LINKING LENDERS AND COMMUNITIES

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Recessions Happen: Now What?

A commentary by Marta Burgin and Andrew Pack

Since the start of the recession in 2007, a lot has changed in the Federal Reserve's Eighth District and the entire United States. Most startling are the high unemployment numbers combined with state and local budget deficits. With communities in the Eighth District seeing double-digit unemployment numbers and decreased budgets for many programs, what types of policies can help individuals and communities manage the aftermath of the current recession?

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This recession and others have shown that the foundation for real and sustainable change and economic development in a community is education.

Moreover, although it may be difficult to think about the next recession as we attempt to move out of this one, the reality is that recessions happen. They are a natural and inevitable part of the economic cycle. Therefore, it is also important to consider what types of policies can help individuals and communities better hedge against and weather recessions in the future.

An important component to communities' economic recovery and resilience will be the ability to meet demand for a suitable workforce. Therefore, some of the most critical policies for the United States and the Eighth District leading out of the recession will likely center around education, workforce development and regional approaches to job growth.

In a recent study, *The Effects of Recessions Across Demographic Groups*, St. Louis Fed economist Howard J. Wall examines the total effects of recessions (current and past) across a range of demographic categories: sex, race, age, marital status and educational level.[1] Among Wall's key findings is the link between educational attainment and how a recession affects employment in any demographic group. The study points to the fact that, regardless of other demographic indicators, the higher level of education a person possesses, the less likely the person is to have lost their job during the recession. In fact, during the recession, employment for those with some college or a bachelor's degree increased. On the other hand, unemployment for people without a high school diploma or only a high

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school diploma was accelerated by the recession.

Transitioning out of the recession, it will be important for communities to have people with higher levels of education because of the job skills such people offer. The types of higher education experiences that are needed are varied—ranging from traditional degree-bearing higher education programs to various training, certification and retraining programs.

For example, according to the Bureau of Labor Statistics, half of all jobs in the fastest-growing industries from 2006 to 2016 will require a bachelor's or some form of higher degree. Having said that, for 28 of the 30 jobs that will see the biggest declines between 2006 and 2016, on-the-job training is actually the most important form of education. In addition, a recent article in *USA Today* noted that 71 percent of laid-off workers are seeking work in other job fields. The economic stimulus package contains nearly $4 billion over the next three years to help retrain and to place laid-off workers into new careers.

Communities and individuals that prepare for future recessions now by placing a high value on education and increasing access to education will be better equipped to weather future recessions. (See Howard Wall study, Figure 18.) Communities in the Eighth Federal Reserve District understand the importance of education to economic resilience and attainment and are undertaking efforts to not only manage the effects of this recession, but to prepare for the future as well.

Unemployment in 8th District (SA*,%)

MSA	Dec-07	Sep-09
Little Rock	4.3	6.2
St. Louis	5.8	10.2
Louisville	5.7	10.6
Memphis	5.8	10.1
United States	**4.9**	**9.8**

****Seasonally adjusted***

In Louisville, KentuckianaWorks has received $3 million from the economic stimulus to train and re-train laid-off workers.[2] Part of the money will fund KentuckianaWorks scholarships that will help workers complete a certificate program, associate or bachelor's degree. Laid-off workers may receive up to $4,000 for tuition and $600 for books and supplies over a two-year period. It is important as we rise out of the recession and attempt to create a stronger future economy that communities and states in the Eighth District have the ability to leverage federal funds for improving and retraining the workforce.

CareerPlace in Memphis is also helping to reconnect people to the workforce by offering programs that connect people with businesses.[3] Porter-Leath, the nonprofit group that operates CareerPlace, started the job readiness program last year. Opportunities range from internships to permanent jobs. The program also helps participating businesses receive tax credits for hiring workers. Those responsible for creating CareerPlace believe that helping individuals gain more experience will help them attain better jobs and have the skills to weather future recessions.

Workforce partnerships and sector-based approaches can be critical to a community's or region's ability to grow, attract and retain jobs. Partnerships with those in the business community, educational institutions, workforce organizations, nonprofits and other community groups not only create a more effective way of sharing resources, but also foster a collaborative approach to improving the regional economy. Working with the business community and other organizations can help better match workers and talent to specific jobs and industries in the region.

The St. Louis Regional Chamber and Growth Association (RCGA) recently rolled out its new four-part regional plan for post-recession recovery.[4] One of the most important parts of the plan is to attract, develop and retain top talent in the region. RCGA's "Bounce Back St. Louis Program" is one component in creating a city that uses its regional strengths and networks to develop a competitive workforce in the post-recession economy.[5] "Bounce Back St. Louis" brings together people in business, education, professional associations and career centers through career forums, talent groups, partnerships, social networks and a web site that acts as a hub to keep people informed and connected. Creating regional networks to increase the talent and skills of the St. Louis workforce will help St. Louis during future recessions.

