Federal Reserve Bank of New York, has found evidence of local spillovers in unemployment across neighborhoods in Chicago.[9] High levels of unemployment within a residential area tend to have a negative influence on the employment prospects of individuals residing within or near that neighborhood.

According to William Julius Wilson, an influential sociologist and scholar of urban poverty, neighborhood effects of this sort formed the basis of the rise in inner city poverty in the United States in recent decades.[10] As successful workers have gradually left inner cities, those who remain are surrounded by rising levels of poverty and joblessness, which makes it increasingly less likely that the residents of these areas will find work.

The rise in the concentration of unemployment, therefore, may be creating poverty traps from which people will find it increasingly difficult to escape.

Community Development Financial Institutions: Promoting Economic Growth and Opportunity

Federal Reserve System Chairman Ben S. Bernanke spoke about community development financial institutions (CDFIs) at the Opportunity Finance Network's Annual Conference on Nov. 1, 2006, in Washington, D.C. Following are excerpts from his speech.

Improvements in Economic Opportunity and Some Challenges

In the past decade or so, U.S. households overall have experienced notable gains in terms of some key indicators of economic opportunity. Three such indicators ... are access to credit, rates of home ownership and small business development. Moreover, as measured by these indicators, recent improvements in traditionally underserved markets appear to have been as great as or greater than those in middle- and upper-income households and communities. At the same time, however, the gaps between lower-income households and other households with respect to these measures of opportunity remain wide ...

CDFIs as a Solution to Market Failures

Many factors have contributed to the economic gains that I have cited, including broad macroeconomic forces and advances in the delivery of financial services. CDFIs have also played a valuable role by analyzing the economic potential of lower-income markets and developing strategies and marshaling resources to tap that potential ....

Standard economic analysis tells us that when competitive conditions prevail in a market, the resulting prices induce firms and individuals to allocate resources in a manner that tends to maximize social welfare. However, economists also recognize that various deviations from idealized market conditions, termed market failures, can inhibit the efficient allocation of resources. In one type of market failure, called a neighborhood externality, the actions of one person affect the well-being or economic welfare of others in the local area, but the individual taking the action neither bears the full costs of nor reaps the full benefits from those actions. Because the individual does not bear the full consequences of the actions taken, he or she may act in a way that is not in the best economic interest of the neighborhood as a whole. For example, the failure of some owners to maintain their properties can lower the value of well-maintained properties in the same neighborhood. Ultimately, such spillover effects from neglected properties can lead to underinvestment in the whole community, potentially harming all neighborhood residents and businesses.

A related type of market failure studied by economists is known as an information externality. An information externality may arise when information about economic opportunities in an area has the potential to benefit many investors but is costly to gather. As a result, no single potential investor may find obtaining the data to be profitable. For example, on average, lower-income areas have fewer owner-occupied homes and record fewer home-purchase loans than higher-income areas do. Lower transaction activity makes accurately gauging property values and evaluating credit risks in those areas more difficult, which may inhibit the extension of credit. Alternatively, lower-income people may have shorter and more-irregular credit histories, making an evaluation of their individual creditworthiness more difficult and costly. Because a potential investor who bears the costs of obtaining data about underserved neighborhoods may be able to obtain only a portion of the full economic benefits, these data may remain uncollected.

One purpose of CDFIs is to help overcome these and other market failures that inhibit local economic development. For example, by facilitating larger-scale property development projects, coordinating public and private investment efforts, and working to improve amenities and services in a local area, CDFIs may help to solve collective action problems and reduce neighborhood externalities. CDFIs can counter information externalities by assuming the cost of learning about their local communities and developing specialized financial products and services that better fit local needs. In general, CDFIs provide coordinated development activities and community-specific information that the market may not supply on its own.

Among other benefits, the familiarity with each community that CDFIs develop can help to gauge and control risk. For example, the use by CDFIs of appraisers who specialize in evaluating properties in a particular community produces more-reliable estimates of the value of the loan collateral. Likewise, CDFIs structure loans and use public and private credit enhancements both to increase borrowers' ability to qualify for loans and to spread the associated credit risk among a mix of private creditors and other providers of funds.

