



## Economic Development Finance in Washington, D.C.

### Federal Reserve Supports Plan Implementation

The Federal Reserve Board and the Federal Reserve Bank of Richmond are working with bankers, community leaders and local officials in Washington, D.C. to support implementation of a recently issued economic development plan. The plan includes 40 specific action steps that focus on strategies in three broad areas of economic development – industries, populations, and geographies.

To help increase the city's economic

base, the plan promotes the revision and implementation of policies to help grow businesses and jobs and improve the business tax and regulatory climate. Second, workforce development is emphasized by highlighting the need for resources to support quality education, job training and placement activities, and by enriching residents' quality of life through increased homeownership and improvements to schools, cultural and recreational amenities. Finally, the plan focuses on downtown revitaliza-

tion to generate both housing and business activity, and neighborhood development to stimulate commercial and industrial growth to help improve housing, services, transportation, and recreation.

### Financing is Crosscutting Issue

Following the release of the plan, several meetings were held with D.C. offi-

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## Los Angeles Virtual Network

### Small Business Technical Assistance Referral System

The Federal Reserve Bank of San Francisco has worked with the City of Los Angeles to design and implement an on-line, interactive technical assistance referral system for financial institutions, technical assistance providers, and small business owners. The Los Angeles Virtual Network enables users to develop relationships through referrals and exchange of information. It can display product data based on the specific needs of each subscriber.

Information contained in the Virtual Network's database includes financial institutions' small business loan products and corresponding underwriting criteria, small business technical assistance program resources, and a credit evaluation service. The System also can connect sub-

scribers to federal, state, and local government procurement information and services, industry specialists and consultants, and public and private alternative lending programs.

The Network will be accessible from any location through the Internet. The system will be housed and maintained by the new Los Angeles One Stop Capital Shop, co-sponsored by the SBA and the city, and located in the Watts area of Los Angeles. The One Stop Capital Shop will offer on-site access to the Network along with counselors and support staff. Although the project will be piloted for use in the Los Angeles region, it is envisioned that participation will someday be statewide.

*For more information, please contact Adria Graham Scott, Federal Reserve Bank of San Francisco, (213) 863-2785.*





## Economic Development Loan Securitization

In July 1999, the Federal Reserve Bank of San Francisco's Community Affairs Unit coordinated a conference aimed at increasing investment in California's low- and moderate-income communities through the securitization of small business loans. Co-sponsors included the California Department of Insurance's California Organized Investment Network, the California State Treasurer's Office, the California State Department of Financial Institutions, and the Milken Institute.

The packaging and sale of small business loans is a relatively new type of investment vehicle that could be a source of CRA-qualified investments for financial institutions. This meeting was intended to establish the need for a standardized, accessible method of economic development loan securitization in California. It was also intended to educate and inform participants about existing securitization models and vehicles. Finally, the meeting was aimed at developing a roadmap for action needed to encourage creation of new programs.

Issues addressed at the meeting included liquidity, scale, standardization, credit enhancement and support, and pricing of small business loans. Loans to small businesses originated by community-based, public, private, or quasi-public community development organizations, such as commercial banks and credit unions, economic development and micro-enterprise loan funds, economic development venture funds, and other small business revolving loan funds, were emphasized.

Participants included investment bankers and nonprofit organization executive directors experienced in the securitization of small business loans. Other participants included CRA professionals from banks, executive directors of

revolving loan funds, investment professionals from the insurance industry, and representatives of statewide associations in California.

The agenda included experts who discussed the history of small business loan securitization in California, current studies and research, and where transactions can be found. Small groups also discussed how to securitize the unguaranteed portions of SBA 7a loans, California Capital Access Program (CalCap) loans, and small business revolving loan fund credits. Senator Richard Alarcon, author of a community development securitization bill was a speaker, as was California State Treasurer Philip Angelides, who discussed strategies for directing capital to underserved areas of California with an emphasis on small business lending and loan securitization.

### Action Taken on Securitization

The meeting resulted in several action plans. The Treasurer's Office helped to facilitate the discussions on SBA 7a loans and CalCap, and plans to review ways to provide public funds to support securitization of these loans based on these discussions. A task force was formed that will meet again to discuss barriers to revolving loan fund loan securitization and ways to overcome these barriers. A separate group will meet to buy and sell loans that are ready to be packaged. Finally, a survey will be sent to all participants aimed at uncovering developments from the meeting and to identifying opportunities for future meetings that may help increase CRA qualified community development investment.

*For more information on the program, contact Jack Richards, Federal Reserve Bank of San Francisco, at (415) 974-3314.*

In Remembrance of

*Ken Fain  
and  
Fred Manning*

*This issue of Capital Connections is dedicated to our friends and colleagues, Ken Fain, Board of Governors of the Federal Reserve System, and Fred Manning, Federal Reserve Bank of Philadelphia, whose recent passings leave a significant void in the community development field and our lives. At each man's core was his commitment to the advancement of policies and innovation of financial services to empower disadvantaged neighborhoods and improve the economic well-being and quality of life of low-income families. Their contributions to the industry serve as enduring memorials, and their spirit lingers in our hearts and will continue to inspire us all.*





## Preserving Smaller Multifamily Buildings

With support from the Federal Reserve Banks of New York and Philadelphia, a committee of New Jersey bankers, non-profit and for-profit housing owners, and government officials have been meeting this past year to address concerns about the preservation of smaller, multifamily rental housing in the state. This group, the Multifamily Housing Preservation Committee, was created to identify obstacles and propose actions to increase the rehabilitation of smaller buildings. While the problem is complex, participants in the process believe this is an important effort, particularly for urban neighborhoods. It is also consistent with New Jersey's efforts to channel urban sprawl and create a balance of housing types.

