1978 postage stamps

Partners
in community and economic development

Federal Reserve Bank of Atlanta
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No Time Like the Present

Perhaps you have noticed: the 1970's are back. We see it with new television shows, fashions, advertising, and manufacturing. And yet, everything is completely different now, with new social, political, and economic issues confronting us that were almost unimaginable twenty years ago. In this issue, *Partners* takes a retrolook at where we were twenty years ago, and where we may be heading now.

Of course, not everything has changed. For example, the New York Yankees won the World Series in 1978, beating the Los Angeles Dodgers four games to two. They did it again this year, beating San Diego in four straight games. And America's fascination with automobiles is as strong as ever as evidenced by the Volkswagen Beetle's triumphant return.

And according to the 1978 World Book Encyclopedia Year Book, back then "the sound of money belonged to the sound of recordings." Forget about boxing great Muhammad Ali, who made $3.5 million in his February bout with Leon Spinks (he lost), and another $3.25 million in September (he won).

The big bucks were paid to musicians like Stevie Wonder, who was guaranteed $13 million in artist royalties from Tamla-Motown Records. And he was but one of a few multi-millionaire recording artists. Peter Frampton (Frampton Comes Alive), Fleetwood Mac (Rumors), and especially the Bee Gees (Saturday Night Fever) dominated the music scene with multi-platinum albums. Today, dozens of bands like 311, the Backstreet Boys, and Third Eye Blind have multi-platinum recordings.

Indeed, a strong economy for much of the 1990's provided considerable freedom for the country. From automobiles to baseball to movies and music, the country has enjoyed considerable benefits relative to 1978. Rapid advances in technology alone, for example, allow virtually unlimited access to the Internet, a proliferation of cellular telephones, access to digital satellite television receivers, and more.

And business owners and consumers face much better economic news now versus twenty years ago. Inflation is lower (currently 1.5 percent for the year versus 8 percent in 1978), unemployment is lower (less than 4 percent including the armed services versus 5.8 percent excluding the armed services), and interest rates are significantly lower.

In fact, by year-end 1978, the Discount Rate reached 9 percent, the prime rate was 11 percent, and

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the federal funds rate reached 10 percent. Home mortgage rates began a steady climb during the year and were over 10 percent as 1979 arrived.

In contrast, the current Discount Rate is 4.75 percent, the prime rate is 8 percent, and the federal funds rate is 5.35 percent. Home mortgage rates are now close to 6.5 percent or less.

These differences reflect an amazing transformation. Unlike 1978, when the Federal Home Loan Bank Board issued regulations prohibiting savings and loan associations from redlining, 1998 causes us to look every bit as hard at the financial impediments to lending as we do for discriminatory lending practices. We recognize that not only must we face issues impeding access to credit for consumers, entrepreneurs, and homebuyers caused by differences in income, but also by differences in net worth.

And most importantly, we know that asset generation is critical to wealth generation and poverty alleviation.

Looking to the future, *Partners* presents varied perspectives of asset generation. First, in Marie Easley's article we recap Federal Reserve Board Chairman Alan Greenspan's thoughts on bringing the issue of income inequality in from the cold, calling for more research and focus on this important issue. We couldn't agree more. This same article contains perspectives of the Ford Foundation and Washington University's Michael Sherraden on asset building.

A second article focuses on a nonprofit dedicated to community asset building. Juan Sanchez discusses the efforts of Little Haiti Housing Corporation, a Miami CDC and its implementation of specific strategies to create net worth for a minority population living in north Miami, Florida.

Finally, we are pleased to present excerpts from a concept paper by ACEnet, an economic development organization. The paper offers some new ideas on asset-based neighborhood development strategies.

We've come a long way since 1978, and although new problems confront us, our progress has been substantial. And looking at the photographs in this issue, I suspect we wouldn't really want to turn back. ◆

- Editor

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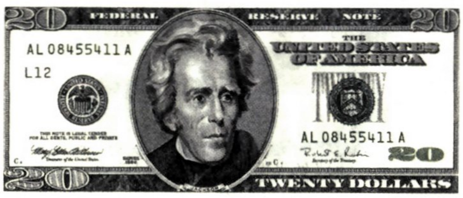
1978



1998

Bringing Income Inequality in from the Cold

The Importance of Building Assets

by
Marie Easley

As we pick up our local newspapers and listen to the national news, we become increasingly aware that industrialized countries, including the United States, are experiencing growing income inequality. This widening disparity was the topic of Federal Reserve Board Chairman Alan Greenspan's opening remarks at a Jackson Hole, Wyoming symposium sponsored in August by the Federal Reserve Bank of Kansas City.