Although these specialized techniques can reduce credit risk, they are labor-intensive and, consequently, expensive. Most private lending institutions reduce costs by adopting processes that are highly standardized and automated. Such systems are not necessarily compatible with lending to borrowers who require substantial screening, counseling and monitoring or with acquiring specialized information about community development lending. Part of the explicit mission of CDFIs is to assume the costs of conducting such research and analyses in underserved communities. CDFIs have also developed techniques and strategies—such as flexible underwriting criteria, specialized loan products and intensive financial education programs—to meet the financial circumstances of their communities ...

Is Community Development Lending Profitable?

Can private-market participants profit from community development lending? Data based on Community Reinvestment Act (CRA) examinations tell us much about the volume of such loans but less about their performance and profitability. However, a Federal Reserve survey found that nearly all banks reported that their community development activities were profitable, at least to some degree. About two-thirds of the banks also reported receiving some benefit from their lending unrelated to loan profitability, such as an improved image in the community.

Since the Federal Reserve report, studies undertaken by the CDFI Data Project show that, for 2004, charge-off rates for CDFI portfolios were similar to those for the banking industry as a whole. These studies and market data suggest that banks and other private organizations may become an increasingly significant source of competition for CDFIs. That is good news, not bad news. Indeed, the surest sign of a CDFI's success is that private investors see viable investment opportunities in the neighborhoods in which the CDFI has been operating.

(To read the entire speech, go to www.federalreserve.gov/boarddocs/speeches/2006.)

Communities' Needs

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- Job skills training is available in most communities through community colleges, churches or other organizations. Some interviewees suggested that an evaluation of the number and types of programs and their effectiveness would be beneficial. Employment trends, job classifications and types of industries a community is attracting (or hopes to attract) should dictate the type of employees the community will need and, therefore, what skills training is needed.

Affordable housing

- Rising interest rates combined with the availability of flexible mortgage products and relaxed credit standards are now leading to higher levels of bankruptcies and foreclosures. Low credit scores and poor credit histories are keeping many potential borrowers from accessing credit through traditional lenders. As one banker said, "Finding qualified home buyers is becoming more difficult."
- Many low- and moderate-income individuals still lack the basic skills, fundamentally and financially, to become home owners. Home-buyer counseling programs generally are available throughout the District, but the quality of the education being provided is an issue. Both financial education curricula and home-buyer training programs should be evaluated for effectiveness, and, as one interviewee put it, "stick with the ones that work."
- Following hurricanes Katrina and Rita, the cost of building materials has risen. Escalating construction costs have resulted in the development of fewer affordable housing units and demands for more program resources.
- In addition to the expected responses about affordable housing (credit concerns, funding issues and a need for home ownership training), there were concerns about the general availability of both affordable and moderate-income housing. Even with qualified buyers, there was not enough housing stock available. This issue was even more pronounced in rural areas where there was not significant stock of moderate-income rental housing. Financing sources for repair of rental units was also cited as a need.

Availability of capital for small businesses and entrepreneurs

- On the entrepreneurial front, inadequate training for entrepreneurs and the lack of significant venture capital for startup and emerging businesses are concerns.
- Tightening credit standards can "turn off the faucet" for small businesses and entrepreneurs, which are typically undercapitalized. Business loan pools are helping to meet the demand for financing.
- Microenterprise loan programs are filling some of the financing gaps for loans in the $5,000 to $50,000 range.

The need for collaborative efforts

- Finally, the assessment showed a need for more collaborative efforts that include all affected stakeholders: not only community groups, local government and lenders, but also state and federal governments, academic institutions and others.