Multifamily rental buildings represent a substantial portion of New Jersey's housing stock, particularly in the state's central cities. The 1990 U.S. Census indicates there are approximately 471,000 rental units in structures with five or more units in New Jersey. In New Jersey's central cities these units account for 26 percent of total dwelling units, with over one-half of them built before 1960. In low- and moderate-income census tracts, there are 212,441 units in buildings of five or more units. Addressing the poor condition, ongoing deterioration, and abandonment of this housing stock is a priority noted in most New Jersey cities' comprehensive housing plans.

There are numerous obstacles that are unique to the preservation of these multifamily rental buildings, which are typically owned by small investors. Cash flows are restricted by low rents, high maintenance costs due to age and obsolete systems, high taxes, and rent controls. The resulting thin margins create a disincentive to maintain properties, which, in turn, often results in a predictable cycle of deterioration and abandonment.

On the financing side, bank lending policies usually favor more experi-

enced owners and larger loans conforming to secondary market standards. At the same time, government housing subsidies target home ownership and new or substantially renovated units, with funding programs usually too complicated to attract smaller owners.

Over the summer, the Federal Reserve Banks of New York and Philadelphia hosted three focus groups to discuss obstacles and to evaluate recommendations noted in the Committee's position paper *Overcoming Obstacles to Financing the Renovation of Affordable Multifamily Rental Housing Stock in NJ Communities*.

### Actions Being Considered

The Committee is exploring solutions to help resolve the issues confronting multifamily housing, including:

- Establishing mortgage insurance for permanent loans and a more accessible secondary market to entice lender participation at more favorable rates.
- Creating a new source of capital, equity, or subsidy, targeted to LMI neighborhoods and without income restrictions on individual units to allow renovation of existing properties without drawing funds from other projects restricted to LMI families.
- Providing technical assistance developed by lenders and government for property owners.
- Changing real estate tax assessment procedures so that an owner has an incentive to make improvements.

During the coming year, the Committee will review models from around the country to determine what might be transferable to New Jersey.

*For more information, contact Robert Riggs, Federal Reserve Bank of New York, (212) 720-5912.*

## Microenterprise Lending Training Curriculum

The Federal Reserve Bank of Boston, working with the Massachusetts Microenterprise Coalition and MicroNet of Maine, co-sponsored a two-day training seminar for microenterprise lenders and technical assistance providers from throughout New England. Held in Springfield, Massachusetts in mid-June, the training seminar used a newly developed microenterprise training curriculum that was developed by MicroNet (Maine's association of microenterprise lenders) and the Reserve Bank.

The curriculum provides an overview of microenterprise development and includes in-depth sessions on such topics as: designing a microenterprise program; technical assistance and adult learning techniques; the due diligence process in microlending; the loan decision-making process; and post/loan/ongoing technical assistance for borrowers.

The Reserve Bank plans to sponsor another seminar using the curriculum in the coming year. *For more information about the curriculum and seminars, contact Paul Williams, Federal Reserve Bank of Boston, at (617) 973-3227.*

### Web Sites

For more about the Federal Reserve System and its Community Affairs activities, visit the Board's public web site at

**[www.federalreserve.gov](http://www.federalreserve.gov)**

and the public web sites of the 12 Federal Reserve Banks linked at

**[federalreserve.gov/otherfrb.htm](http://federalreserve.gov/otherfrb.htm)**



## Finance in D.C. (continued from p.1)

cial and private sector representatives to help determine how the Federal Reserve System might assist the implementation process. It was determined that one overarching issue for many of the plan's action steps was the availability of capital and credit for small businesses in D.C., which has no state government to sponsor economic development finance programs and few local nonprofit economic development finance intermediaries.

Participants agreed that the Federal Reserve could be most helpful in facilitating discussions that focused on financing needs in the following key areas:

- **Contract and Bid Financing.** The federal and D.C. governments are large suppliers of small business contract and procurement work, but there are few options available to the small and minority businesses in bid or contract financing, which requires up-front financing to purchase supplies and begin work before payments on the contracts begin. Risks associated with contract financing, including the performance of the borrower, often make banks reluctant lenders.
- **Community-based Businesses and Microloans.** There is a need for reliable sources of smaller loans for community and neighborhood-based small businesses and for very small and start-up enterprises. Some programs exist in which banks can participate, but there is a need to explore development of new intermediaries that take a more comprehensive approach to financing and funding small business development activity.
- **Small Business/Technology Incubation.** D.C. has formed a technology council to encourage incubation and early financing for small technology firms and entrepreneurs, but there is a need for mechanisms to

fund incubator development and early-stage business financing.