In his remarks, Chairman Greenspan acknowledged that the familiar and widely accepted explanation is that rising demand for workers who can effectively harness new technologies has been outpacing supply. Consequently, the logic goes, the compensation of those employees has been increasing at a quicker pace than for those with lesser technological skills.

However, in discussing the extent to which large portions of the population are not reaping the benefits of economic growth - even within groups of workers with similar measured skills - Greenspan cautioned that we cannot stop with an analysis of trends in earnings – or, for that matter, even trends in income more broadly defined.

"Ultimately, we are interested in the question of relative standards of living and economic well-being," he said. "Thus, we need to also examine trends in the distribution of wealth, which more fundamentally than earnings or income, represents a measure of the ability of households to consume."

The Federal Reserve's Survey of Consumer Finances suggests that inequality in U.S. household wealth - that is, in net worth - was somewhat higher in 1989 than at the time of the initial 1963 survey. The 1992 and 1995 surveys showed that wealth inequality remained little changed in terms of the broad measures. "However, that stability masks a lot of churning among the subgroups," the Chairman cautioned.

The Federal Reserve's research using the survey suggests that conclusions about the distribution of wealth are sensitive – although to a lesser degree than income – to the state of the economy and to institutional arrangements for saving. For instance, among the wealthiest one-half percent of households, business assets - which tend to be quite cyclical - are particularly important. At the other end of the distribution, owned principal residences - the values of which are not as sensitive to business cycle conditions - are a typical household's most important asset.

Greenspan went on to say that, if we expand the definition of wealth to include estimates of Social Security and pension wealth, the distribution among U.S. households becomes much more even. This suggests that, in addition to factors influencing private wealth accumulation, the evolution of institutional arrangements for saving that has taken place over the last two decades may have played an important role in affecting changes in the distribution of wealth over time.

"What about the effect of the recent rise in stock and bond market values", the Chairman questioned. "The typical view is that the growth in mutual funds and other financial investments has allowed individuals further down in the wealth distribution to take advantage of strong equity markets. Our figures certainly show that households lower in the income distribution are now more likely to own stocks than a decade ago."

However, between the 1992 and 1995 surveys, the data showed that the spread of stock ownership and the rise in prices did not lead to a rise in the ownership of stock and mutual fund assets by the bottom 90 percent of the wealth distribu-

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Income Inequality *Continued from page 3*

tion. Although their dollar holdings rose rapidly, the increases were not as large as those for households at the top of the wealth distribution.

Mr. Greenspan noted, "If the patterns of equity ownership have not changed much since 1995, the steep rise in stock prices over the past several years would suggest a further increase in the concentration of net worth. This may be offset, to some extent, by a continued broadening in the ownership of equities, particularly through tax-deferred savings accounts. Some additional offset may have occurred through rising house prices, an important asset of middle class families. Our 1998 survey, which is now in the field, will yield a clearer reading both on how wealth concentration has changed and on the relative importance of different assets in that change."

The Federal Reserve Board Chairman concluded his remarks by saying that as we consider the causes and consequences of inequality, "we should also be mindful that over time, the relationship of economic growth, increases in standards of living, and the distribution of wealth has evolved differently in various institutional and political settings. Thus, generalizations about the past and future may be hard to make, particularly in the current dynamic and uncertain environment of economic change."

"Sustaining a healthy economy and a stable financial system naturally permits us to take the time to focus efforts on addressing the distributional issues facing our society and on other challenging issues that may remain out in the cold."

The Importance of Assets

As Chairman Greenspan suggested in his Wyoming speech, there is still much we do not know about the role of assets in income inequality. What we do know, however, is that households with assets clearly have had opportunities to benefit from economic growth that those without assets have not. And while stocks have recently surpassed home equity as the main form of household wealth, homeownership remains the cornerstone of financial security for most Americans.

