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PartnersUpdate

Editor's Note: This publication is posted on a rolling bi-monthly schedule.

May/June 2012

Updated June 29, 2012

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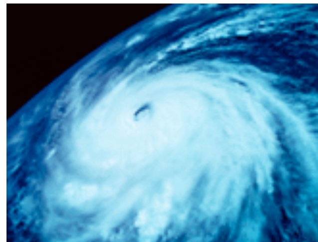

FEMAs New Disaster Recovery Resource Offers Support in Community Rebuilding

6/29/2012 - Identifying disaster recovery resources and understanding how they can be knit together to fund community rebuilding can be a challenge. The Federal Emergency Management Agency (FEMA) has responded to this need by launching an online tool.

Presentations from the *Reinventing Older Communities* Conference Now Available Online

6/22/2012 - The fifth biennial Reinventing Older Communities conference focused on building resilient cities, with a particular focus on smaller cities that were once manufacturing centers. Presentations and videos from this event are now available on the Philly Fed's conference webpage.

Federal Funding for State Small Business Programs

6/18/2012 - Don Graves of the U.S. Treasury Department discusses a new program designed to enhance small businesses, the State Small Business Credit Initiative.

CDFI Capital and Capacity in the Southeast Conference July 18–19

6/15/2012 - Discuss the future of community development financial institution (CDFI) capital and capacity in the Southeast with regional peers at a conference July 18–19 in Charlotte, North Carolina. There is no cost to attend, but registration is required.

Prepaid Cards Being Evaluated for Safety

6/15/2012 - As prepaid cards gain acceptance among consumers, the new Consumer Financial Protection Bureau (CFPB) is examining ways to make them safer. Take a look at what the CFPB is doing.

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[Housing Trends in Rural Areas](#)
6/11/2012 - Rural communities have historically had high unemployment and poverty rates as well as substandard housing stock. Joseph Belden of the nonprofit Housing Assistance Council discusses housing challenges in rural areas and strategies to improve those conditions.

[Affordable Housing Program (AHP) Grant Applications Due July 2](#)
6/7/2012 - Applications for the Federal Home Loan Bank (FHLB) of Atlanta's 2012 competitive Affordable Housing Program (AHP) grants are now available. Applications are due by midnight ET July 2. Interested applicants must [register](#) on the FHLBAccess website to submit an application.

[Attend the Cleveland Fed's Policy Summit on Housing, Human Capital, Inequality June 28–29](#)
6/7/2012 - Join researchers, practitioners, and policymakers from across the country at the 10th annual Policy Summit on June 28–29, hosted by the Federal Reserve Bank of Cleveland. Register today for the conference.

[Power in Partnerships: Addressing Workforce Development Challenges](#)
6/4/2012 - Workforce development issues require collaboration across sectors and geography. Damian Thorman, national program director at the John L. and James S. Knight Foundation, discusses the importance of public, private, and philanthropic partnerships in addressing local and regional workforce challenges.

[Call-in Session on Economic Development Strategies for Small Industrial Cities](#)
5/22/2012 - Join community development practitioners from across the country at 3:30 p.m. ET on Tuesday, May 29, for a Federal Reserve call-in session, *Smaller Cities that Think Big: Lessons from Resurgent and Transforming Cities*. [Register](#) for this interactive session.

[Federal Reserve Governor Speaks on Factors Affecting the Housing Market Recovery](#)
5/22/2012 - Federal Reserve Governor Elizabeth Duke shared [remarks](#) on issues affecting the housing recovery, including economic and regulatory uncertainty and credit access for potential home buyers, at the midyear legislative meetings of the National Association of Realtors.

[Why Did So Many People Make So Many Ex Post Bad Decisions? The Causes of the Foreclosure Crisis](#)
5/22/2012 - An Atlanta Fed [research paper](#) suggests that prevailing optimism during the housing boom and the resulting decisions made by homeowners and financial institutions were primary causes of the foreclosure crisis. The paper examines what led to some of these decisions and how policymakers might respond in the future.

Signs of Rebuilding in Housing?
5/22/2012 - According to homebuilders and residential brokers in the Southeast, the housing industry is improving slowly. The Atlanta Fed's Center for Real Estate Analytics staffers report on feedback from industry representatives in a recent SouthPoint blog.

Closing the Gap: Improving Minority-Owned Small Firms' Access to Credit
5/10/2012 - Small minority businesses typically pay higher interest rates and receive smaller loans than nonminority-owned firms of similar age and size. An academic explores ideas to increase access to capital so minority companies can create jobs and expand.

Can Home Loan Modification through the 60/40 Plan Really Save the Housing Sector?
5/10/2012 - A recent proposal focused on mortgage principal forbearance aims to improve the housing market. Atlanta Fed economists Scott Frame and Kris Gerardi raise questions about the effectiveness of that plan in a current Real Estate Research blog posting.

The Devil's in the Tail: Residential Mortgage Finance and the U.S. Treasury
5/10/2012 - Opinions vary about the appropriate role of the federal government in the future housing finance system. A research paper presented at the Atlanta Fed's 2012 Financial Markets Conference provides an assessment of policy proposals that have been offered.

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FEMA's New Disaster Recovery Resource Offers Support in Community Rebuilding

June is hurricane preparedness month, which corresponds with the start of the hurricane season. Looking ahead, September is national disaster preparedness month, a reminder to community and economic development professionals of the importance of preparing for natural or manmade disasters. Community and economic development professionals must be ready to offer assistance when homes have been damaged or destroyed and small businesses disrupted. Rebuilding after a disaster mimics the work conducted in community and economic development, but often at a lightning pace and in a more complex and complicated environment.

Community rebuilding requires collaboration among community organizations, state and local governments, and financial institutions to bring back amenities, buildings, and infrastructure. Effective rebuilding requires visionary leadership as well as dedicated, educated organizations and individuals. And capital is needed—seed capital, long-term patient capital, bridge loans for small businesses, and other sources of financing to address both individual and organizational needs.