Regional, Rural and Urban Needs

Recognizing the wide range of locales within the District, further analysis was done to distinguish issues along regional, rural and urban areas. About two-thirds of the interviews occurred in urban areas and a third in rural areas; however, the organizations served a variety of geographic regions—from as small as a neighborhood to as large as multi-state. The breakdown of interviews by geographies served was: 36 percent multi-county, 17 percent county, 16 percent city, 13 percent MSA, 10 percent multi-state, 7 percent state and 1 percent neighborhood.

Regionally, the major issues of concern could be summarized as the need for more and diverse collaboration and more information sharing.

In rural areas, workforce development and diversifying the employment base were distinct needs.

An analysis of issues in urban areas presented three significant findings. First, there was concern about the pace and scope of revitalization of central cities in all urban areas. Second, gentrification, particularly in metro Memphis and St. Louis, is becoming a larger concern as increasing house prices are forcing some home owners out of the market. Finally, expanded Hispanic support services are a definite need in Little Rock, St. Louis, Memphis, Evansville and Springfield, Mo.

Looking Ahead

This environmental assessment helped direct the Community Affairs department's focus for 2007. The department's initiatives primarily will fall under three comprehensive themes: opportunity finance, asset building and placed-based economies.

Opportunity finance involves community development and economic growth in which people come together and make decisions to organize and pool assets and resources for the purpose of addressing unmet needs and opportunities.

Asset building encompasses public policies, strategies and programs that enable people with limited financial resources to accumulate long-term and productive assets.

Finally, place-based economies focus on building the organizational capacity of states, cities and neighborhoods to create housing, jobs and community development.

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.

Memphis Gets New Seeds for Small Business Growth

Southeast Community Capital Corp. has an additional $500,000 to help finance small businesses in Memphis' underserved areas thanks to an investment from Seedco Financial Services, a subsidiary of Structured Employment Economic Development Corp. in New York.

The Seedco investment allots $250,000 for businesses in the South Main Historic District in downtown Memphis. It comes as small business opportunities emerge because of the new Westin-Beale Street Hotel development.

The remaining $250,000 is designated for the Memphis Business Opportunity Fund (MBOF), managed by Southeast Community Capital Corp. This is the first injection of new capital into the MBOF since its inception in 2002. Additional investors include First Tennessee Bank, Regions Bank and SunTrust Bank, with investments totaling $1,350,000.

The City of Memphis created MBOF to make loans to disadvantaged small businesses. Loan amounts are $10,000 to $500,000. The fund targets small businesses owned by minority and women entrepreneurs that either employ low- to moderate-income individuals or that are located in the Memphis Renewal Community, designated by the City of Memphis.

In addition to the $500,000 investment, Seedco placed $50,000 into a loan-loss reserve to encourage investments in riskier ventures.

For more information, contact Patrice Harris, MBOF manager, Southeast Community Capital Corp., Memphis Office, at 901-526-9300 or e-mail her at harris@sccapital.org.

Illinois Main Street Communities Go Wi-Fi

The Carbondale, Ill., Main Street program got a $17,875 boost from the Illinois Main Street program to create a wi-fi district in downtown Carbondale. The free wireless district will stretch for 30 blocks, covering downtown businesses, the hospital, library, city hall and the civic center. About 5,500 residents, students and tourists work and play in downtown Carbondale every day, making it a hub for activity. Adding a wireless network will make it a virtual hub as well. In addition, the new wireless district will extend the wireless access already available on Southern Illinois University's campus, allowing students the flexibility of taking their virtual campus off campus.

The Illinois Main Street program's mission to increase tourism and economic development includes helping communities create wi-fi zones. Belleville, Mount Vernon and Quincy also have received grants to create virtual hot spots in their downtown areas.

Wi-fi, short for "wireless fidelity," is a term for certain types of wireless local area networks.

Small Towns, Businesses Focus of Arkansas Partnership

The East Arkansas Enterprise Community (EAEC) is partnering with the Enterprise Corporation of the Delta and the Southern Good Faith Fund to help existing and potential entrepreneurs.