Regional groups such as the Metro Little Rock Alliance and the Little Rock Regional Chamber of Commerce have been critical in working together to create jobs.[6, 7] Little Rock has one of the lowest unemployment rates of any city in the United States. Little Rock's regional approach to job creation has resulted in job growth even amidst a deep recession. During 2007 and 2008, Little Rock had a record amount of new capital investment, with almost $1 billion in new investments during the early part of the recession. Recently, the Little Rock area has attracted jobs in the aviation, energy and steel industries. Bringing together regional resources and assets

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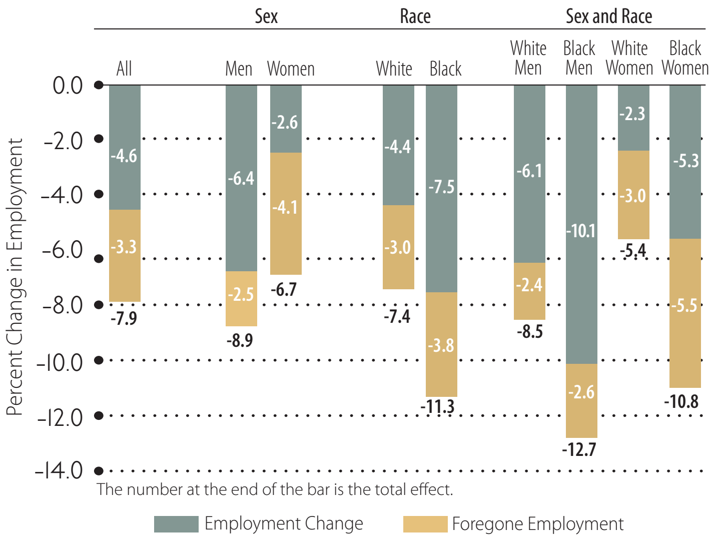
This Recession's Effect on Employment

How It Stacks Up for Blacks, Whites, Men and Women

By Howard J. Wall

The Employment Effects of the 2008-2009 Recession
2007. Q2 – 2009. Q3



SOURCES: Bureau of Labor Statistics and author's calculations

Since the U.S. economy entered into its current recession in December 2007, steep job losses have been seen for most demographic groups and industries. By any measure, news from the labor market has been dire: Between the fourth quarter of 2007 and the third quarter of 2009, nonfarm employment fell by about 6.8 million jobs while the unemployment rate rose from 4.8 percent to 9.6 percent. The overall picture has been bleak, but the bad news has not been distributed evenly across demographic groups.

A recent report produced by the Federal Reserve Bank of St. Louis analyzed the effects of the recession on the employment of a variety of demographic categories—sex, marital status, race, age and educational attainment—relative to the previous five recessions.[1] To provide a more complete picture of what happens to employment during recessions, the report accounted for two important considerations that are usually overlooked. First, it considered employment losses that occurred outside of official recessions because changes in employment do not always coincide with official recession periods (i.e., jobless recoveries). Second, the report also used estimates of the growth in employment that would have occurred if the recession had not happened—foregone employment—to more accurately measure the total effect of recessions on the level of employment.

This article follows the methodology of the report and applies it to the 2008-2009 recession, focusing on the different effects of the recession by sex and race.

Measuring the Effects of the Recession on Employment

When the word *recession* is used to describe specific periods of economic weakness, it refers most often to the official recession dates determined by the business-cycle-dating committee of the National Bureau of Economic Research (NBER). It used to be that NBER recession periods coincided with periods of falling employment, but this link collapsed starting with the 1990-91 recession. For the current recession, employment growth first dipped below zero in early 2007, months before the start of the official recession, and has continued to fall even after the second quarter of 2009, the date that most analysts presume will be considered the last quarter of the recession. Therefore, the effects of the recession should be measured as starting with the second quarter of 2007 through the most recent data available.[2]

Typically, the effects of a recession on employment are seen as simply the difference between the levels of employment at the start and end of a recessionary period. This assumes, though, that there would have been zero employment growth if the recession had not occurred. However, the recession results not only in a drop in employment from its pre-recession level, it also prevents employment growth that would have occurred. This "foregone" employment needs to be accounted for in an analysis of the recession's total effects on employment. This consideration is especially crucial for present purposes because average employment growth varies a great deal across demographic categories.

Total Effects of the Recession

The figure illustrates what has happened to employment

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because of the recession. For all categories combined, the level of employment has fallen by 4.6 percent. As already described, however, this does not tell the whole story. What is needed is a notion of what the level of employment would have been if there had not been a recession. If the estimate of the missing employment growth is taken to be simply the median growth between 1985 and 2009, the foregone employment is 3.3 percent, making the total effect of the recession on employment a 7.9 percent decrease.