Identifying these resources and understanding how they can be knit together to fund recovery activities can be overwhelming. The Federal Emergency Management Agency (FEMA) has responded to this need by launching a new online tool. The National Disaster Recovery Program Database (NDRPD) is targeted toward state, local, and tribal governments as well as emergency managers, planners, and organizations working on disaster recovery. The database allows users to find funding programs from federal, state, tribal, for-profit, nonprofit, and charitable entities that offer support for recovery efforts. One helpful feature is that the database can be sorted using different criteria to identify resources specific to each situation's unique conditions. A recent search on long-term recovery yielded nine federal sources that included staples such as the U.S. Small Business Administration's Disaster Home Loans and links to lesser-known resources such as the Craft Emergency Relief Fund, a nonprofit that offers emergency preparedness resources and relief for working artists. Mitchell Wyllins, the project

Atlanta Fed Community and Economic Development Team's Role in Disaster Recovery

Banking regulatory agencies like the Atlanta Fed can play a role in responding to disasters. The most basic role is insuring that there is cash available for residents and that banking and payment systems operate as normally as possible. Over the past few years, the Southeast has experienced hurricanes, floods, ice storms, tornados, and environmental disasters. In the aftermath of the storms, Atlanta Fed community and economic development (CED) staff members have supported community rebuilding efforts after disasters. They have also helped raise awareness of long-term recovery efforts and general disaster preparedness. After Hurricane Katrina, for instance, CED staff supported the outreach efforts of financial institutions working with homeowners. CED staff also engaged with federal, state, and local agencies to craft financing for rebuilding. In Tennessee, following the 2010 floods, staff also worked with

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manager for the database, noted that the database was created "to help those involved in community recovery identify resources from all levels of government, foundations, and other funding sources that are free of commercial use." FEMA's community recovery teams, which help with long-term planning in heavily affected communities, recently used the database to educate community leaders on available resources in the wake of Hurricane Irene in New York and Pennsylvania. FEMA's goal is that the database will become a useful resource that provides local responders and emergency managers with the ability to share real-time information.

partners to identify housing needs and funding gaps to repair or replace damaged homes and help stabilize families, many of whom had no homeowner's insurance. More recently, in Alabama CED staff worked with a variety of stakeholders to guide residents through the financial landscape of mortgage lending and affordable housing after their homes were destroyed in the tornadoes of 2011 and 2012.

For more information on disaster recovery resources for community and economic development practitioners, the Atlanta Fed's Disaster Planning, Recovery and Rebuilding site includes important news; publications for consumers, individuals, small businesses, and communities; and essential information links.

The tool also catalogs philanthropic resources available to communities affected by disasters. Since these sources and the target uses of these funds can vary depending on the mission of the foundation or the geographic region, the database is particularly useful to foundations interested in providing support to remote communities or those that have a specific set of needs. Wyllins said that after its initial launch in March 2011, the database has incorporated feedback from users from the various organizations assisting in recovery.

The database has also grown in the number of programs included. For that process, interested parties can request that their information be uploaded. NDRPD then vets the source to validate authenticity and posts those that meet its criteria in the database. NDRPD encourages organizations not only to use the database to find programs, but also to help in adding program information. When asked about the importance of finding new programs to add to the site, Wyllins remarked, "We've built the car, now we need to make sure that we identify the drivers who can help communities get on the road to recovery."

A companion database, the Lessons Learned Information Sharing, comprises best practices, innovative ideas, and lessons learned. It provides first responders and emergency managers with information and expertise on effective planning, training, and operational practices.

To request training on the NDRPD site or if you have any questions, please e-mail Mitchell Wyllins. For information on current disaster zone declarations, FEMA's website houses information on the 2012 Federal Disaster Declarations.

By Nancy Montoya, senior regional community and economic development manager, New Orleans branch

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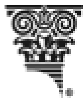

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Presentations from the *Reinventing Older Communities* Conference Now Available Online

The fifth biennial Reinventing Older Communities conference focused on building resilient cities, with a particular focus on smaller cities that were once manufacturing centers. Conference sessions explored topics such as strategies to build a job-ready workforce and strong small business sector, successful urban school reforms and foreclosure prevention programs, new uses for brownfields and vacant land, environmental sustainability initiatives, and the role of anchor institutions in economic revitalization. Presentations and videos from this event are now available on the Philly Fed's conference webpage.

The conference was held May 9–11 and hosted by the Federal Reserve Bank of Philadelphia and its cosponsors. The conference attracted community developers and advocates, government and foundation leaders, researchers, policymakers, bankers, planners, and others interested in the future of cities.

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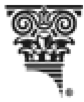
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Federal Funding for State Small Business Programs

This article is part of a continuing interview series that spotlights important views from experts in the community and economic development field.

Historically, the success of the small business sector has been a critical component to creating jobs and building a robust and healthy economy. Federal, state, and local governments have recently enacted new or enhanced policies and programs in support of small businesses, one of which is the State Small Business Credit Initiative (SSBCI). The SSBCI program was a component of the Small Business Jobs Act that President Obama signed into law in September 2010. It allows states to build on models for new and existing state small business programs, including but not limited to collateral support programs, capital access programs (CAPs), and loan guarantee programs. Congress funded the initiative with $1.5 billion for new and existing state programs that support lending to and investment in small businesses and small manufacturers. The program is administered by the U.S. Department of the Treasury.

Janet Hamer, senior regional community development manager at the Jacksonville Branch of the Atlanta Fed, spoke with Don Graves, deputy assistant secretary for the Office of Small Business, Community Development, and Housing Policy at the U.S. Treasury Department, about the SSBCI program.