"Thus, we need to also examine trends in the distribution of wealth, which more fundamentally than earnings or income, represents a measure of the ability of households to consume." - Alan Greenspan

According to *The State of the Nation's Housing 1998: By the Harvard Joint Center for Housing Studies,* nearly two-thirds of all U.S. households own homes. In contrast, only about 40 percent of American households own stocks. Furthermore, the U.S. Bureau of the Census recorded that the average home price in 1978 was $62,500. In 1997, it was $175,500.

Like any investment, homeownership is not without risks. Nonetheless, the almost 200 percent increase in average home prices over two decades suggests that owning a home does provide a valuable mechanism for creating wealth. While the tax advantages of mortgage interest deductibility and favorable capital gains treatment may not be of as much value to low- to moderate- income households, a family's home can still serve as a vehicle for building equity. In addition, the ability to take advantage of fixed-rate mortgages and lock into fixed payments on the home at today's prices creates a hedge against escalating property values and rents.

Nationally, mutual funds and defined contribution pension plans are a substantial source of asset-building, but they are not as widely available across the income spectrum. Even homeownership is inaccessible to many lower income individuals, because of the absence of savings for a downpayment and closing costs.

The importance of assets needed to build net worth has spawned a number of savings strategies across the country, in local communities and in public policy. Recently, Congress passed legislation on Individual Development Accounts (IDAs) that allows states to create community-based IDA programs with state block grant funds. The bill provisions also disregard all money saved in IDAs from affecting eligibility for government assistance.

Individual Development Accounts As An Asset-Building Strategy

Individual Development Accounts, or IDAs, are restricted savings accounts for low- and

Income Inequality *Continued on next page*

Income Inequality

Continued from previous page

moderate-income persons, for which a match is provided, usually through a nonprofit organization or government entity. Their purpose is to help lower income families build assets in much the same way that middle America uses a 401(k).

Under the programs, consumers deposit savings from their salary or wages over time, the match is guaranteed and the funds can be withdrawn for an agreed upon purpose, such as the down payment on a home, post secondary education, or to help capitalize a small business. A very important by-product of the programs, however, is the economic literacy they provide through the requirement for completion of financial and home ownership education programs. This education in financial investments is key to future success for the heretofore financially unsophisticated.

The Ford Foundation's Asset Building Focus

In a recent press conference to announce a new asset-building partnership (among the Ford Foundation, Self-Help, a North Carolina-based nonprofit community development organization, and Fannie Mae Corporation), Ford Foundation President Susan V. Berresford reiterated the crucial nature of financial assets to the economic well-being of families.

Financial assets provide " a cushion against unexpected expenses or crises, thereby helping to increase family stability. These assets also promote upward mobility, enabling household members to invest in their future in a variety of ways – pursuing an education or advanced training, starting a small business, or purchasing a home."

Recognizing the importance of assets has led the Ford Foundation to develop new strategies that assist low-income people to build assets. One of the foundation's earliest efforts, announced in April of 1997, involved support for a major national demonstration of Individual Development Accounts.

The U.S. Bureau of the Census reported that the average home price in 1978 was \$62,500. In 1997, it was \$175,500.

Ms. Berresford noted that, while promoting increased levels of homeownership among low-income households represents another promising approach to asset building, the low level of financial assets among low-income and minority households is a significant barrier to expanding homeownership. She explained that, while the average U.S. household has a net worth of \$43,000, low-income households have a median net worth of \$5,000.

"This means that many who are reliable monthly rent payers often lack the required down payment for a home or have spotty credit records, stemming from their inability to pay unexpected expenses in a timely fashion. This is the problem our partnership aims to address in a 5 year demonstration, she says. The payoff is huge if it can open up lending policy across the nation to enable thousands of others to own a home."

Assets in the Broader Scheme of Things

In the future, family security for all Americans will likely be based more and more on personal savings accounts, such as expanded 401(k)s, IRAs, medical savings, and a probable shift toward supplementing savings in Social Security.

Michael Sherraden, Director, Center for Policy Studies at Washington University in St. Louis, notes in his report, *Stakeholding: A New Direction in Social Policy*, "because the world puts such a premium on knowledge and brain power, the wherewithal to pay for post secondary education or training may be the single most important financial asset anyone can have."