## Encouraging CEO Involvement

A CEO breakfast at the Federal Reserve Board, hosted by then-Federal Reserve Board Vice Chair Alice Rivlin, and Richmond Reserve Bank President Alfred J. Broaddus, Jr., began the process. The purpose of the CEO meeting was to encourage major local banking, corporate, university, and nonprofit groups to participate in helping meet D.C.'s economic development financing needs. One goal of the breakfast was to encourage private sector leadership to broaden its participation in the plan's implementation. CEO's attending were asked to designate representatives to attend a day-long forum that would explore, in greater depth, alternative "best practice" financing programs from across the country that could be adapted for use in D.C.

## Forum on Financing Program Options

The forum was held on July 1 for local bankers, corporate executives, community development practitioners, university representatives, D.C. government agency officials, and small business and community-based organization representatives. Current economic development plan team leaders, who are already working on relevant plan elements, moderated panels focusing on meeting small business contract financing needs, financing technology development, and funding community-based businesses.

The Federal Reserve Bank of Richmond is continuing to assist D.C. in exploring options. The Reserve Bank is developing a community profile that outlines community development needs and identifies financing and technical assistance resources available in the District.

*For more information, contact Dan Tatar, Federal Reserve Bank of Richmond, at (804) 697-8463, or Sandra Braunstein, Board of Governors, at (202) 452-3378.*

## Focus on Birmingham

### Federal Reserve Offers Community Profiles and New Staff

Assembling 60 bankers and community development professionals at its Birmingham Branch on September 30, the Federal Reserve Bank of Atlanta sponsored a seminar to present informational profiles of three metro-area Birmingham communities: Fairfield, Rising West-Princeton, and Titusville. Each profile provided data on demographics, housing, employment, education, and also included a financial analysis.

The session was designed to provide a forum to identify and discuss community development issues, including potential redlining of low- and moderate-income areas, insufficient funding for local community development corporations, difficulty in obtaining small business loans, lending discrimination, and loan underwriting constraints. Numerous loan and investment opportunities were identified that could be done in a safe, sound, and profitable manner, including many that would enhance CRA compliance. The meeting featured presentations by local mayors who discussed their efforts to stimulate community and economic development in their communities, and by representatives from the Fannie Mae Alabama Partnership Office, the Center of Urban Affairs at the University of Alabama at Birmingham, and the Birmingham Business Resource Center who provided a comprehensive overview of current and future community investment and lending opportunities.

The event coincided with an important development for the Atlanta Reserve Bank — the expansion of its Community Affairs staff to include Mike Milner, the new representative in its Birmingham Branch. This strategic growth is designed to improve communication and service to

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## Need Community Development Funding and Resource Information? Just **CLICK!**

While we all know that information is the great equalizer and the key to making markets work efficiently, we also realize that just knowing where to start to access that information can sometimes seem to be an insurmountable task. This quest can be even more daunting for community developers, as there are a myriad of programs offered by a variety of agencies that can often complement one another in the services they provide, but can be difficult to identify or to match development needs with the right program. Recognizing this, the Federal Reserve Bank of Kansas City has developed the 1stSource Community Development Resource Guide available at [www.1stsource.kc.frb.org](http://www.1stsource.kc.frb.org).

An Internet-based database, 1stSource is user-friendly, allowing visitors to the site to obtain information on the programs and agencies that can lend financial and technical support for the development of affordable housing, small business or community infrastructure. By just clicking on the appropriate pre-defined search parameters, such as the type of program, the kind of technical assistance needed, and the project location, 1stSource identifies the agencies, describes the programs that provide grants, loans, and technical assistance for the specified activity, and provides contact information as well as links to the agencies' Internet sites.

In the development of 1stSource, the Community Affairs staff of the Kansas City Reserve Bank collaborated with the following federal agencies:

- Bureau of Indian Affairs,
- Federal Home Loan Banks,

- U.S. Department of Commerce, Economic Development Administration,
- Federal Agricultural Mortgage Corporation (Farmer Mac),
- U.S. Department of Health and Human Services, Office of Community Services,
- Office of Native American Programs,
- U.S. Department of Agriculture, Rural Development,
- U.S. Department of Housing and Urban Development,
- U.S. Department of Veterans Affairs, and
- U.S. Small Business Administration.

To further enhance this information tool, 1stSource invites state program directors to include information on the services they offer to support community and economic development. As noted by Thomas M. Hoening, president of the Federal Reserve Bank of Kansas City, "The strength of 1stSource is its simplicity."

*For more information, contact John Wood, Federal Reserve Bank of Kansas City, 1-800-333-1010, extension 2203.*



## Research on Small Business Access to Capital and Credit

Sixteen original research papers focusing on issues affecting small business access to credit presented at a research conference sponsored by the Federal Reserve System are now published on the Internet and in print. The research represents the latest work in the field from academic institutions, policy institutes, and the Federal Reserve System and is designed to further understanding among scholars, practitioners, and policy makers about small business capital availability.