Janet Hamer: *I understand the SSBCI program is intended to support state programs that provide financing to small businesses and small manufacturers. That said, what are the desired impacts of the SSBCI program?*

Don Graves: The overarching objective is to leverage $10 in private lending and investing in small business to every $1 in public funds, which will, in turn, help create and retain jobs. States use SSBCI funds from the Department of the Treasury to provide credit support to small business loans and investments. Under the program, states can guarantee loans, purchase a participation in a bank loan, contribute to a funded reserve account at a financial institution, or invest directly into small businesses. The program structure varies by state, which gives state officials the ability to tailor their efforts and best address local economic conditions. It is still early in the program implementation phase, but we are already seeing evidence that SSBCI is successfully leveraging small business lending and creating jobs. For example, Louisiana recently used $281,000 of its SSBCI funds to guarantee a working capital loan to a start-up manufacturer, which enabled the company to commence operations and hire 64 new employees.

Hamer: *I know that there is a lot of variation and customization in how states are allowed to use their allocations. Can you describe how states in the Sixth District (Alabama, Florida, Georgia, and parts of Louisiana, Mississippi, and Tennessee) are planning to use their SSBCI funds?*

Graves: States in the Sixth District operate a range of programs. Approximately two-thirds of total funds allocated among these states support private lending, and one-third of funds support state-run venture capital programs.

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SSBCI program information for Sixth District states

State	Capital access	Loan participation	Loan guarantee	Venture capital	Contact information
Alabama	X	X	X		Alabama Department of Economic and Community Affairs
Georgia	X	X	X		Georgia Department of Community Affairs
Florida	X	X	X	X	Florida Department of Economic Opportunity
Louisiana			X	X	Louisiana Economic Development
Mississippi			X		Mississippi Development Authority
Tennessee				X	Tennessee Department of Economic and Community Development

Source: U.S. Department of Treasury, complete chart

Here are highlights of some of the regional lending programs:

Alabama operates a CAP, a loan participation program and a loan guarantee program, through the Department of Economic and Community Affairs (ADECA). ADECA reports that its loan guarantee program is popular with a range of financial institutions, including community banks of varying sizes as well as community development financial institutions (CDFIs). In one early success story, ADECA guaranteed a $1 million loan from a CDFI bank to a nursing home facility with 39 employees.

Louisiana Economic Development (LED) used SSBCI funds to reinvigorate an existing loan guarantee program. Lenders in Louisiana are drawn to the program because of the experienced staff and because LED targets a seven- to 10-day turnaround time for approving most loan requests.

Florida operates the full range of programs, including a CAP, a direct loan program, and a loan participation program targeting exporters. All programs, with the exception of the CAP, are managed by Enterprise Florida, a public-private partnership.

Interested financial institutions should contact the state or visit its website for detailed information.

Hamer: *Generally speaking, who are the key players in this program, and what can they do to help make program implementation effective?*

Graves: The two key players are the state program managers and the financial institution lenders or investors. Program managers are the state agency points of contact who bear responsibility for managing the federal funds, creating the local program guidelines, and approving transactions. In some states, private entities have contracted with the state to administer particular aspects of the program, which is subject to state agency supervision and oversight.

For the program to be effective, banks, credit unions, and CDFIs must be aware of the program and use it. In states that have never operated a credit support program before receiving SSBCI funds, a key challenge is to cultivate a relationship with small business lenders and investors. I encourage lenders and investors to attend the roundtable discussions that are coordinated by the state offices and regulatory agencies because they are an important opportunity to meet state program managers and learn more about the SSBCI-supported state programs.

Hamer: *Can you describe how this program might work in conjunction with other existing state and/or local programs?*

Graves: The program works well for small businesses that may need an expanded line of credit or a new equipment purchase to grow and create jobs. For example, the value of a business's plant property and equipment may have depreciated significantly during the real estate bust, or historic cash flow from 2009 and 2010 may not sufficiently support the credit request, but current cash flow might. Lenders report that these are the types of businesses that can likely benefit from credit support.

SSBCI-backed programs may use funds to support a transaction where there is additional public money involved. The state must still meet program requirements for generating private financing. Note that public funds do not count toward the state's private leverage requirement. At a minimum, private lenders or investors must have at least 20 percent of the risk in any given transaction, according to the SSBCI Policy Guidelines. It is also worth noting that SSBCI funds may not be used to provide credit enhancement to the unguaranteed portion of loans guaranteed by the federal government such as the Small Business Administration (SBA) or the U.S. Department of Agriculture.

Hamer: *Please discuss how this program can provide benefits to underserved communities, women and/or minority entrepreneurs, and perhaps support organizations that seek to provide assistance to these groups. And have you observed any state programs that have been particularly effective in addressing the needs of such businesses?*

Graves: As part of its application, each state reported on its plan for expanding access to credit to small businesses in underserved communities. One way for states to target underserved communities is to work with CDFIs that target or are otherwise active in these markets. CDFIs may enroll loans in state guarantee, participation, and collateral programs just as any other bank or credit union might. In other cases, the CDFIs serve the state more directly by acting as a loan packager and servicer or even administering funds on behalf of the state. State program managers perform their own due diligence to determine that each lending partner has sufficient capacity and experience, but in general, CDFIs have been early adopters of SSBCI programs and have made great partners for the states. In Alabama, Mississippi, and Florida, CDFIs enroll loans in state programs, and Georgia has set aside a portion of its allocation specifically to support partner CDFIs.

SSBCI funds may also be used to support lending to nonprofits so long as the financing is for a "business purpose." We anticipate that SSBCI supported financing of nonprofits will be an important part of the program's impact.

Hamer: *Are you observing any challenges or barriers associated with the SSBCI program, particularly for the Sixth District?*

Graves: The biggest challenge is increasing lender and investor awareness and participation. Many southeastern states have not have operated a credit support program, and it takes some time for a state to develop those working relationships with lenders and investors. For lenders that do not have an SBA platform, SSBCI offers an alternative. But for lenders that do use SBA-guaranteed products, they may ask, "Why would I use SSBCI?" Banks say they use SSBCI to complement SBA-guaranteed products, including loans that need credit enhancement but that may not justify the costs of securing a 75 percent SBA guarantee. The program can also be useful in helping to provide loans to nonprofits, which are not eligible under SBA rules. It can additionally be used to provide bridge loans during the construction phase of a 504 transaction until takeout by the SBA debenture. We also see states focused on short-term working capital financing, in part because of the program's leverage requirements.