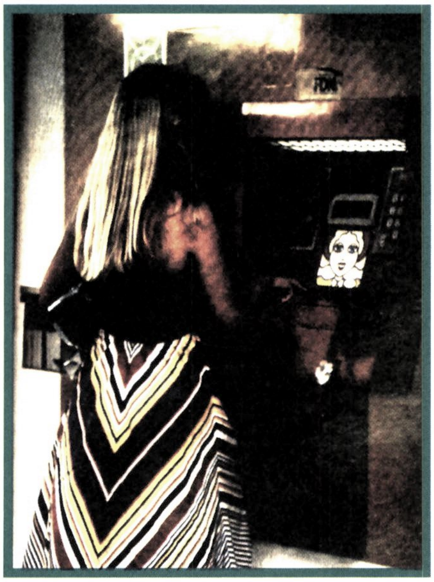
Yet college costs today are rising faster than inflation, beyond the reach of many low- and middle-income families. According to Sherraden, "Since 1980, tuition costs have risen by about 40 percent after inflation, while median family income has increased by just 6 percent. Meanwhile, federal student aid has grown by 18 percent after inflation."

Sherraden goes on to say in subsequent works that entitlement spending at current levels is unsustainable, and portable savings accounts will be more adaptable in the 21st century economy.

"However, it will be essential to bring all Americans into this emerging asset-based policy. The danger is that poor people will be left out when this transition occurs. Failing to do so would be a tragic loss for the country in reduced citizen participation and declining economic productivity."

Summary

As you will see discussed in other portions of this newsletter, assets take on many forms; but, their cultivation and the psychic dividend that results - turning a population's focus to the long term - is of the utmost importance.



"Tilly the All-Time Teller" - 1978

Little Haiti Housing Association

by
Juan C. Sanchez

This article presents an overview of a successful nonprofit community development corporation working to revitalize a distressed community in south Florida. Little Haiti Housing Corporation strives to incorporate quality assets, both in the community and individually-owned, in their efforts to serve this low- and moderate-income community.

For a community development corporation to be a successful housing provider, it must have more than just development experience. Many other attributes are required to succeed including persistence, integrity, trust, resources, ingenuity, community involvement, partnerships, housing programs, quality products, and an ongoing drive to enhance the community it serves. While it is difficult to find half of these qualities under one roof, Little Haiti Housing Association, Inc. (LHHA) has elements of them all. It is no wonder that they consistently win awards, notably the Fannie Mae Foundation's "Maxwell Award of Excellence."

LHHA was formed just over a decade ago through the sponsorship of several churches in the Little Haiti area of Miami, Florida. They were challenged to work with recent Haitian immigrants whose language and culture differ greatly from the United States'. In 1990, LHHA ran out of funds and was left without a staff. Board members approached the Mennonite Central Committee, which helped re-establish and strengthen the organization. In 1992, David Harder was invited to stay on board as the Executive Director of LHHA, a position that he has held since.

LHHA uses housing as a powerful tool to restore pride and stability in the Little Haiti community. Their mission is to provide decent, affordable housing as a base for an improved quality of life for residents of Little Haiti. They focus their efforts in five key areas: (1) home ownership education services, (2) housing rehabilitation and new construction, (3) rental project development, (4) tenant services, and (5) community building initiatives.

In 1997, through an 11 unit Scattered Site Home Ownership project, LHHA was a recipient of the Maxwell Award of Excellence, a FannieMae Foundation program. The award recognizes nonprofit organizations for their outstanding work in developing and maintaining affordable housing initiatives. LHHA was one of six national awardees that year to receive a $25,000 grant for their exemplary performance in providing quality housing to low-income residents of Little Haiti.

LHHA's Scattered Site Home Ownership project built one new home on a foreclosed vacant lot and renovated ten abandoned houses on different streets to help stabilize the neighborhood. Homebuyers are very low-income, Black Haitian immigrant families who have graduated from LHHA's Homeownership Counseling Program. These families must have sufficient savings for a down payment of at least 5 percent of the purchase price of a home, and usually have more. Unfortunately, income levels are often inadequate for families to afford a suitable residence. According to Dave Harder, many area families often have to spend up to 70 percent of their income on housing, leaving little cash for anything else.

LHHA's Scattered Site project uses various local, state, and federal grants and subsidy programs to provide quality-affordable housing. Funds from these sources are used to create low-cost second mortgages that have nominal monthly payment requirements, and are forgivable over time. These mortgages are subordinated to participating lenders that provide the first mortgage financing. The amount of subsidy used per residence depends on each fami-

Continued on next page

ly's level of income. The program is intended to reduce first mortgage balances, thus lowering monthly payments to a maximum of 30 percent of each family's income.