These papers address topics ranging from discrimination in small business credit markets to how bank size and structure might affect the small business lending relationship. The results in several of the research papers were more preliminary than for others. Several authors asked that their papers' results be considered tentative, and viewed as starting points for further discussion.

The compilation of this research is the result of the conference *Business Access to Capital and Credit*, a collaboration among the research directors and community affairs officers from the Federal Reserve Board and the Reserve Banks. The objective of the conference and the research was to encourage further research on issues affecting small businesses' access to capital and credit.

*A summary of the research and the proceedings of the conference can be found on CEDRIC at [www.frbchi.org/cedric/cedric](http://www.frbchi.org/cedric/cedric) (See article on page 8) or by contacting the Board's Community Affairs Unit at (202) 452-3378 or the Federal Reserve Bank in your district.*



## Cleveland Access to Capital Initiative

The Federal Reserve Bank of Cleveland has joined forces with the Small Business Administration and the Greater Cleveland Growth Association's Council of Smaller Enterprises (COSE) to help coordinate a community-wide collaborative effort to improve capital access for the Northeast Ohio small business community. The purpose of the initiative is to help narrow the gap between the need for and the availability of start-up and expansion capital for new and growing businesses.

Among the initiative's objectives is to examine the adequacy and accessibility of start-up and expansion capital and small business support services in Northeast Ohio, including the unique needs of minority-owned firms. Its ultimate goal is to help create an improved capital access system serving capital sources, intermediaries, and entrepreneurs.

### Research Demonstrates Gap

The impetus for the initiative stemmed from a sense that small business development in Northeast Ohio was lagging behind the growth rate of small firms in other similar metropolitan areas. There was increasing concern that the Cleveland area's small business sector was not contributing to regional growth in terms of business start-ups, expansion, and the creation of employment opportunities.

To provide some benchmark analysis, COSE commissioned a study by the W.E. Upjohn Institute to assess and compare the entrepreneurial environments of Northeast Ohio and several similar metropolitan areas. That research revealed that over a five-year period, an average of 5,800 businesses failed each year in the eight-county region of Northeast Ohio. Often, business failures occurred due to lack of sufficient capital at start-up and during key growth phases.

### Participatory Process

To address capital availability issues and the need for better coordinated support services for the small business sector, the Initiative's strategy was to engage broad participation from capital providers, business owners, small business support organizations and professional service providers. Participants would meet both to help identify and shape issues, and to develop solutions. Led by COSE, with the support of the Federal Reserve Bank of Cleveland and the local SBA office, a representative planning committee was formed to help guide the process, to identify issues, organize work teams, review work team recommendations, and champion the new capital access system strategy that was to emerge. Later, work teams involving hundreds of participants from affected groups, along with selected experts, conducted analyses of key capital availability issues and made a series of recommendations. These recommendations were reported at a meeting in June 1999, attended by over 150 participants.

### Strategic Recommendations

Fourteen strategic recommendations emerged from the process, and an implementation strategy, based on community-wide, public-private collaboration, was developed to address deficiencies in local capital adequacy for small businesses. The central theme of the recommendations was the creation of a network that could link together all providers of business assistance and capital into a user-friendly system that was easily understood by business capital seekers and other network participants.

The recommendations for action to establish a network are designed to serve as the foundation of a new capital delivery system to help improve the success

## Breaking Down Barriers to Small Business

In this period of record-breaking economic expansion that has been facilitated by mind-boggling technological advancements that seem to move money at the speed of light, it can be difficult to appreciate that there are still many entrepreneurs, particularly minorities and women, who cannot gain access to the capital they need to start and grow their businesses. However, these funding gaps persist, and they disproportionately affect traditionally underserved business owners in low- and moderate-income communities, as documented by a 1998 study of regional small business lending trends published by the Federal Reserve Bank of Chicago. These findings, as well years of anecdotal information from small business owners, underscore the need to analyze and enhance the credit and information systems that promote small business development, particularly in low-income areas where small enterprises spark the local economic activity that is critical for redeveloping at-risk neighborhoods.

In response to this need, the Federal Reserve Bank of Chicago has initiated the Small Enterprise Credit Access Partnership (SECAP) to seek ways to improve access to the credit and other related resources that have eluded small business owners in low-income neighborhoods in the Chicago metropolitan area. Through the voluntary collaboration of various local stakeholders in the small business arena, lenders, community leaders, technical assistance providers, government officials, trade association representatives, academic researchers, and others, SECAP aims to identify the challenges that restrict access to capital and business development



## Barriers to Capital for Businesses

resources for small enterprises and provide recommendations to adjust or abolish policies and practices that create barriers to entry and growth for underserved small business owners and prospective entrepreneurs.