Hamer: *What do you consider to be the greatest opportunities associated with the implementation of this program?*

Graves: SSBCI provides $1.5 billion to support new and existing state programs that provide lending to, and investments in, small businesses and small manufacturers. The program is also expected to spur up to $15 billion in additional private-sector lending and investing. Leveraging this capital is the most immediate opportunity for small businesses across the country. Because every state was entitled to an SSBCI allocation, states collaborated from very early on in the program by sharing program design ideas, template documents, and marketing techniques. The Treasury Department will add to the knowledge-sharing process by disseminating best practices as they emerge. After the five-year SSBCI allocation period ends, the funds will remain within the state budget and can be used to support other small business lending programs. Another important opportunity is to develop the capacity of state-level credit enhancement programs and serve the credit needs of small businesses through innovative, sustainable lending programs and practices. The vision of SSBCI is that states use this opportunity to learn from successful practices and develop long-term capacity to support small business finance in the future.

For more information about the SSBCI program, please visit the Treasury Department's website.

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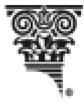

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CDFI Capital and Capacity in the Southeast Conference July 18–19

Join peers and experts from around the region at the "Defining the Future of CDFI Capital and Capacity in the Southeast" conference July 18–19 in Charlotte, North Carolina.

The conference will focus on investment and collaboration strategies for building community development finance capacity in the Southeast. Session topics will address issues such as social investing, institutional and individual investment strategies, cross-sector collaboration, partnership development, enhanced capital deployment strategies, growing to scale in the region, and strategies for developing future generations of leaders.

Participants will include community development financial institutions, community development banks and credit unions, community development organizations, financial institutions, foundations, social investors, and industry leaders. Loan funds and other collaborative lenders are also encouraged to attend.

There is no cost to attend, but registration is required. The Federal Reserve Banks of Atlanta and Richmond are hosting the conference in partnership with the Opportunity Finance Network and NeighborWorks® America.

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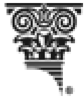

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Prepaid Cards Being Evaluated for Safety

The prepaid card industry is growing fast and not just among underbanked consumers. In an Atlanta Fed Portals and Rails, assistant director of the Retail Payments Risk Forum Cynthia Merritt describes the implications of this growth, particularly as it relates to consumer protections. The blog also highlights the role of the new Consumer Financial Protection Bureau (CFPB) in promoting safety and transparency in the market.

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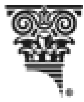
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Housing Trends in Rural Areas

This article is part of a continuing interview series that spotlights important views from experts in the community and economic development field.

Even with nearly 20 percent of the population living in rural America, housing challenges in these areas are often overshadowed by those of their urban counterparts. Many rural markets have historically faced a declining employment base, often leading to unemployment, underemployment, and persistent poverty, according to Federal Reserve research. More recently, federal, state, and local economic conditions have led to reduced funding for rural community and economic development programs. Furthermore, rural America has been hit hard by high rates of mortgage delinquencies and foreclosures, just as urban areas have.

Sibyl Slade, senior regional community development manager at the Atlanta Fed, spoke with Joseph Belden, deputy executive director at the Housing Assistance Council (HAC), to learn more about the impact of the economic downturn on rural markets and implications for future housing needs in those areas. HAC is a national nonprofit working to improve housing conditions for the rural poor. It offers assistance through rural housing development loans and grants, training, technical support, and research on rural topics.

Sibyl Slade: *Joe, what can you tell us about how the recent housing crisis has played out in rural markets?*

Joseph Belden: Rural America has had high rates of poverty and substandard housing for decades. Today housing quality is less of a problem than affordability and availability in many areas. The lack of quality affordable housing options has become a more pronounced issue since the downturn, and while many rural areas have experienced less boom (and thus less bust), there are still challenges. In 2010 the U.S. Department of Agriculture (USDA) reported that 19 states had higher foreclosure rates in rural counties than urban counties. Five of these states are in the Atlanta Fed's District—Alabama, Florida, Georgia, Mississippi, and Tennessee. In many rural areas, unemployment and underemployment have been the main factors causing homeowners to fall behind.

Another challenge, however, is limited access to quality affordable mortgage financing. Rural areas have fewer financial institutions and thus less competition and increased costs to consumers. Since Home Mortgage Disclosure Act (HMDA) data only account for information collected from financial institutions that are required to report lending data, and many that serve rural communities are not subject to that requirement, the data do not tell the full story of mortgage financing. It does, nonetheless, illustrate one aspect of housing challenges for rural America.

Slade: *Have there been any unexpected findings or trends around rural development issues that emerged in HAC's recent research?*

Belden: Very recent HAC research shows that rural America has a group of 429 persistently poor counties—places that have had 20 percent or higher poverty rates

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since 1990 (i.e., in the 1990, 2000, and 2010 Censuses). Interestingly, if you measure this from 1980, the number of persistently poor counties goes down to 382. So some things are getting worse. In such places, community and economic development needs continue to be both broad and complex. Another interesting fact we're seeing is that many metropolitan areas actually have large rural populations in the “exurbs.” In fact, over half of all rural residents actually live in the outlying counties of metro areas. Additionally, we have also found that minorities now account for three-quarters of rural population growth, which may come as a surprise to some. This is discussed in HAC's April 2012 issue of Rural Research Note. It's on our site at www.ruralhome.org.

In terms of housing options, we find that manufactured housing continues to grow as a rural housing choice. Perhaps one issue for the future will be the continued availability of affordable financing products for this kind of housing stock. Often, manufactured housing is primarily financed by a personal property loan rather than a mortgage loan. Such products typically require low down payments, but they often have higher interest rates with shorter repayment terms.