The EAEC's Small Town Resource & Business Development Center assists small towns and cities with community, human and economic development and small business development. Located in Forrest City, Ark., the center is a one-stop shop for small and emerging businesses. Experts provide technical assistance in various areas of community development.

The Enterprise Corporation of the Delta provides technical assistance to small business startups and helps them plan for expansion and viability. The Southern Good Faith Fund facilitates the start-up work for small business owners by providing workshops, training and technical assistance.

For more information, contact Cassandra Lumpkin at EAEC at 870-630-2005 or by e-mail at eaec@sbcglobal.net.

REACH Illinois—Employer Assisted Housing

The REACH Illinois program provides matching funds and state tax credits for Illinois employers who implement employer-assisted housing programs.

The Illinois Affordable Housing Trust Fund will match an employer's down payment and closing cost assistance up to $5,000 for each income-qualified employee. Income-qualified employees must earn less than 80 percent of the median county income where they reside. In addition, to help offset the cost to employers who implement a "live near work component," the state will provide a tax credit of 50 cents for each dollar an employer invests in the program for eligible employees. Eligible expenses include down payment and closing cost assistance as well as home-buyer counseling and administrative costs.

For more information, contact Housing Action Illinois at 312-939-6074 or visit www.housingactionil.org.

Home Buyer Brochures Available in Spanish

Four brochures from the Federal Reserve Bank of St. Louis that list home-buyer counseling agencies are now available in English and Spanish.

Each of the brochures, titled *Learn Before You Leap (Enterese antes e lanzarse),* lists agencies in one of the Fed's Eighth District zones: St. Louis, Little Rock, Louisville or Memphis. The nonprofit agencies help potential home buyers through every step of the home-buying process, from budgeting income to negotiating a contract to closing on a loan.

Multiple copies can be ordered from Cindy Davis in St. Louis, 314-444-8761; Julie Kerr in Little Rock, 501-324-8296; Kendra Keller in Louisville, 502-568-9202; or Cathy Martin in Memphis, 901-579-4102.

CALENDAR

FEBRUARY

1-2

Community Cafe 24—Columbia, Mo.
Sponsor: Missouri Community Development Society
314-444-8891

6

Neighborhood Revitalization Series: Urban Information Gap—Louisville
Sponsor: Federal Reserve Bank of St. Louis, Louisville Branch
www.stls.frb.org/community/conferences.html

19-23

NeighborWorks Training Institute—Atlanta
Sponsor: NeighborWorks
www.nw.org/training
202-220-2454

26-March 1

Rural Leadership: Creating the Future—Long Beach, Calif.
Sponsors: Rural Community Assistance Corp., Rural Community Assistance Partnership, U.S. Department of Agriculture
www.rcac.org/news/events/rcac/conference%20information.pdf

MARCH

10

12th Annual St. Louis Neighborhoods Conference—St. Louis
Sponsor: St. Louis Association of Community Organizations
http://stlouis.missouri.org/slaco/
314-533-9104

12-15

Mid-South Basic Economic Development Course—Little Rock, Ark.
Sponsor: UALR's Institute for Economic Advancement
www.aiea.ualr.edu/econdev/

20

Neighborhood Revitalization Series: Neighborhoods in Bloom—Louisville
Sponsor: Federal Reserve Bank of St. Louis, Louisville Branch
www.stls.frb.org/community/conferences.html

21-23

CDVCA Annual Conference—Washington, D.C.
Sponsor: Community Development Venture Capital Alliance
www.cdvca.org
212-594-6747

26-30

Community Development Academy, Courses 1 and 2—Excelsior Springs, Mo.
Sponsor: University of Missouri Community Development Extension Program
http://muconf.missouri.edu/CommDevelopmentAcademy/
573-882-8320

29-30

Financing Community Development: Learning from the Past, Looking to the Future—Washington, D.C.
Sponsor: Community Affairs Office of the Federal Reserve System
www.federalreserve.gov/communityaffairs/national/default.htm

APRIL

2-4

Cambio de Colores: Latinos in Missouri—Kansas City, Mo.
Sponsor: University of Missouri
www.cambiodecolores.org

17-19

8th Gathering of Social Enterprise Alliance—Long Beach, Calif.
Sponsor: Social Enterprise Alliance
www.se-alliance.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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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.