By employing a model used by the Federal Reserve Bank of Cleveland, the Community Affairs Office of the Chicago Reserve Bank embarked upon SEPAC in December 1998 by engaging and recruiting partners that would be crucial in assessing the Chicago-area small business environment. In June, a 19-member SECAP advisory committee identified four key obstacles in the road to credit for traditionally underserved small businesses: market and delivery systems, technical assistance, underwriting, and equity investment. These issues were presented at a conference that the Reserve Bank hosted in October for approximately 100 bankers, community and economic developers, technical assistance providers, venture capitalists, and small business owners to discuss the objectives of SECAP and form task forces to undertake exploration of industry policies and practices. The four task forces have committed to devote six to eight months researching these issues, an effort that will culminate in the development of action plans and recommendations for key players in the small business lending and development industry that will help improve the flow of capital to underserved enterprises.

*For more information about SECAP, contact Michael Berry, Federal Reserve Bank of Chicago, at (312) 322-5192.*

rate of entrepreneurs, the efficiency of capital providers, and the effectiveness of business assistance groups in the Cleveland area. The recommendations fall into four broad categories:

- **Education and Training.** This would include an orientation program for network participants, a mentoring program for capital seekers, and a community-wide marketing program to publicize the network and generate interest in its services.
- **New Funding Strategies.** These would include plans to: create a regional entity that would make available asset-based loan products; create a multiple-source equity fund to provide small companies investments of \$100,000 to \$1.5 million; encourage banks to create spin-off institutions with a focus on small business lending; create a credit union consortium organization that could help fund small, non-traditional loans; develop a "business workout program" that would make available technical assistance from network members; and implement community microloan improvements by encouraging lenders to use more flexible standards and criteria for small loans.
- **Advocacy and Policy.** Since many of the recommendations would require public and private policy changes, the implementation plan recognizes that the business access to capital network would have to play an advocacy role with lenders, local and state governments, and several federal agency programs.
- **System Support.** The Access to Capital Network would require development and funding for an ongoing support organization that

would help coordinate the information and referral systems, and the advocacy functions, for capital seekers and providers.

### Implementation Phase

In August, the implementation phase began when sponsors initiated meetings to select members of the Governing Board, identify participants for the implementation teams, and develop a strategy for funding.

*For additional information, contact Ruth Clevenger, Federal Reserve Bank of Cleveland, at (216) 579-2392.*

### Focus on Birmingham *(continued from p.4)*

Alabama's state member banks and bank holding companies, community groups, foundations, and local governments in support of Bank and System objectives. The closer proximity to this concentration of banking assets, civic leaders, and advocacy groups will strengthen the Reserve Bank's ability to address local credit needs while providing an elevated level of technical assistance to community development practitioners. The Birmingham Branch management and staff will also benefit from having a representative to help promote the community goals of the Reserve Bank's corporate vision and help keep branch management and directors apprised of significant community development activities.

*For more information, contact Keenan Conigland, Federal Reserve Bank of Atlanta at (404) 614-7156, or Mike Milner, Federal Reserve Bank of Atlanta - Birmingham, at (205) 731-8500.*



## “CEDRIC” A Community Economic Development Web Resource

A centralized web-based repository for research and information on consumer and economic development issues has been launched by the Federal Reserve System. The Consumer and Economic Development Research and Information Center, or “CEDRIC” for short, was developed by Consumer Issues Research Team at the Federal Reserve Bank of Chicago and is housed on that Reserve Bank’s public web page.

CEDRIC’s principal purpose is to foster research on consumer and economic development issues, such as consumer and small business financial behavior, access to credit, affordable housing, and community development and reinvestment. CEDRIC’s unique attribute as a central repository is that it includes abstracts and the full text of articles, reports, working papers, and other studies generated by researchers and analysts, both from the Federal Reserve and from outside academicians, government agencies, and nonprofit organizations. An internal search engine allows users to identify information and transfer files.

Other attributes of CEDRIC include an annotated page announcing upcoming workshops, seminars and conferences on the subjects of consumer financial services and community development, and links to CEDRIC’s information resource partners, including academic journals, nonprofit consumer, community development and reinvestment organizations, and government agencies.

To access CEDRIC, use [www.frbchi.org/cedric/cedric.html](http://www.frbchi.org/cedric/cedric.html). For additional information about CEDRIC, its contents and capabilities, contact the CEDRIC coordinator at [cedric@chi.frb.org](mailto:cedric@chi.frb.org).

# Calendar

**April 17-19, 2000**  
San Francisco

**Federal Reserve Bank of San Francisco’s 2000 Community Reinvestment Conference.** Community development professionals from across the country are encouraged to attend this program to participate in hands-on training courses and peer learning sessions that will focus on CRA compliance, credit, and investment issues, and ideas for creating and expanding community development programs. The three-day meeting will also provide networking opportunities that are essential to learning and sharing “best practices” and other community development experiences. *Contact: Lena Robinson, Community Affairs, at (415) 974-2717.*

**April 27-28, 2000**  
Kansas City, MO

**A New Policy For Rural America.** A conference sponsored by the Federal Reserve Bank of Kansas City to explore development of an integrated and comprehensive policy for rural America in the context of current trends and challenges facing rural communities. First of two conferences, with the second to be held in 2001. *Contact: Larry Meeker, Community Affairs, at (816) 881-2476, or Mark Drabentott, Center for Rural Studies, at (816) 881-2697.*