Another obstacle for rural communities is the lack of local capacity to both build new homes and renovate existing housing stock. There may be few or no local for-profit, nonprofit, or public builders that understand how to undertake such projects or have knowledge about how to use available funds and programs. Often we find this lack of capacity is highest in areas with the greatest need.

Lastly, although it has been a very successful program, we have seen a decrease in the use of the USDA's Section 502 direct loan program in the last few years. I think there are several factors contributing to this trend, including a sharp decline in funding available in the program, effects of the economic recession, which resulted in a decreased number of interested and qualified buyers, staffing cuts at USDA leading to administrative challenges and delays for the program, and the outmigration of younger adults from many rural areas. The 502 program is also now being used mostly for the purchase of existing homes.

Conversely, there has been rapid growth in use of the Section 502 guaranteed loan program, with increased funding from Congress.

Slade: *What programs or other efforts have been most successful in meeting rural housing needs?*

Belden: As I mentioned, USDA's 62-year-old Section 502 direct loan program has quietly but successfully made homeownership a reality for over 2 million low-income families. It provides qualified applicants up to 100 percent financing to purchase an existing dwelling, purchase a site and construct a dwelling, or purchase newly constructed dwellings located in rural areas. Mortgage payments are based on the household's adjusted income.

Another USDA initiative, the Section 515 rental housing program, has provided funding for the construction of affordable rental options for over 400,000 households since the 1960s. The residents of these affordable rental homes have incomes averaging less than $11,000, and over half are elderly and disabled. One ongoing challenge is keeping those units affordable and available for low-income tenants.

In most of the USDA housing programs, mission-driven community organizations—primarily nonprofits—have played an essential role in putting those and other housing funds to work in rural places. An example of one successful local group is Florida Home Partnership (FHP), a nonprofit housing developer in the Tampa area. FHP has built over 400 homes in recent years, mostly using USDA's self-help, sweat equity program for low-

income homeownership. HAC has loaned and granted substantial funds to FHP to help in this building. There are other such successful organizations around the country, but not enough of them. Often there are few if any such groups in those 400 persistently poor counties that I mentioned earlier.

Slade: *How do you expect rural housing trends to change over the next decade? And what will this mean for future planning and policy needs?*

Belden: We think several important factors will contribute to rural housing trends in the next 10 years: the aging of the rural population, continued outmigration of rural residents and particularly younger populations, rapid growth in some rural retirement or vacation destinations or in areas with new industry such as oil and gas exploration, possible cutbacks in rural housing programs, and a growing need for affordable rentals and assisted living, including a need to preserve those rentals that now exist. Policy and planning efforts will need to focus on each of these aspects to comprehensively address rural housing issues for the next decade.

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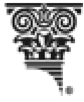 FEDERAL RESERVE BANK of ATLANTA
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Affordable Housing Program (AHP) Grant Applications Due July 2

Applications for the Federal Home Loan Bank (FHLB) of Atlanta's 2012 competitive Affordable Housing Program (AHP) grants are now available. Applications are due by midnight ET July 2. Interested applicants must register on the FHLBAccess webpage to submit an application.

Approximately $13.5 million in grants will be awarded through the 2012 AHP program, with up to $500,000 awarded per project. Funding can be used to assist with the acquisition, construction, rehabilitation, and development of rental or owner-occupied housing to persons earning 80 percent or below the area's median income levels. Eligible organizations include for-profit and nonprofit housing developers, public entities, contractors, community builders, and other nonprofit or for-profit corporations and organizations in Alabama, Florida, and Georgia.

Access the archived webinar on the FHLB Atlanta website to learn more about how AHP grant funding can benefit your organization. Contact the FHLB's Community Investment Services department with any questions.

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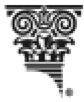

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Attend the Cleveland Fed's Policy Summit on Housing, Human Capital, Inequality June 28–29

Join researchers, practitioners, and policymakers from across the country interested in economic policy and development in low- and moderate-income communities at the 10th annual Policy Summit on June 28–29. Held at the Federal Reserve Bank of Cleveland, the summit will focus on effective strategies to strengthen and rebuild communities, with educational sessions focused on the following topics:

- Analyses of programs and policies focused on current conditions in labor and housing markets
- Education policy
- Entrepreneurship
- Financial and human capital asset building
- Labor and housing issues in older industrial cities
- Long-term unemployment
- Loss-mitigation strategies for borrowers
- Low-income housing
- Program implementation, evaluation, and scalability
- Reduced local government and community development budgets
- Workforce development

This year's conference features Federal Reserve Bank of Cleveland President and CEO Sandra Pianalto as the opening keynote speaker. Award-winning journalist Alex Kotlowitz will provide closing remarks focused on addressing challenges in communities that have experienced significant disinvestment.

Register today on the Cleveland Fed's website.

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Power in Partnerships: Addressing Workforce Development Challenges

June 2012

Tammy Edwards: *Welcome to the Federal Reserve Bank of Atlanta's Economic Development podcast series. I'm Tammy Edwards with the Federal Reserve Bank of Kansas City. Workforce development issues tend to be locally distinct, and thus require community-focused and cross-sector solutions. This point was reinforced for us during recent workforce development roundtable meetings held across the country as part of the Federal Reserve's Chronic Unemployment and Workforce Development initiative. Indeed, collaborative local and regional efforts focused on addressing workforce development challenges are gaining momentum, and community-based funders are becoming more engaged. One such initiative is the National Fund for Workforce Solutions, a coalition of local and national funders that supports 30 regional funding collaboratives focused on advancing careers of low-wage workers through long-term employer engagement and job and career training for workers. In this session, we explore the importance of public, private, and philanthropic partnerships in addressing local and regional workforce challenges and the early results from some of these collaborations.*

Today I'm speaking with Damian Thorman, national program director at the John L. and James S. Knight Foundation and chair of the Investor Committee for the National Fund for Workforce Solutions.

Damian, thank you for speaking with us today.

Damian Thorman: Thank you, Tammy. I appreciate the opportunity to be here today. The National Fund is honored to join you for this conversation.