The difference across demographic groups that has received the most attention is that between men and women. In fact, some have labeled the recession the "Great Man-Cession" because employment losses have fallen disproportionately on men. As shown in the figure, employment for men fell by 6.4 percent whereas that of women fell by only 2.6 percent. Put another way, the fall in men's employment is about 2.5 times that of women's.

It is not at all unusual for men to bear a greater burden of direct employment losses during a recession.[3] In fact, this recession is one of the milder ones in this regard. Further, because women's employment has tended to grow faster than men's employment, the difference between men and women is reduced dramatically once foregone employment is taken into account. Specifically, because foregone employment for women was about 60 percent higher than for men (4.1 percent versus 2.5 percent), the total effect of the recession on employment was about 33 percent larger for men than for women (-8.9 percent versus -6.7 percent). So, although the burden of the recession has fallen disproportionately on men, the discrepancy between men and women is not nearly as large as it appears from looking at the simple employment changes alone.

There are interesting differences in the effects of the recession if the employment data are broken down by race. In fact, the differences by race are intertwined with the differences by sex. As reported in the figure, there is a substantial gap in the changes in employment between whites and blacks: White employment is 4.4 percent below its pre-recession level, whereas black employment is 7.5 percent below its pre-recession level. Because black employment has tended to grow faster than white employment, the gap widens after foregone employment is included: The total effect of the recession on black employment is about 50 percent higher than the total effect on white employment (-11.3 percent versus -7.4 percent).

The final section of the figure shows how the breakdowns by race and sex are intertwined. First, whereas the effect of the recession on black men's employment is about 50 percent of its effect on white men's employment, the effect on black women is twice the effect on white women. Further, for men, it is the change in employment that is dominant, although there are significant differences by race: For white men, the change in employment is about 2.5 times foregone employment, while for black men the employment change is about 4 times foregone employment. For women, on the other hand, it is foregone employment rather than the employment change that is the larger of the two effects, although both effects are much larger for black women than for white women. Finally, note that the total effect of the recession on black women's employment is double that for white women, and the difference between the total effects on black women and black men is relatively small.

What Explains the Demographic Differences?

So, what accounts for the differences in the effects of the recession across these categories? The most obvious explanation for the differences between men and women is that they are a reflection of the recession's effect on the industries in which they tend to be employed: Construction and manufacturing, which are male-dominated, have seen the biggest declines in employment, whereas education and health services, where women are a majority, have actually seen job growth during the recession. No doubt these industry differences play a role, but they cannot go very far in explaining the differences outlined above. To do that, one should begin with education because there is a strong link between the demographic categories that have been hit hardest and those with low average educational attainment. For example, women are more likely to have finished high school and whites are much more likely to have a bachelor's degree than are blacks.

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ENDNOTES

1 Howard J. Wall, *The Effects of Recessions Across Demographic Groups.* September 2009, www.stlouisfed.org/publications/recessiondemographics/.

2 Note that, from this point forward, the data used is quarterly from the household survey of the Bureau of Labor Statistics.

3 Howard J. Wall. "The 'Man-Cession' of 2008-2009: It's Big, But It's Not Great." Federal Reserve Bank of St. Louis, *The Regional Economist*, October 2009, pp. 5-9.

The L^{3}C

A New Business Model for Socially Responsible Investing

By Sue Woodrow and Steve Davis

The L^{3}C is one of several hybrid business organization models that have been developed in recent years, both in the U.S. and abroad, to help address the funding-related challenges experienced by a growing sector of charitable-purpose entities known as social enterprises.[1] A social enterprise is an organization that combines or supports a charitable mission with market-oriented methods. In other words, a social enterprise has a "double bottom line," or double purpose of social benefit and financial gain. Dubbed the "Fourth Sector," social enterprises are increasingly seen as filling a void left unaddressed by the traditional public, private, and nonprofit sectors. In particular, social enterprises are seen as straddling the for-profit business sector, which is generally constrained by the duty to generate profits, and the nonprofit sector, which is generally constrained by tax laws and the duty to fulfill social objectives.

At the heart of the social enterprise movement is the ongoing challenge of accessing investment capital for socially responsible purposes.[2] Acquiring start-up capital is a common issue for many nonprofits. It's exacerbated by federal tax laws that restrict nonprofits from accessing traditional forms of equity, such as venture capital and, sometimes, commercial debt. For the most part, nonprofits must rely on private foundation grants, government support, and, for some, earned income such as fees for services. To subsidize their earned income, some nonprofits have set up separate social enterprise business sidelines.[3] For example, an animal shelter in Minneapolis recently opened a full-service day care, grooming, and boarding facility for pets.