Second mortgage programs include the Dade County HOME program offering zero-interest, 20-year loans for up to half of the purchase price of the home. This loan becomes due only if the house is sold within the first five years; otherwise, it is forgivable proportionately over the remaining 15-year term. The Dade County Surtax Program offers 30-year loans for up to 65 percent of the purchase price at 3 percent. The loan must be repaid only if the home is sold during the first two years; otherwise, it is assumable by another eligible family. One or both of these sources can be used, depending on the family income.

Other partners involved in LHHA's Scattered Site project include the City of Miami which provided a $125,000 property acquisition grant; Greater Miami Neighborhoods, which provided a $450,000 acquisition and construction loan at zero-interest; and several area banks that provided construction loans and permanent financing.

The total development cost of the 11-unit project was $801,000, with a purchase price of approximately $73,000 per residence. To cover these costs, the average financing package included a $32,000 first mortgage, a $27,000 HOME or Surtax second mortgage, $10,000 in grants and contributions, and $4,000 from the borrower.

According to David Harder, comprehensive homebuyer education is one of the most important factors leading to a successful homeownership program. LHHA takes all potential homebuyers through a three-stage process, beginning with an individual's pre-qualification based on their existing financial condition and credit standing. This initial stage of the process determines the steps required by each potential homebuyer to qualify for a mortgage. Credit repair, income verification, and sources of down payment are addressed here.

New School in Little Haiti - 1998

Rehab Home by Little Haiti Housing Association - 1998

The length of time necessary to complete this stage will vary. Some applicants are ready for Stage Two in a couple of months, while others may take well over a year before they can proceed.

The second stage of LHHA's homebuyer program is a comprehensive six-week course that begins with education in the areas of banking and insurance. This portion of the program is important as many residents of Little Haiti have never used banks and are not familiar with the role banks and insurance companies play. This training is designed to lessen the resident's fear of using banks and of communicating with insurance companies. In fact, many of the families that have graduated from LHHA's program have established accounts with area banks. The course also covers post-closing home ownership issues in an effort to anticipate and minimize unpredictable circumstances, such as a roof leak.

After finishing stage two, a potential homebuyer knows how much they can borrow and can begin looking for a home. If the borrower chooses, they can be placed on LHHA's waiting list to purchase a freshly rehabilitated home once completed. Or, they can find a suitable home on their own. Families typically choose to wait on the list because quality affordable housing is very limited and rarely available in the area. With a waiting list that has now grown to over 70 pre-qualified families ready for home-ownership, LHHA says it can't complete homes fast enough.

Thus far, LHHA has completed 52 homes and have graduated over one hundred and fifty families; only two of these graduated families have been denied access to credit. According

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Little Haiti Housing

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to Jacques Saint-Louis, Assistant Director of LHHA, delinquencies are rare. "Since the inception of Little Haiti Housing in 1987, there have been no foreclosures and only two 60-day late payments, which have been resolved." Gaining the trust of the community and staying in constant communication with homebuyers are two key ingredients to LHHA's success.

Although unique in its own way, Little Haiti has challenges much like many other low- to moderate-income areas including lack of credit and income verification, which makes homeownership difficult. However, according to Dave Harder, unlike many other low-income communities, saving for the down payment is not usually a problem. Families work two or three jobs and reduce costs by sharing residences with other families, allowing them to save substantially. "It is not rare to see a family that goes through LHHA's program with five or six thousand dollars in savings."

Many pockets of the Little Haiti community consist of substandard housing. Investors rent property to area families but insufficient maintenance has depressed property values. "With this severely depressed housing market, new construction and substantial rehab is a real challenge in Little Haiti," says Dave. This is especially true today as recent changes in building codes have increased construction costs by 35 percent or more. "A new home in the area would likely cost 115% of market value or more to build. Without considerable subsidy, new developments in the area would not make financial sense." LHHA targets "focus areas" in which to build. By concentrating in small pockets of the community, they hope to slowly drive up market values to eventually meet actual development costs. This will in turn decrease loan-to-value ratios to levels acceptable to conventional lenders.

The Little Haiti community has one unique financial need - wire transfer services. "Area residents send extra cash to their families living in Haiti," says Dave. He also comments on the need for consumer credit, especially installment loans, in Little Haiti.