Edwards: *Tell us more about the National Fund for Workforce Solutions. What is your goal and what is your approach for helping create scalable solutions to local workforce development challenges?*

Thorman: We are a fund of 12 national funders, and I'm proud to say a blend of both traditional philanthropy and corporate philanthropy. I mention that because it's at the heart of what we are trying to accomplish, which is to bring business and workforce development programs together so that, at the local level, we can have robust partnerships that deliver training and support that results in more individuals getting placed in jobs. The way we do that is really to put the employer at the center of a lot of our work. We are trying to create regional funding collaboratives or organize these workforce partnerships, develop strategies for specific industry sectors such as transportation or health—health is our largest—and then we want to build career pathways for those that we are training. So, not only are we training

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individuals for new jobs, but we're also working with employees within the system to try to make sure that they can move forward and move up the career ladder. And then, of course, we coordinate the local workforce programs that actually deliver the services in each of the local communities.

At the heart of this is really making sure that the partnerships support the work and the needs of the local community. As you mentioned, we have over 30 sites around the country and they are very unique, and we want to make sure that we are meeting the local needs of each of these communities. And so we work very closely with the local community to help them, that is, the local employer and the local funders and the local workforce development programs work collaboratively at the local level.

Edwards: *What are the key elements of a regional funding collaborative for workforce development, and how would a community move from concept to a functioning collaborative?*

Thorman: There are five strategies that emerged from our research and practice that we found essential for a local regional collaborative. One is to create a regional funding collaborative itself, that is, to bring together the funders, the government agencies, and the foundations into a collaborative. Second, we would organize workforce partnerships. Partnerships create long-term relationships between employers and service providers. Thirdly, we develop strategies for specific industry sectors. Fourth, we really work to make sure that these local collaboratives build career pathways, so we want to not only train workers to come into new jobs, but also to make sure that those that are in jobs can move up effectively through that training program. And finally, we want to coordinate these local workforce programs. We want to align all the existing programs and connect that with this effort so that we're not leaving programs out and we're having the greatest impact possible, and the resources are utilized in the best way possible.

The second part of your question was how do you get from no partnership to the creation of a robust partnership I just outlined. It really starts with an important building of relationships within the funding community and the local government and civic infrastructure. As I said earlier, we really allow this model to be adopted per community and so those players will differ, but we want to make sure that we have the leading voices on this issue in a community coming together at the beginning to really sit down and think through, do they want to go through and make the commitment. We want to make sure that the employers and the local workforce program is able and willing to implement that program in the local community.

And then there's a four-to-one match, so we need to make sure that the existing resources that are in the community can be put together in this collaborative, and the new resources have to be dedicated; there's no way to do this without new resources. In order to do that, we need to make sure that the local community has the capacity to raise those dollars. And then finally, really and what it always comes down to is, is the leadership both in the workforce community but also the employer community to bring this collaborative together and to make sure that it continues to function robustly.

Edwards: *All that sounds like a significant undertaking, especially given the variety of players. With respect to the regional collaborative, what are the challenges you've seen in both the start-up and implementation phases?*

Thorman: I think the largest challenge that we tend to face is that we're really suggesting a really bold and innovative approach here. So, we have to really work hard to communicate effectively to the local funders and to the local, primarily the local workforce development system, that this new approach really is providing them with resources to build on what they've already been doing, but they haven't had the resources to innovate as much as they have. We're coming in and providing these new dollars that allow them to build and innovate, and reach out and create these cross-sector collaboratives, which really, ultimately inject more of the employers' needs.

Edwards: *Can you provide an example from a regional collaborative that demonstrates the ability of these groups to benefit both job seekers and employers alike?*

Thorman: Take Philadelphia, which is one of our earliest and most successful programs. Hundreds of workers have been served. More than 35 employers, ranging from advanced manufacturing to food manufacturing, have also been a part of the collaborative. Now, through the recession, many of the firms found ways to steadily grow their businesses and workforce even though many of the other folks in the region were struggling. This ties back to the need and the economic impact that high-quality workforce training programs really can have, allowing employers to have the skills they need to move through these tough times.

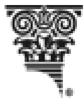
A recent study of that program showed that the partners, the employers, and the employees really found that there was a very strong exchange of ideas and they were able to gain a sense of camaraderie or partnership, they were able to troubleshoot common issues, discuss policy changes that might be necessary at the local, state, and national level to help facilitate this being implemented more broadly and meet the needs more broadly of employers and employees. They were also able to stay informed about industry trends, and compare training and experiences and recommendations to fellow employers.

Edwards: *Damian, thank you for joining us today.*

Thorman: Thank you, Tammy.

Edwards: *This concludes our podcast. We've been speaking with Damian Thorman, Knight Foundation's national program director. Plan to attend our upcoming national conference on workforce development titled "The Future of Workforce Development: Where Research Meets Practice" on September 19 and 20 in Kansas City, Missouri. The Kansas City and Atlanta Feds are conference cohosts. For more information and to register, visit workforce.kcfed.org.*

Also, for more podcasts on this topic or others, please visit the Atlanta Fed's website at www.frbatlanta.org. If you have comments or questions, please e-mail podcast@frbatlanta.org. Thanks for listening.



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Call-in Session on Economic Development Strategies for Small Industrial Cities

Join community development practitioners from across the country at 3:30 p.m. ET on Tuesday, May 29, for a Federal Reserve call-in session, *Smaller Cities that Think Big: Lessons from Resurgent and Transforming Cities.* The session will highlight research conducted by the Boston, Chicago, and Philadelphia Feds on older industrial cities, with a particular focus on smaller cities.

Presenters will share major findings from various research initiatives and engage the audience in thinking about how smaller cities have addressed and overcome economic and community development challenges. Presenters include:

- *Jeremiah Boyle*, community affairs managing director, community development and policy studies, Federal Reserve Bank of Chicago
- *Yolanda Kodrzycki*, vice president and director, New England Public Policy Center, Federal Reserve Bank of Boston
- *Alan Mallach*, visiting scholar, Federal Reserve Bank of Philadelphia

Register for this interactive session and Q&A; at the ***Connecting Communities™*** website.