The nonprofit Montana Food Bank Network hopes to charter its cannery in Deer Lodge, Mont., as an L^{3}C. Photo courtesy of Montana Correctional Enterprises.

The for-profit sector faces its own challenges in funding charitable activities because federal tax laws generally restrict private business entities from accessing foundation grants and government assistance. In addition, for-profit investors expect market-rate returns and maximized profits. Their expectations don't align well with social mission-focused entities, which need "patient capital" and typically have slower, more modest growth.

There is a growing body of thought that new business models and possibly new tax incentives or structures are needed to effectively bridge the "sector" gap. These new models would eliminate the need for social entrepreneurs to either choose between the for-profit and nonprofit business models or create and manage both. One such model, the L^{3}C, is a newly developed form of business that blends attributes of nonprofit and for-profit organizations in order to promote investment in socially responsible objectives.

The idea behind the L^{3}C model grew out of a 2006 meeting convened by the Aspen Institute's Nonprofit Sector and Philanthropy Program and

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titled “Exploring New Legal Forms and Tax Structures for Social Enterprise Organizations.” Legal, financial, and other experts gathered to discuss the myriad issues that the growing Fourth Sector faces. The key question that emerged was whether traditional business structures and nonprofit tax laws are hindering the growth of hybrid social enterprise models.[4]

> At the heart of the social enterprise movement is the ongoing challenge of accessing investment capital for socially responsible purposes.

It was at this meeting that Robert Lang, president of the Mary Elizabeth & Gordon B. Mannweiler Foundation; Marcus Owens, a partner with the Washington, D.C., law firm Caplin & Drysdale and former director of the Exempt Organizations Division of the Internal Revenue Service; and Arthur Wood, director of Social Financial Services for Ashoka, an international organization that promotes social entrepreneurship and socially responsible investing; met and began collaborating to create a business model that would address, among other things, two key challenges for social enterprise development: federal tax law and “patient capital.” According to Lang, “There was a whole portion of the for-profit sector which, while self-sustaining, produced too low a profit to induce normal for-profit investors to engage on their own. Yet this area is where a lot of socially beneficial enterprises fit.”

A Hybrid of a Hybrid

The trio of Lang, Owens, and Wood developed the L^{3}C as a self-sustaining means to achieve a social mission at the lowest possible cost and with the greatest efficiency. An L^{3}C can make a low profit of 1 to 10 percent, but this is secondary to its social purpose. Unlike a traditional charity, however, an L^{3}C may distribute its low profits to its investors.

As its name suggests, the L^{3}C is a hybrid form of a for-profit limited liability company, or LLC. The LLC is an established form of business entity in most states and U.S. territories and on several Native American reservations. Basing the L^{3}C on the LLC model was a strategic decision that ensured the L^{3}C would have the LLC’s flexible profit, loss, and taxation features. LLCs themselves are hybrids of corporations and partnerships. Like the liability of shareholders of a corporation, the liability of LLC owners, or members, is limited. The LLC is like a partnership, however, in that the organization can be structured to bear no direct tax consequences. For federal income tax purposes, the profit and loss tax liabilities may be passed through to the LLC’s members unless the operating agreement specifies otherwise.

The L^{3}C modifies the standard LLC in a couple of important respects. First, an L^{3}C’s organizing document, called articles of organization, must set forth as its primary business objective “one or more charitable or educational purposes,” as defined by the Internal Revenue Code. In addition, the term “low profit” is embedded in the title of the business form to put investors and philanthropic funders on notice that the entity is motivated first and foremost by its expressed social mission, but not necessarily to the exclusion of making money.

Second, the L^{3}C’s articles of organization must state that the operating agreement among its members contain specific language that mirrors IRS regulations regarding program-related investments, or PRIs. Facilitating the use of PRIs is at the heart of the L^{3}C structural concept. Authorized by Congress in the Tax Reform Act of 1969,[5] a PRI is an investment that a foundation makes in a nonprofit or for-profit venture to support a charitable project or activity, with the potential of a return on the foundation’s capital over a period of time. A PRI can be any type of investment vehicle, such as a loan or loan guarantee, line of credit, asset purchase, recoverable grant, or equity investment. Notably, foundations can use PRIs to meet their federally mandated 5 percent minimum payout obligation.[6] To deter investments in speculative deals, an investment must meet three tests to qualify as a PRI: 1) its primary purpose must be to further the tax-exempt objectives of the foundation, 2) the production of income or the appreciation of property cannot be a significant purpose, and 3) it cannot be used for political lobbying or campaigning.[7] By nature, PRIs are intended to be high-risk and/or low-return.