**May 19, 2000**  
Cleveland, OH

**Conference on Consumer Regulation in Housing Finance.** The Federal Reserve Bank of Cleveland and the Journal of Real Estate Finance and Economics are co-sponsoring this meeting to discuss current issues in consumer regulation in the housing finance industry. Anticipated topics include: the appropriate scope for certain consumer-protection regulations in the housing market; regulatory challenges arising from recent changes in the housing finance market, including the use of credit scoring in mortgage underwriting, consolidation in the mortgage servicing industry, and the growth in sub-prime mortgage lending; and measuring the tangible impact of the Community Reinvestment Act on local communities. *Contact: Stanley Longhofer at (316) 978-7120, or Joe Haubrich at (216) 579-2802.*



## Personal Financial Education in Indian Country

The Federal Reserve Bank of Minneapolis worked with Fond du Lac Tribal and Community College (FdLTCC) in Cloquet, Minnesota, and Cloquet-area bankers to develop a personal financial education curriculum for use by tribal colleges in Indian country. The course was developed in response to concerns by tribal leaders about the need for increased levels of personal financial education as a way to help advance economic development in Indian country.

Fond du Lac Tribal and Community College has a student body of 850 Native American and non-Native American students from the Fond du Lac Reservation and surrounding communities. FdLTCC became the nation's only tribal- and state-funded community college in 1987 when it was created by the Minnesota Legislature and also chartered as a tribal college by the Fond du Lac Reservation.

The four-credit, 10-week course has been offered by FdLTCC since 1998 and is taught by Bryan Jon Maciewski, an enrolled tribal member. It is designed as a "turn-key" course that can be used by other tribal colleges and adapted to the particular Indian culture of the students, be it Ojibwa, Lakota, Cheyenne, Crow, or another culture. Each tribal college would need to secure an instructor, but the syllabus and text are ready to use.

### Bankers As Guest Speakers

The course is structured to allow the use of local bankers as guest lecturers to let students hear about banking directly from those who work in the field. Participants believe that both the students at the tribal

colleges and officials from the local banks benefit from meeting face-to-face. Use of bankers and other guest speakers, such as representatives from insurance companies, mortgage lenders, and realty companies, helps keep students interested in the course material.

By taking the class, students receive a general foundation in money and banking, investment and retirement options, stocks and bonds, insurance, real estate, checking and savings accounts, and basic money management. Subjects covered by the course include a vast array of financial services and issues that students might confront in everyday life. For example, lectures cover how to change personal spending habits, create a personal monthly budget, shop for an insurance agent, purchase a car, and use a checkbook, as well as the importance of maintaining a savings account. It also addresses technical matters such as calculating personal debt ratios and determining if an auto lease is more suitable than an outright purchase.

The course has become one of the core requirements for students pursuing FdLTCC's new associate of science degree in business and financial services, which was approved recently by the Minnesota State Colleges and Universities' Board of Directors.

*For more information about Fond du Lac Tribal and Community College's personal finance course, including the syllabus and complete course outline, contact Bryan Jon Maciewski by phone at (218) 879-0821 or (800) 657-3712 or by e-mail at [bionQezijaa.fdl.cc.mn.us](mailto:bionQezijaa.fdl.cc.mn.us).*

## Changing Financial Markets and Community Development

### A Federal Reserve System Conference

The Community Affairs Officers of the Federal Reserve System are jointly sponsoring a conference on April 5-6, 2001 to discuss the impacts that recent and revolutionary changes in the financial markets have had on low- and moderate-income communities. Bringing together representatives from academia, financial institutions, community organizations, foundations, and government, the meeting will provide the opportunity to learn about new research in this area.

To facilitate the development of the agenda, the Federal Reserve has issued a call for papers to identify the issues revolving around this emerging area of study. Conference organizers have suggested potential topics for the papers that include, but are not limited to:

- the changing role of banks and non-banks in serving LMI communities;
- the role of technology in financial institutions and its impact on LMI communities;
- the effectiveness of community development programs, and
- the effect of changing financial markets on wealth creation and neighborhood sustainability.

Preference will be given to those papers that may stimulate further research through the introduction of new data sources or innovative research techniques.

*For more information, please contact Lynn Elaine Browne, Federal Reserve Bank of Boston, at (617) 973-3091.*

## Research Reveals Strategies for Economic Growth in the Rural Mississippi Delta

In a recent report published by the Federal Reserve Bank of St. Louis, researcher David Ciscel, Ph.D. compares and contrasts the economies of urban and rural areas in the 73 counties that comprise the Eighth District's Memphis Zone and suggests strategies to rural economic and community developers for achieving sustainable growth. By analyzing population, job, and wage data, the report reveals trends that illustrate the continuing need to focus on economic development in these rural areas.

A professor of economics at the University of Memphis and a specialist in the areas of labor economics and Mid-South regional economic development, Dr. Ciscel has recently joined the Community Affairs staff in the Reserve Bank's Memphis Office as a senior consultant to research socioeconomic issues and their impact on community development in the Eighth District. With this expertise and perspective, he focuses his research on three key questions:

- How are the counties changing their economic profile?
- What are the key components of the rural counties' economic growth?
- How do the rural counties in the region compare with those located in metropolitan statistical areas?