"The community has a fear of dealing with banks because no personal trust has been developed." Dave explains that, "a Haitian resident would more likely finance a used vehicle from a buy here–pay here lot than from a bank. The interest rates charged by this type of outfit are typically unreasonable, but area residents do not feel threatened." In an attempt to provide low-cost financial services, LHHA is encouraging the development of a local credit union to help foster personal financial needs in the area.

Overall, Dave Harder accepts "no deviation from LHHA's mission." Within the next five years, he expects to become a vertically integrated non-profit corporation, partially self-supported, producing three times the number of housing units as it is producing today. If successful, the impact on this community will be substantial. ◆

Fun Facts
1978 vs. 1998

U. S. Population

1978	1998
222,584,545	*270,952,235*

Consumer Credit Outstanding

1978	1998
$302 billion	*$1.27 trillion*

Dow Jones Industrial Average

1978	1998
820.23	*8751.21*

Cost of a First-Class Postage Stamp

1978	1998
13 cents	*32 cents*

Budget Deficit/Surplus

1978	1998
$48.8 billion deficit	*$71 billion surplus*

Popular Television Shows

1978	1998
Charlie's Angels	*ER*
Soap	*The X-Files*
Three's Company	*Home Improvement*
Happy Days	*The Simpsons*
Laverne and Shirley	*Ally McBeal*

Popular Movies

1978	1998
Superman	*Armageddon*
Saturday Night Fever	*Saving Private Ryan*
Grease	*Something About Mary*
Animal House	*Doctor DoLittle*
Jaws 2	*Godzilla*

** 1998 figures as of October 1998*

Perspective

Asset Building for Healthy Communities:

A concept paper

Woodruff Park in Atlanta - 1978

The Appalachian Center for Economic Networks (ACEnet) is a community-based economic development organization located in rural southeastern Ohio. ACEnet's mission is to revitalize the regional economy by linking new and existing firms with emerging markets and community support. Partners *is pleased to publish an excerpt of this organization's paper addressing asset-building concepts. The views expressed are those of the authors and do not necessarily reflect those of the Federal Reserve Bank or the Federal Reserve System.*

In this paper, ACEnet presents a new, comprehensive approach to asset development for low-income communities. In it, we focus primarily on asset building that encourages the development and expansion of enterprises. However, since the goal of asset development is the emergence of a healthy community, we will begin by defining and describing this key term.

A healthy community focuses, not on problems, but on existing resources, positive outcomes, and creative community processes so that all residents have access to the opportunities needed to meet personal and family needs, develop gifts and potential, and contribute to the prosperity and health of the community. In a healthy community:

- all individuals have many opportunities to secure quality jobs, develop new skills, or start businesses;
- individuals contribute to their community by buying locally and participating in civic activities;
- many different types of small enterprises—from the smallest mom-and-pop companies started by low-income people to sophisticated businesses—are working collaboratively to reach high-value markets;
- these firms collaborate with others: contributing to the community by hiring and training low-income workers, buying from other local firms, and mentoring start-up firms;
- the economic development community - Community Development Corporations (CDCs), business assistance providers, Community Development Financial Institutions (CDFIs), banks, educational institutions, government agencies, churches, and others - convenes diverse groups from within the community to develop new programs, institutions, or resources that support the activities of the firms and individuals.

Asset-based Strategies

Once we have a vision of a healthy community, the concept of assets is extremely useful in developing the strategies by which we can build such a community. As John P. Kretzmann and John McKnight point out, emphasizing assets enables us to move from seeing a world of poor people with problems who need services to seeing all citizens participating in a community full of underutilized assets. These underutilized assets might include empty lots, people's energy, the wisdom of grandparents, and local employers, all of which can be developed by community activists into community resources.

The consequences, when community organizations or government move to an asset-based strategy, are profound, since the change means a shift from seeing our primary mission as providing services or income to low-income people to investing with people in themselves and their communities to get long-term returns.

The concept of assets as resources that keep on generating new resources is important for several reasons. It pushes us to invest in activities that result in significant and long-term return. An example from Michael Sherraden's work, *Assets and the Poor*, is illustrative. He points out that people often fall into and then stay in poverty because they have no assets - either savings, a home, or skills - to draw upon in a crisis.