Have you HEARD

Brochure Explains Nontraditional Mortgages

A new publication that can help consumers decide whether a nontraditional mortgage loan is right for them is available from the federal bank, thrift and credit union regulatory agencies.

Interest-Only Mortgage Payments and Payment-Option ARMs—Are They for You? features information on interest-only (I-O) mortgages and adjustable-rate mortgages (ARMs) with the option to make a minimum payment (a payment-option ARM).

The publication is available at www.federalreserve.gov/pubs/mortgage_interestonly/default.htm.

Single copies are available free of charge by calling 202-452-3245.

Freddie Mac Offers Employers Help with Home Ownership Initiative

Workforce Home Benefit, a new initiative from Freddie Mac, helps businesses explore employer-assisted home ownership options. The program can be customized to each company's particular needs.

Typically for companies with at least 1,000 employees, Workforce Home Benefit can be structured to include home-buyer education and counseling, financial literacy training and down payment and closing cost assistance. Freddie Mac can match employers with lenders, nonprofit housing counseling agencies and local down payment assistance programs.

One-time grants to help with closing costs, deferred loans, forgivable loans and matched savings accounts are the options used by most employers. In addition, a company may be able to take a tax deduction for a business expense.

For more information on the Workforce Home Benefit initiative, visit www.freddiemac.com.

Minor Joins Bank, Eubank Relocates

Michael Minor has joined the Community Affairs Office of the Federal Reserve Bank of St. Louis as a senior specialist. He works at the Bank's Memphis Branch.

Minor has extensive experience in the Memphis community. Before coming to the Fed, he was chair and associate professor of business administration, division of business and economic development, at LeMoyne-Owen College in Memphis, Tenn.

Previously, he held several positions with the City of Memphis, including manager of its Business Development Center. Minor obtained his undergraduate degree in economics from Harvard University and a Master of Business Administration and a Master of Science in real estate development from the University of Memphis. He currently is a candidate for a doctorate in higher and adult education from the University of Memphis. Minor can be reached at 901-579-4106.

The Community Affairs Office also announced that Ellen Eubank, community affairs manager, has relocated from the Bank's Memphis Branch to its headquarters in St. Louis. Eubank joined the Fed in 1998. She can be reached at 314-444-8650.

Minor

Eubank

New Law Changes Regulations on Public Welfare Investments

The Financial Services Regulatory Relief Act of 2006 went into effect Oct. 13, 2006. The legislation is designed to provide regulatory relief to banking organizations and to increase efficiency in the banking system.

The new law modifies a number of statutes related to banking and other financial services. Among other things, it changes and enhances the authority for banks to make public welfare investments.

Specifically, it raises the cap on the maximum aggregate public welfare investments state-member and national banks can make from 10 percent to 15 percent of the bank's unimpaired capital and surplus. Generally, banks may make public welfare investments of up to 5 percent of their capital and surplus without prior approval from a regulatory agency. State-member banks must continue to obtain Federal Reserve approval for any investments that would cause them to report aggregate public welfare investments that exceed 5 percent of the bank's unimpaired capital and surplus.

The FSRR Act also redefines a permissible "public welfare" investment as one that primarily benefits low- and moderate-income (LMI) communities or families. State-member and national banks had been permitted to make investments that primarily promoted the public welfare, with LMI-focused investments included as the principal example of a permissible investment.

Although the standard for permissible public welfare investments has changed, most common public welfare investments benefiting LMI communities and families, such as low-income housing tax credit projects, will continue to be authorized. Further, any public welfare investment or written commitment to make such an investment made before the new law was enacted will not be affected.

For more information, visit www.occ.gov/ftp/bulletin/2006-44.html.