This event is part of the Federal Reserve's ***Connecting Communities™*** series, which is a national initiative intended to provide community development practitioners, financial institution representatives, policymakers, and others with timely information on emerging and important community and economic development topics.

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Federal Reserve Governor Speaks on Factors Affecting the Housing Market Recovery

The housing recovery hinges on reducing economic and regulatory uncertainty while also improving credit availability for potential home buyers, according to Federal Reserve Governor Elizabeth Duke. In remarks provided at the midyear legislative meetings of the National Association of Realtors, Duke described issues impacting the availability of credit for home purchases. She also noted the importance of reducing the shadow inventory of houses in foreclosure. Duke encouraged policymakers to address difficult decisions impacting the future structure of the mortgage market and stressed the importance of addressing regulatory uncertainty, specifically on servicing, capital, and underwriting requirements.

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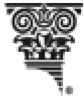
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Why Did So Many People Make So Many Ex Post Bad Decisions? The Causes of the Foreclosure Crisis

Considering the prevailing optimism about the housing market during the recent housing boom, decisions made during that time by homeowners and financial institutions were not completely unfounded. So posits a new research paper by Atlanta Fed economists Christopher Foote and Kristopher Gerardi and Boston Fed economist Paul Willen. The paper looks at some of the factors at play prior to the foreclosure crisis, the effects on housing-related decisions, and how policymakers might respond in the future. The paper was presented at the Russell Sage and Century Foundations conference on Rethinking Finance: Perspectives on the Crisis.

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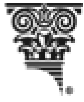

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Signs of Rebuilding in Housing?

A current Atlanta Fed SouthPoint blog reports that the housing market in the Southeast is improving slowly. Staff from the Atlanta Fed's Center for Real Estate Analytics summarize feedback from recent surveys and meetings with industry representatives. According to their findings, sales of new and existing homes increased on a year-over-year basis in April. The researchers note that improvements are uneven in terms of scope and size and vary by market. Citing some reasons for the pickup in activity, respondents indicated that attractive pricing, increasing levels of consumer confidence, and an overall improvement in the credit quality of mortgage applicants were key factors.

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Closing the Gap: Improving Minority-Owned Small Firms' Access to Credit

May 2012

Harry Ford: *Welcome to the Federal Reserve Bank of Atlanta's* Economic Development *podcast series. I'm Harry Ford with the Federal Reserve Bank of Chicago.*

Some state and local programs can help to improve access to capital for minority-owned businesses, thereby increasing these companies' ability to grow and create new jobs. Tim Bates, professor of economics at Wayne State University, proposed this idea around adequate access to business loans and credit for minority-owned businesses as part of the "Big Ideas for Job Creation" project. The project, sponsored by the Institute for Research on Labor and Employment at the University of California at Berkeley, and supported by the Annie E. Casey Foundation, was a call to academics and economic development practitioners to design jobs programs for cities and states that would lead to net new job creation in one to three years. Bates's idea, "Regulatory Relief for Minority Owned Businesses," is one of five winning ideas we are featuring in this podcast series.

Today I'm speaking with Tim Bates, from Wayne State University. Tim, thank you for being here today.

Tim Bates: Thank you for the opportunity.

Ford: *Tim, could you tell us more about your "big idea" on regulatory relief for minority-owned businesses and what issues you address with it?*

Bates: At the crux of the matter is improving small business access to credit, specifically, small businesses owned by African-Americans and Latinos. In terms of credit availability, minority-owned businesses, in comparison to small businesses generally, in seeking loans from financial institutions have three patterns of results that are somewhat problematic from the standpoint of maximizing the development and job creation potential of these firms. First of all, relative to small firms owned by whites, the minority borrowers receive smaller loans, for the loans they receive they pay higher rates of interest, and their loan applications are more likely to be rejected. A simple example of these differentials, the Federal Reserve System has created a database called *The Survey of Small Business Finances*. And as I am looking over the findings of that particular survey I know that minority business borrowers paid average interest rates of 9.1 percent, substantially above the average 6.9 percent rate of interest paid by the owners of

white-owned businesses. The issue is why: Why higher interest rates? Why smaller loans? Why a higher probability of loan application rejection?

The response of researchers is to try to figure out how much of this is explained by the higher riskiness of the minority borrowers, and if higher risk doesn't explain it, then what might be going on here? So researchers control statistically for risk factors in a variety of ways. They envision two hypothetical business owners. They have the same credit ratings. The firm and owner characteristics are similar; we're talking about firms of similar size, similar age, with roughly comparable sales levels, profits, owners' personal net worth is comparable. So for these essentially identical businesses, the result we find—really after controlling for the credit risk factors—is that the minority borrowers get smaller loans, they are charged higher interest rates for the loans they receive, and they are more likely to have their loan applications rejected.

An interesting related finding is that after we control for credit risk, a number of black-owned and Latino-owned businesses, their owners claim that although they *need* loans, they need credit, in fact, they have not applied at some point over the last three years because of fear of rejection. OK, there is a need here, a need that can create jobs in a very effective way, and the need is to treat firms with identical risk profiles the same irrespective of owner race or ethnicity. Broadly, the need is to ease the credit constraints that are limiting the growth of viable minority-owned businesses.

Ford: *Are minority borrowers seeking credit from the same types of institutions as nonminority borrowers, and can you point to the related research?*

Bates: There are some differences in borrowing patterns. I believe the most obvious would be that minority borrowers often patronize banks owned by co-ethnics. This is most common among Asian immigrant-owned firms in major urban areas. The pattern is one of Korean immigrant business owners borrowing from Korean-owned banks, Chinese business owners borrowing from Chinese-owned banks. To some extent, too, the same pattern is observed among African-American business borrowers who borrow from black-owned banks.