A Layered Investment Approach

At the core of the L^{3}C concept is the use of PRIs as part of a multiple-tiered, or layered, investment strategy that, theoretically, will help attract a wide range of both socially motivated and profit-oriented investments. Following this strategy, a foundation makes a PRI in an L^{3}C and accepts a lower-than-market rate of return as well as a disproportionately higher risk—or “first risk”—position, which in turn attracts other for-profit investors by lowering their risk and increasing their potential rate of return. The diagram illustrates the mechanics of a sample L3C layered investment strategy and shows how different types of investors can formulate a plan that best suits the risk-to-reward ratios each is willing to accept.

A for-profit entity does not need to organize as an L3C to utilize PRIs for charitable purposes. But Lang and Owens contend that PRIs are significantly underutilized. Of the nearly 80,000 private foundations operating in the U.S. today, only 5 percent make PRIs, and these are primarily loans to charities.[8] According to Lang and Owens, foundations typically don't engage in PRIs because of the perceived need to seek prior approval from the IRS to ensure compliance with PRI requirements. Upon request and for a fee, the IRS will issue a private letter ruling that states whether a proposed investment will qualify as a PRI. A private letter ruling is not required by law, but the risks of a post-investment determination by the IRS that a foundation's investment does not qualify as a PRI may include financial penalties. In addition, when the investment is subsequently subtracted from the foundation's calculation of tax-exempt purpose expenditures, the foundation may face more penalties or even lose its nonprofit status if the subtraction results in falling short of the 5 percent payout requirement. However, obtaining a private letter ruling can be very costly and time-consuming. The costs and perceived risks of seeking or failing to seek private letter rulings deter some foundations from making PRIs. The L3C is structured to help address these barriers and thus facilitate PRIs by requiring the operating agreement among an L3C's members to include language that sets forth the federal legal requirements for PRIs. This is intended to provide assurance to foundations that their investments in L3Cs comply with federal tax requirements and thus qualify as PRIs without the added expense and time needed to obtain private letter rulings.

To further address the deterrents that keep foundations from making PRIs, Lang and Owens are lobbying for legislation that would amend the federal tax code so that a foundation's investment in an L3C is presumed to qualify as a PRI unless proven otherwise. This rebuttable presumption is not intended to do away with a foundation's need to exercise due diligence in its decision-making process, but it would arguably offer the added assurance foundations seek when considering investments in for-profit entities. In addition, Lang and Owens are advocat-

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The L3C's Layered Investment Strategy*

Foundation Investors: 1% Return	Higher Risk 25% Investment	**Foundations** make 25% program-related investment, or PRI, in the L3C, accept lowest rate of return (1%), and take the highest risk
Socially Motivated Investors: 3% Return	Moderate Risk 25% Investment	**Socially motivated investors** (e.g., corporations, trusts, banks seeking to fulfill Community Reinvestment Act obligations) make 25% PRI in the L3C and receive 3% return with moderate risk
Market-Driven Investors: 6% Return	Lower Risk 50% Investment	**For-profit investors** make 50% investment in the L3C, take the lowest risk, and receive a competitive market rate of return. (6%)

The percentages listed here are provided for illustration purposes and represent just one of many possible risk-return arrangements for L3Cs.

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ing for L^{3}C legislation at the state level through an informational organization called Americans for Community Development, L^{3}C.

Possibilities vs. Concerns

The range of socially responsible purposes potentially suited to the L^{3}C structure is broad, from affordable housing initiatives and mortgage assistance to historic building preservation and biotech development. For example, a recently chartered L^{3}C in Vermont produces innovations in medical imaging technology. It has high research and development costs, but relatively low rates of return for its investors. An interesting L^{3}C possibility in North Carolina involves plans to revive the flagging furniture industry. Many of the furniture manufacturing conglomerates in the state have moved production overseas, leaving behind struggling communities. Lang is working with parties in North Carolina to explore developing an L^{3}C capitalized by foundations and for-profit investors that would buy the closed manufacturing plants, rehabilitate and re-equip them, and then rent them at low rates to local, start-up furniture manufacturers. Lang notes, “These would-be entrepreneurs are long on talent but short on cash.” The proposed L^{3}C would provide up-and-coming furniture companies in North Carolina with affordable access to manufacturing capacity. Efforts to pass L^{3}C legislation in that state are under way.

Despite the possibilities, the L^{3}C has its critics and skeptics. Some argue that existing business forms are sufficient for the purposes discussed above, and adding yet another legal entity as an option will “muddy the waters.” Others express concern that the proposed legislation to amend federal tax law pertaining to PRIs in L^{3}Cs entails a loosening of the tax laws for for-profit entities, and that it’s too early to consider amendments because L^{3}Cs are still a relative unknown. Some concern has also been expressed that without the supporting federal tax legislation, the L^{3}C movement will die out.