By encouraging asset-building through matched savings programs, such as Individual Development Accounts (IDAs), people gather the funds they need to start a business or obtain new skills - both of which can provide substantial long term sources of income and thus protect people from re-entering poverty. Every dollar invested in an IDA thus has the potential of generating a return equal to many times that amount over a lifetime.

These authors have emphasized that assets are not limited to "money in the bank" kinds of resources. Both describe how the untapped skills and commitment

See Asset Building Concepts *page 10*

Asset Building Concepts
continued from previous page

of individuals, when mobilized and/or expanded through training, can make a tremendous difference to the individual as well as to the community.

Although the work of McKnight and Sherraden is an important step forward, we need to see their strategies as part of a much larger picture. Sherraden focuses primarily on individual assets, while Kretzmann and McKnight focus primarily on volunteer-based community initiatives, which are designed to develop assets. We add to the discussion the essential perspective of community enterprises—firms and the CDCs that work with them—and will discuss how all of these groups can maximize their value as community assets.

But, because we are also looking for dramatic scalability—a strategy that can produce significant changes in numerous low-income communities in a relatively short period of time—we embed individual, enterprise, and community assets in the framework of asset-building communities. This helps us think about how assets continue to be developed and expanded over time.

Asset-building Communities

An asset-building community is one where many people in the community are involved in developing and using a wide array of highly targeted assets for themselves, their businesses and organizations, and the community as a whole. Asset-building processes are the creative community processes that will be required to transform opportunities into benefits for all community residents.

For example, a business owner obtains a loan and technical assistance from a local CDC or business development organization. Since this assistance is quite successful in helping the firm expand, the firm owner agrees to help design a mentoring project and then mentor new firms.

In this way, a personal asset—the owner's knowledge of running a business--becomes part of a larger community asset that results in the creation of more individual assets, as s/he and others mentor more entrepreneurs over the years. At the same time, the firm owner benefits, as the newer firms grow and become assets to their former mentors—perhaps serving as subcontractors or partnering on joint ventures.

In another example, a CDC sets up an IDA or matched savings fund for low-income residents. The organization embeds that fund in a business assistance program, so that those building new IDAs have access to support to start a successful business. In particular, the CDC facilitates links between existing firms who have offered to subcontract with the new entrepreneurs, thus ensuring a stable base market for their products. Six months later, the new entrepreneurs are asked to attend a joint design session—also attended by representatives of banks and loan funds—to redesign and improve the IDA and business development programs so they are more effective.

What these examples help us understand is the importance of shaping the processes by which assets are created so they maximize value. Our tendency is to focus our energies on creating a new asset—an IDA pool, or a loan fund--but these examples reveal how the value of these assets is dramatically increased when we see them as part of a much larger community strategy. But what makes that happen? We have identified four qualities that seem to amplify the impact of asset-generating processes.

Embeddedness

Connecting each asset to other activities within the community ensures that assets do not stand alone but are embedded in or linked to other programs that increase their impact and effectiveness. In the examples above, both the loan fund and the IDA pool were linked to a technical assistance program and to relationship-building activities with other firms. The IDA pool was also linked to a market assistance effort that connected new entrepreneurs directly to the mainstream economy.

This linking of activities has several benefits. First, linking provides more substantial support for firms and entrepreneurs, increasing the likelihood of their success as well as a more substantial return from use of the asset. But linking activities also tends to thicken the social fabric of a community, by bringing people together who wouldn't ordinarily interact—such as the bankers and low-income entrepreneurs--and enabling them to become resources for each other.

Equitization

Specific activities designed to equitize assets—both through opening specific asset pools for people with few assets and assisting low-income people to build economic support networks - also result in greater impact. Getting a chance to be in a meeting with bankers and establishing relationships with other firms are invaluable pathways to open business resources.

As Timothy Bates has pointed out in a number of articles, minority businesses hire many more minority workers than non-minority firms—but such firms are limited in their expansion efforts due to the well-documented lack of access to equity and loan capital. When communities identify gaps such as this, they need to convene appropriate stakeholders to set up an asset pool and support activities to meet this specific need.

As the Bates study clearly reveals, equitization is often a relatively low-cost method for producing dramatic and lasting changes in the local economy because it builds on something that is already there. Creating a new equitizing asset—in this case an equity system for minority entrepreneurs—taps a previously underutilized asset—

Continued on next page

minority owners' willingness and commitment to hire minority employees—that can make a substantial difference in the availability of jobs for low-income residents. In the examples presented earlier, one of the equitizing assets was the connection that the low-income entrepreneurs were able to make to larger firms. For microenterprise practitioner organizations, having links to larger firms and thus being able to assist in the relationship-building process is a key to increased effectiveness.