In addressing these questions, he discusses challenges and opportunities for improving the economic vitality of the area and notes that its traditional economic pillars — agriculture and manufacturing — will not continue to be the primary industries that support its future. His analyses indicate that farm income has steadily declined over the previous decade, and although the manufacturing sector continues to provide the greatest number

of jobs, its growth pales in comparison to that of the trade and services sectors. Furthermore, continued increases in jobs and payrolls in these industries in rural communities will be linked to the economic growth of the neighboring urban communities. Consequently, the study discusses the importance of community developers' consideration of regional markets and their demands, as well as the synergies that can be achieved between rural and urban locales when undertaking projects to promote economic development, particularly as they relate to the creation or enhancement in education and training, housing, and community infrastructure. Dr. Ciscel underscores that a return on investments in these areas can only be realized when they are linked to the creation of employment opportunities that complement the economic personality of neighboring urban communities.

*For more information, contact David Ciscel, Federal Reserve Bank of St. Louis - Memphis, at (901) 678-5531 or dciscel@memphis.edu. For a copy of the study, A Macro Overview of the Regional Economy: Structure and Performance of Selected Urban and Rural Communities in the Memphis Zone of the Federal Reserve Bank of St. Louis, contact Diana Zabner, Federal Reserve Bank of St. Louis, at (314) 444-8761.*

## Collaborative Effort Highlights Innovative Financing Opportunities for Rural America

If rural community developers were asked to cite the 4 Cs of credit that characterize their line of business, they would likely respond: Creativity, Collaboration, Cost-Effectiveness, and Courage. For a myriad of reasons, developers and lenders in rural areas face many unique challenges that require unconventional solutions to obtain affordable long-term, fixed-rate fi-

ancing to purchase, improve, and construct homes. Among these reasons is that there are typically fewer financial and informational resources available to lenders and community groups in rural areas than there are in urban ones. Determined to fill this gap, the Community Affairs Offices of the Federal Reserve Board and Banks of Boston, Richmond, St. Louis, and San Francisco, along with their fellow banking regulators, have aligned with the U.S. Department of Agriculture (USDA), Federal Home Loan Bank System (FHLB), and Rural Local Initiative Support Corporation (Rural LISC) to bring technical and financial assistance to rural housing markets.

This joint venture, the Rural Home Loan Partnership, is an outgrowth of a project founded by the Federal Home Loan Bank System, Rural Local Initiatives Support Corporation, and the U.S. Department of Agriculture's Rural Housing Service (RHS) at the National Homeownership Summit in June 1996. With the objective to increase homeownership in rural America, these core partners devised the Leveraged Loan Program by linking RHS set-asides for loan guarantees with funding through the FHLB's Affordable Housing and Community Investment Programs available to private lenders to provide rural homebuyers with mortgages featuring no downpayment requirements and the most affordable monthly payment possible. Through this public-private partnership, the RHS provides local financial institutions with a fixed-rate, subsidized mortgage to fund a portion of the cost of the home. The subsidy, coupled with discounted funds available through the FHLB, enables local financial institutions to provide a long-term, fixed-rate mortgage to low-income homebuyers without incurring undue interest rate risk. In addition, banks with a loan participation percentage of 50 percent or less can further reduce its risk exposure by selling its portion of the mortgage on the secondary markets.



While the founding partners knew that they had pioneered a financing vehicle that was affordable and substantially mitigated risk, they also realized that the availability of this innovative product alone would not ensure the success of the program. They anticipated that many skeptical lenders might view it as either “too good to be true” or “too complicated to use.” Furthermore, they also knew that although the funding supply was in place, the development of the demand for those funds — eligible homebuyers — was equally critical and would also require the use of creative collaborations.

The solution to these issues was to provide homeownership counseling for the borrowers and training for the bankers. These efforts were undertaken by Rural LISC, a national non-profit organization that supports the formation and growth of rural community development corporations (CDCs), which recognized that these tasks were most appropriately undertaken by community groups and the banking regulators. Through its capacity-building grants and technical assistance, Rural LISC assists local community groups in the development of their homeownership counseling programs that educate prospective homeowners and help create credit-worthy borrowers. With the borrowers’ training addressed, Rural LISC then recruited the federal banking regulators to train creditors on how to take advantage of the Leveraged Loan Program. The

agencies, the Federal Reserve System, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, and Office of Thrift Supervision, coordinated to offer seminars to demonstrate to lenders that by utilizing this gap-financing tool, they can extend profitable long-term, fixed-rate mortgages that can help

them meet their obligation to serve their communities.

*For more information on Rural Home Loan Partnership, please contact Terri Johnsen, Federal Reserve Board, at (202) 452-3378.*

## School-to-Work Guide

### Programs Help Improve Communities

The Federal Reserve Bank of New York has published a *School-To-Work Guide* that explores how school-to-work programs fit into holistic community economic development strategies. The *Guide* includes descriptions of model activities that help students make successful transitions after they leave school and provides a sample list of school-to-work programs in New York and New Jersey.