Proponents of the L^{3}C stand by the new model as a potentially powerful tool for social entrepreneurs and an evolutionary step in social enterprise development. Many believe that as more jurisdictions enact L^{3}C laws, the L^{3}C brand will increasingly attract foundation and for-profit investment. Their belief could soon be tested, because L^{3}Cs are gaining traction across the country. To date, five states and two Native American tribes have enacted some form of L^{3}C legislation. Vermont took the lead, signing L^{3}C legislation into law in April 2008. Michigan, Wyoming, Utah, Illinois, the Crow Tribe in Montana, and the Oglala Sioux Tribe on the Pine Ridge reservation in South Dakota followed suit in 2009. According to L^{3}C Advisors, L^{3}C, the first L^{3}C chartered for the purpose of advocating for and supporting the development of L^{3}Cs, some form of L^{3}C legislation is pending or under review in 20 other states. As a matter of comity, an L^{3}C chartered in one U.S. jurisdiction will be recognized as a lawful business in all other U.S. jurisdictions, whether or not they have enacted L^{3}C legislation.

For more information about the L^{3}C, *visit www.americansforcommunitydevelopment.org.*

At the time of this writing, Steve Davis was an AmeriCorps VISTA volunteer with Rural Dynamics, a community development organization in Great Falls, Montana. Sue Woodrow is Community Affairs senior project director at the Federal Reserve Bank of Minneapolis.

This article is an excerpt from an article originally published in Community Dividend, *a publication of the Federal Reserve Bank of Minneapolis. To read the entire article, visit www.minneapolisfed.org/publications_papers/pub_display.cfm?id=4305.*

•• ONLY ONLINE

Read an article by L^{3}C creator Robert Lang and co-author Carol Coren at www.stlouisfed.org/publications/br.

REFERENCES

1 Examples of hybrid business models in the U.S. include the Socially Responsible Corporation, introduced in Minnesota Senate Bill 3786 in 1986 (the bill failed), and the B-Corporation concept being developed by Jay Coen Gilbert and B-Lab. Examples from abroad include the “community interest company,” which was enacted into law in Great Britain in 2005.

2 A “socially responsible investment,” or SRI, is an investment made principally for a charitable, educational, environmental, community development, or ethical purpose and not primarily to maximize a return on the investment.

3 For more about nonprofits creating social enterprises, see “Earning income, serving the community: An introduction to social enterprises” in ***Community Dividend*** Issue 1, 2009. Available at www.minneapolisfed.org.

4 Thomas J. Billitteri, Mixing Mission and Business: Does Social Enterprise Need a New Legal Approach? Highlights from an Aspen Institute Roundtable, The Aspen Institute, January 2007.

5 See USC § 4944(c) for the statutory provision regarding PRIs.

6 Private foundations are required by federal law to distribute each year at least 5 percent of their endowments; specifically, their net investment assets. This is known as the minimum payout obligation, or payout rule.

7 To read the full regulatory definition of PRIs, see CFR § 53.4944-3(a).

8 IRS Business Master File system, January 2007.

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.

Home Weatherization Funds Available in Tennessee

The Weatherization Assistance Program in Tennessee can help low-income households keep their hard-earned money from literally going out the window. The program allows for up to $7,100 per home for weatherization projects such as storm window installation, air duct sealing, caulking or insulation. Eligible households include those with annual incomes ranging from $21,660 for a one-person household to $74,480 for an eight-person household. Priority is given to the elderly, the disabled and families with small children. Program guidelines can be viewed at www.tn.gov/wap. Monies from the American Recovery and Reinvestment Act were allocated to counties for weatherization based on income and population. Shelby County received $14.7 million of Tennessee's $99 million allocation. This will allow the Shelby County Consumer Service Agency to weatherize 2,000 homes before September 2010 compared to its normal average of 300 homes per year.

The program is administered by 18 agencies across the state. For more information in west Tennessee, contact one of the following agencies:

Delta Human Resource Agency (Fayette, Lauderdale and Tipton counties), 901-476-5226;

Shelby County Community Service Agency, 901-381-9976 or 901-362-9514;

Northwest Tennessee Economic Development Council (Benton, Carrol, Crockett, Dyer, Gibson, Henry Lake, Obion and Weakley counties), 731-364-3228; or

Southwest Human Resource Agency (Chester, Decatur, Hardeman, Haywood, Henderson, Madison and McNairy counties), 731-989-5111.