Collaboration

Embeddedness and equitization are possible because assets are developed through collaboration among diverse groups in the community. When we encourage people to work with others in their creation of new assets, core economic relationships are transformed and more community development is likely to occur in the future.

In the examples above, diverse sets of community residents came together to identify opportunities and cook up joint projects to develop them. In some cases, they designed a new program—the IDA program or the mentoring program. In other cases, two firms worked out mutually beneficial economic arrangements. The diversity of these groups - especially their inclusion of people with few assets - meant that the solutions generated were much more likely to be successful and broadly effective. And, in each case, the programs or relationships were redesigned and improved - or they ended, leaving room to try something else more effective.

Why do organizations and firms participate in these asset-building activities? As is seen in the examples above, economic benefit and community benefit become synergistic - assisting new entrepreneurs becomes a means to identify potential new partners; investing in an IDA fund and assisting in design sessions enables banks to identify and create new borrowers. On another level, we can see that subsets of the community that seldom had any interactions of substance are now energized through the act of working together, and thus they can become resources for each other in a multitude of ways. And finally, the people involved in these collaborations are building a deep sense of community, and their positive role in it, which nourishes the entire system.

In this model, everyone is encouraged to give back to the community through the myriad concrete activities the community establishes. People make the mental shift that enables them to realize that when they benefit from a community asset, such as a loan or IDA fund, they have a responsibility to become an asset to others, by sharing knowledge or opening an opportunity.

Drawing In Innovation

Finally, just as asset building derives its power from collaboration of diverse groups and individuals throughout the community, so communities need to benefit from the diversity of experience of other communities. Flora et al, in a recent study, discovered that communities with the most self-development (creation of new local programs or projects) were those who had significant relationships with communities and organizations outside their region. This way, new ideas can stream into the community, providing a larger pool of creativity than any single community could generate on its own. Thus, part of any asset-building process needs to bring in fresh ideas from the rest of the world.

For copies of this paper in its entirety, please call Christy Bradford at ACEnet, 740/592-3854.

About Our Masthead

It's 1998, and the whole country seems to be thinking "retro". Not one to lose sight of national trends, we've selected photographs for this newsletter that highlight some of the contrasts in the last twenty years. This issue reflects on the past, while placing considerable emphasis on new issues. From the front page picture of 1978 postage stamps, to the gentleman featured above, these 1978 photographs remind us of just how much has changed!

NOVEMBER

Nov. 13-14 Tampa, FL: Business Retention and Expansion. Sponsor National Council for Urban Economic Development.
Contact: (202) 223-4735 or FAX (202) 223-4745

Nov. 15-17 Tampa, FL: Expansions and Relocations: Corporate Strategies and Community Responses.
Contact: (202) 223-4735 or FAX (202) 223-4745

Nov. 16-20 San Francisco, CA: Neighborhood Reinvestment Training Institute. Sponsor: Neighborhood Reinvestment Training Institute.
Contact: (800) 438-5547 or (202) 376-2642, email: nrti@nw.org or visit www.nw.org.

11/30-12/1 Philadelphia, PA: CDVCA's Fifth Annual Conference. Sponsor: Community Development Venture Capital Alliance.
Contact: Judy Burton at jburton@cdvca or (218) 725-6834

11/30-12/4 Las Vegas, NV: BAI's Retail Delivery. Bringing Strategic Vision To Life: Competing for Profits in the New World of Financial Services. Sponsor: BAI
Contact: (800) 224-9889 or (312) 683-2464

DECEMBER

Dec. 9-12 Washington, DC: A Place For Everyone: 1998 National Rural Housing Conference. Sponsor: The Housing Assistance Council.
Contact: (202) 842-8600, ext. 47, email NRHC98@RURALHOME.ORG, or visit http://www.ruralhome.org.

JANUARY

Jan. 20-23 Tempe, AZ: "If You Build It, Will They Come?" Sponsor: Council for Urban Economic Development.
Contact: (202) 223-4735

Jan. 25-26 Tempe, AZ: Economic Development Planning. Sponsor: Council for Urban Economic Development.
Contact: (202) 223-4735

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