School-to-work programs are designed to help students acquire the knowledge, skills, and abilities they need to make a successful transition from school to work or additional education. Successful school-to-work programs encourage activities that mix work experience with academics to help students develop the skills they need to find jobs. The programs also help young people understand the direct relationship between education and employment.

### CRA Context

By collaborating, community partners can target more funding and incorporate isolated programs into a community development strategy that can address many complex issues in low- and moderate-income communities. In the context of CRA, the Federal Financial Examination Council (FFIEC) has found that certain school-to-work activities by financial institutions may have a community development purpose if they are related to financial services and are targeted to low- and moderate-income individuals.

The most recent conceptual framework for school-to-work programs dates from the early 1990s when the Secretary of Labor appointed a commission that issued a report on preparing young people for the changing workplace. The report was the basis for the School-to-Work Opportunities Act of 1994, which provides federal resources to link young people to the world of work through local partnerships of schools, post-secondary institutions, organized labor, employers, teachers, counselors, parents, and students. While this legislation will “sunset” in 2001, in many cases the organizational structures and program philosophies established by the Act will be continued by state governments and local communities.

*For copies of the School-to-Work Guide, or for more information about school-to-work issues and programs, contact the Office of Regional and Community Affairs, Federal Reserve Bank of New York, at (212) 720-8129.*



## Riding the Rails to Rural Economic Development

Community economic developers have the vision to see opportunities where others see only disadvantages. And, when the landscape in question consists of only cottonfields, mesquite trees, and railroad tracks, as it does in West Texas, the picture of prosperity can be rather difficult to bring into focus. This was the circumstance that set the stage for *Transportation: Driving Rural Development*, a symposium sponsored by the Community Affairs Unit of the Federal Reserve Bank of Dallas on October 13 in Dallas. The meeting was inspired by the brainstorm of a farmer and former director of the Dallas Reserve Bank who realized the economic energy that could be generated if the assets of West Texas — huge tracts of undeveloped land, low-cost work force, and railroads — were capitalized upon. Because the area is the point where two major rail lines converge, he considers the area to be ideal for the development of processing and distribution centers for agricultural and manufactured goods and has co-founded the Texas, Mexico and Asian Corridor Corporation in partnership with a local utility cooperative to nurture this idea. The Community Affairs Unit saw the endeavor as an opportunity to showcase the project while shedding light on the interrelationship between rural economic development and transportation.

The conference focused on the important role that transportation infrastructure plays in rural development, highlighting the strategy that is being used to attract global corporations to West Texas, and discussed the relevant aspects and implications of trade policies in North America and Asia. The meeting also offered information on resources that are available to economic developers in rural areas. A banker representing one of the nation's largest financial institutions discussed how he leverages his lending capac-

ity by utilizing the U.S. Department of Agriculture's Business and Industry Guaranteed Loan Program (BIGLP). Under this program, qualified loans can be guaranteed up to 90 percent of the loan amount, which enables lenders to extend credit for projects that may not have otherwise met standard underwriting criteria. Through this public-private funding arrangement, BIGLP provides lenders the opportunity to actively engage in progressing the economy in their rural markets and creating jobs for area residents

without incurring unacceptable levels of risk.

The program attracted an audience of more than 130 bankers, community developers, government officials, and even 10 Japanese executives, and by the end of the day, attendees had a renewed appreciation for how a wealth of opportunity exists even in the most barren of places.

*For more information, contact Nancy Vickrey, Federal Reserve Bank of Dallas, at (214)922-5271.*

## Community Investment Resources

### Video on Women-Owned Businesses.

The Federal Reserve is now offering a videotape designed to heighten awareness among lenders about the business opportunities available to them in lending to businesses owned by women. The new videotape, *To Their Credit: Women-Owned Businesses*, explores the credit-seeking experiences of several new, successful women business owners and stresses the importance of developing a business plan, building a relationship with a lender. The videotape is available through FVS Media for a nominal fee. *To place an order, call 800/555-5471.*

### Community Investment Opportunities in Charleston, South Carolina.

This community profile analyzes housing, community and economic development needs and opportunities in the Charleston area. In addition to this publication, The Community Affairs Unit of the Federal Reserve Bank of Richmond compiled the *South Carolina Resource Compendium* that details funding and technical assistance resources for community developers. *For copies of this profile and other compendiums, contact the Federal Reserve Bank of Richmond at (804) 697-8447 or visit the website at [www.rich.frb.org/comaffairs/capubs.html](http://www.rich.frb.org/comaffairs/capubs.html).*

### Economic Review, "Equity for Rural America: From Wall Street to Main Street—A Conference Summary."

This article reviews the highlights from the Federal Reserve Bank of Kansas City's 1998 rural development conference, which featured a number of papers and research on the challenges of attracting equity capital to rural-based entrepreneurs. The major topical areas were: (a) an assessment on how Wall Street's investment demands match with Main Street's capital needs; (b) an examination of state-of-the-art equity capital organizations; (c) a presentation on the role of information and telecommunication technologies in rural business and capital markets; and (d) a look at policy options to improving rural equity capital markets. *The article can be found at [www.kc.frb.org](http://www.kc.frb.org).*

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