Indiana Offers Home Buyers Up to $15,000 toward Purchase

The Indiana Housing and Community Development Authority has created the Market Stabilization Program in an effort to stimulate Indiana's housing markets. The program is aimed at borrowers interested in purchasing foreclosed homes. Qualified borrowers can receive up to $15,000 toward a down payment, closing costs and qualified repairs for properties that will be used as the home buyer's primary residence.

The funds will be in the form of a zero-interest, nonamortizing, second mortgage loan and do not have to be paid back as long as the homeowner remains in the home for at least 10 years. Home buyers will also be required to complete eight hours of prepurchase education provided by the Indiana Housing and Community Development Authority.

For more information, visit www.ihcda.in.gov. To determine if a foreclosed property is in an eligible neighborhood, visit www.indianahousingnow.org.

Louisville Council Amends Housing Trust Fund Law

The Louisville Metro Council overwhelmingly passed changes to the Affordable Housing Trust Fund ordinance on Sept. 22, 2010. The main change in the ordinance is that the fund will be run by a nonprofit rather than by the Louisville Metro Department of Housing. Originally established by the Metro Council in 2008, the fund has been stalled because a board has not been appointed. The changes to the ordinance require the appointments to be made.

The eventual goal of the fund is to raise $10 million annually. To make that goal, it will likely need a change in the state law that would allow a percentage of fees and fines paid in Jefferson County to funnel directly into the fund. Finding a dedicated public revenue stream, soliciting corporate and individual donations and grant writing will be the primary job of the future board and its executive director.

Illinois L^{3}C Designed for Social Enterprises

Social enterprises in Illinois will have a new tool to help them become self-sustaining when an amendment to the state's Limited Liability Company Act takes effect Jan. 1, 2010. The amendment allows for the creation of a low-profit limited liability company known as an L^{3}C. A hybrid of the LLC business organization model, the L^{3}C invests capital in enterprises with a "double bottom line" or dual purpose of, first, having a socially beneficial mission and, second, making a small profit. L^{3}Cs are allowed to pursue for-profit opportunities that help them achieve social goals.

The L^{3}C is formally recognized by five states and two tribal nations and is being used throughout the United States and overseas. Members can include a variety of entities, such as corporations, nonprofits, government organizations and individuals.

To find out more, visit www.americansforcommunitydevelopment.org or see related articles on pages 5-8 of this issue.

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is imperative for communities wanting to build more resilient economies after the recession.

As Wall's report details, the recession has had a significant impact on many groups of people, and the impact is varied. We cannot always control what will happen during a recession, but we can better equip ourselves to have power over what we can somewhat control: our educational attainment. Recessions will happen, but people and communities must plan and prepare for future recessions now. Education, workforce development and regional approaches to job growth are three interrelated issues that will bolster more stable communities in future recessions.

Marta Burgin is public policy coordinator and Andrew Pack is a regional public policy specialist at the Federal Reserve Bank of St. Louis.

ENDNOTES

1 "Total effects" of a recession on a particular demographic group are direct employment change plus foregone employment. For a full discussion, see *The Effects of Recessions Across Demographics Groups* (Wall 2009)

2 www.kentuckianaworks.org

3 www.porter-leath.org/content.php?id=156

4 www.stlrcga.org

5 http://bouncebackstl.net

6 www.metrolittlerockalliance.com

7 www.littlerockchamber.com/cwt/external/wcpages/index.aspx

Celebrating Innovation in Our Communities

The Federal Reserve Bank of St. Louis invites you to be part of its annual **Exploring Innovation in Community Development Week**, scheduled April 19-23, 2010.

The purpose of this event is to draw national attention to innovations in the community development industry and its important role in American life. This year's theme is "The Future of Community Development."

Staff members in the Bank's Community Development department are planning activities in St. Louis, Memphis, Little Rock and Louisville. As details are confirmed, we will be getting in touch with you and also posting information at www.exploringinnovation.org.

Watch your snail mail and virtual mailbox for more information ... and then come celebrate what's new and exciting in the field of community development with us! Visit www.exploringinnovation.org.

CALENDAR

JANUARY

11-15

Indiana Economic Development Course—Muncie, Ind.
Sponsor: Indiana Economic Development Council
www.bsu.edu/cecd/edc

14

Missouri Homeownership Preservation Summit—Jefferson City, Mo.
Sponsors: Missouri Homeownership Preservation Network, Federal Reserve Bank of St. Louis, Federal Reserve Bank of Kansas City, FDIC, Metro St. Louis Foreclosure Intervention Task Force, LINC, LISC Greater Kansas City, Des Lee Collaborative and NeighborWorks America
Capital Plaza Hotel, Jefferson City, Mo.
www.missourihomenetwork.org/summit.html.