A second example of differences, minority business borrowers gravitate rather heavily toward banks that are highly active in making SBA guaranteed loans. These are government-guaranteed loans whereby SBA takes 75 percent of the default risk. These tend to be larger banks. Often they are banks with many retail branches. In any major urban area, there's a grapevine whereby minority business owners tend to be aware of the banks where they will receive a less positive versus more positive reception.

In terms of the underlying research, this is not the type of issue that lends itself to questions that appear in nationally representative databases. Much of the research has been done by sociologists who've done case studies in cities like Los Angeles and New York, and have talked to many hundreds of business borrowers.

Ford: *Tim, your paper notes that minority-owned businesses already employ a significant number of workers. How exactly does your idea create "new" jobs, how many, and what types of jobs do you believe it could create, and what would be the cost?*

Bates: Not all types of businesses are credit constrained, so easing credit constraints would hugely impact, really, only the set of minority businesses that is

most directly credit constrained. Two stand out, one is the construction industry and the other is manufacturing.

If minority borrowers were treated by financial institutions essentially identically, in terms of determining acceptance of loan applications and borrowing terms, the result would be larger loans, lower borrowing costs, and more loans flowing to minority businesses. In terms of job creation, actually, among businesses owned by African-Americans and Latinos, over 60 percent of all the jobs that are created are created by firms with annual sales exceeding $1 million a year. Very large firms, firms in the minority communities, firms in credit-constrained industries like construction, if we look at an immediate impact over the course of one year, the immediate impact is estimated to be only about 14,000 to 15,000 new jobs. But the impact over a three-year period is substantially bigger.

So, whereas initially there might 14,000 to 15,000 new jobs, by the end of a three-year period we could easily see that at a range of 25,000 to 30,000 new jobs annually. Now, nationwide that might not seem like a lot, but we're talking specifically about minority neighborhoods and cities, particularly large cities. And this process, once under way, would continue to build momentum with improved credit ratings, greater credit access, greater firm growth, more firms being created. So, we're not talking about a short-term solution that will have a huge impact, but longer term it really could.

Ford: *Tim, in your brief, you describe the Short-Term Lending Program run by the United States Department of Transportation as one example of this type of program. Can you describe any other successful applications of this idea, and what are the results to date?*

Bates: What is particularly useful in terms of the Department of Transportation program is the easing of credit. Now, throughout the United States there are thousands of local government entities, cities, districts, special authorities, that purchase products from small businesses. At the local and state level the type of products that government entities are most often purchasing is construction. Minority vendors are very heavily involved in local and state government procurement, and one of the major problems they have in being vendors to governmental entities is that a lot of governments pay their bills very slowly. The combination for a minority-owned business in a field like construction of taking on a large job, performing the work, and then having to wait for a month to be paid by the local government, this can easily create serious liquidity problems for the firm. In other words, it might not be able to pay bills, and firms could possibly even go out of business. Local governments need to adopt "prompt payment provisions," which a number already have. The city of Chicago is a large city that has an explicit "prompt payment provision" for minority vendors to eliminate this type of problem.

At the state level, the state of Maryland has been a pioneer, and for over 20 years an agency of the state government has been offering short-term working capital loans specifically to minority-owned businesses that win local and state government contracts. Receiving a loan is not automatic. The minority contractor first wins the contract, then minority contractors have to establish that they do have solid comprehensive accounting systems. If they meet these requirements, the state agency will allow them to receive working capital loans that are tailored to the size and duration of their contract with a state or local government in Maryland. The program is quite effective in terms of the state agency collecting on its working capital loans because the contracting authorities, for example, the city of Baltimore,

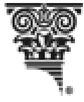
agree as part of the loan agreement to send the necessary loan repayments directly to the state agency that has extended the loan to the minority contractor.

Working capital loans become available, illiquidity is therefore not a problem. The minority vendors can concentrate on fulfilling their contracts knowing that they have the working capital to do the job. Indeed, there are some defaults on some loans, but the interest charged by the state to the minority borrowers more than compensates for any of the losses due to credit risks, and pays the bulk of the operating costs of the program as well. So, for minimal expense we have more effective contractors, the ability of minority businesses to take on larger jobs, and over time Maryland has found that the minority vendors receiving financing under the state program gradually move over to bank financing after establishing a successful record on contract performance and repayment of loans. The program, therefore, has largely destroyed itself by the year 2012 because it is really no longer needed. The constraint has disappeared and Maryland is known nationwide as one of the states that has been most successful in cultivating large, viable minority-owned businesses that have created lots of jobs.

Ford: *Well, Tim, thank you very much for joining us today.*

Bates: My pleasure.

Ford: *This concludes our podcast. We've been speaking with Tim Bates, Wayne State University professor of economics. For more podcasts on this topic and others, please visit the Atlanta Fed's website at www.frbatlanta.org. If you have comments or questions, please e-mail us at podcast@frbatlanta.org. Thank you for listening.*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Can Home Loan Modification through the 60/40 Plan Really Save the Housing Sector?

An Atlanta Fed Real Estate Research blog raises questions about a recent proposal called the "60/40 Plan" that hinges on principal forbearance strategies as a way to improve the housing market. Though principal forbearance can be a useful loss-mitigation tool, according to Atlanta Fed economists Scott Frame and Kris Gerardi, the effectiveness of such a plan depends on a variety of factors, including economic and institutional conditions.

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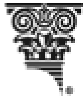

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The Devil's in the Tail: Residential Mortgage Finance and the U.S. Treasury

The future role of the federal government in housing finance is a subject of recent debate and discussion. Contributing to this dialogue, Atlanta Fed economists Scott Frame and Larry Wall and Professor Lawrence J. White of New York University have authored a research paper that provides an overview and assessment of recent policy proposals. Presented at the Atlanta Fed's 2012 Financial Markets Conference, the authors acknowledge that there appears to be a broad consensus to maintain government guarantees for certain narrowly defined borrower populations. However, they note that the role of the federal government in the broader housing finance system remains in dispute, ranging from no role to insuring against only extreme or tail events to insuring against all losses.

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