19

Fed Focus: Financial Education at Work—Louisville, Ky.
Sponsor: Federal Reserve Bank of St. Louis
502-568-9216
www.stlouisfed.org/community_development

MARCH

1-5

NeighborWorks Training Institute—New Orleans
Sponsor: NeighborWorks
202-220-2454
http://nw.org/network/training/calendar/default.asp

15-18

The Mid-South Basic Economic Development Course—Little Rock, Ark.
Sponsor: University of Arkansas at Little Rock
501-569-8519
www.iea.ualr.edu/econdev/default.php

Have you HEARD

New Rules Prohibit Fees on ATM, Debit Overdrafts

Beginning next July, financial institutions can no longer charge consumers fees for paying overdrafts on automated teller machines (ATMs) and one-time debit card transactions, unless the consumer consents, or opts in, to an overdraft service for those types of transactions. The Federal Reserve Board recently announced the new rules on the fees.

The rules state financial institutions must notify consumers about available overdraft services, including any fees and the consumer's choices, before the consumer opts in. The final rules, along with a model opt-in notice, are issued under Regulation E, which implements the Electronic Fund Transfer Act.

Consumer testing by the Board shows that most consumers do not want to be enrolled in overdraft services for ATM and one-time debit card transactions unless they consent, or opt in. However, testing also shows that most consumers want overdraft services to cover important bills, such as checks they use to pay rent and utilities.

The final rules also prohibit financial institutions from discriminating against consumers who do not opt in. Financial institutions must provide consumers who do not opt in with the same account terms, conditions and features (including pricing) that they provide to consumers who do opt in. For consumers who do not opt in, the institution would be prohibited from charging overdraft fees for any overdrafts it pays on ATM and one-time debit card transactions.

Rental Housing Tax Credits Topic of New Publication

In the current economy, with homeownership becoming more difficult for some people, the need for rental housing has become increasingly important. At the same time, the market for Low Income Housing Tax Credits (LIHTCs), a major source of capital for the development of rental housing, has experienced a serious downturn. This market contraction has resulted in stalled developments across the country. Because of the slump in the production and preservation of rental units, the Board of Governors of the Federal Reserve System, in collaboration with the Federal Reserve Bank of St. Louis, asked six experts to suggest ideas for bolstering the LIHTC program. Their suggestions are contained in a new publication, *Innovative Ideas for Revitalizing the LIHTC Market*. The booklet is available online at www.stlouis fed.org/community_development or in print by contacting Cynthia Davis at 314-444-8761.

View presentations by the authors and take a virtual tour of housing built with LIHTCs in St. Louis at www.stlouisfed.org/community_development.

Photo courtesy of St. Louis Equity Fund

Foreclosure Prevention Event Draws Hundreds of Homeowners

More than 700 people at risk of losing their homes sought help from local counseling agencies and mortgage servicers during a recent event at St. Louis' convention center.

The *Save Your Home!* Event was presented by the HOPE Now Alliance in collaboration with the Federal Reserve Bank of St. Louis, NeighborWorks America, the Metro St. Louis Foreclosure Intervention Task Force and KETC Channel 9.

Homeowners behind on their mortgage payments, or who fear they will fall behind, met one-on-one with loan servicers and HUD- certified housing counselors to discuss their options for avoiding foreclosure. Representatives from 15 loan servicers, eight housing counseling agencies and two legal services organizations were on hand to provide advice.

To learn more about the HOPE Now Alliance, visit www.hopenow.com.

BRIDGES

Bridges is a publication of the Community Development Office of the Federal Reserve Bank of St. Louis. It is intended to inform bankers, community development organizations, representatives of state and local government agencies and others in the Eighth District about current issues and initiatives in community and economic development. The Eighth District includes the state of Arkansas and parts of Illinois, Indiana, Kentucky, Mississippi, Missouri and Tennessee.

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Now There's More News with Each Issue of *Bridges*

Can't get enough of *Bridges*? Subscribers to our community development newsletter will have even more information at their fingertips in 2010. Starting with this issue, articles related to *Bridges* content will be available online. These additional articles will allow us to bring you expanded coverage of topics in the print publication and more commentaries on current community development issues. Go to www.stlouisfed.org/publications/br to read our inaugural offerings:

- **The L³C: The For-Profit with the Nonprofit Soul** by Carol Coren and Robert Lang provides an insider's unique insight into the creation of this new business model. Lang developed the first L³C, a legal structure designed to incorporate socially beneficial activities under a for-profit umbrella. (See related article on pages 5-8 of this issue.)
- **The Power of Credit Scores** by Jean Morisseau-Kuni lets you know who is looking at your credit score, how to understand your credit score and tips for raising your credit score. (See related article at www.stlouisfed.org/publications/br/pastissues/?yr=2008.)

You can also sign up for e-mail alerts and RSS feeds that will let you know when new articles are available.