

New England Rural Development Conference

**Welcome Remarks by
Cathy E. Minehan, President
Federal Reserve Bank of Boston**

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I would like to thank all of you for joining us so early this morning for what I am sure we all agree is a topic of growing importance - community and economic development in New England's rural areas.

For many of you it might be unclear why the Federal Reserve is sponsoring such a program. ~~After all isn't the Fed just about banking and setting interest rates?~~

The truth is that the Federal Reserve System is very much involved in community development issues. And as part of our Community Reinvestment Act mandate we work to promote innovative approaches to local development issues.

CRA { carrot & stick

Today's conference represents a continuation of much of the work the we have been involved in New England's rural areas. In the past we have held a conference on lending to Native American tribes looking at how lenders can meet the credit needs of Indians living both on and off reservation land.

In New Hampshire and Maine we have worked with lenders, community organizations, and State housing officials to develop financing vehicles for affordable rental housing.

Last fall we worked with the Vermont Technical Assistance Providers Association to co-sponsor a major conference on micro-enterprise lending.

The Fed is also currently working with Maine's micro-enterprise association (MICRONET) to develop and deliver a training program for micro-enterprise lending practitioners around the New England.

As today's program suggests, however, a vast amount of attention in the area of community development is usually paid to the needs of urban communities in trouble. Part of the reason for this is obvious, given that urban blight is often so visible. Those of us who are aware of the myriad of problems that face our cities can't help but become very involved in trying to find solutions to them.

Also, the news media's habitual focus on city problems while painting an idyllic view of rural life make us forget at times that there are a growing number of economic, housing, and social issues that need to be addressed in rural America.

With respect to many rural development issues, the Federal Reserve's view is that there is some ^{good news & bad news} encouraging news and some not so encouraging news. The Federal Reserve Bank of Kansas City recently

held a Financing Rural America Conference where it was noted that, in the 1990s after a steep recession in the 1980s, many rural communities are mounting a strong economic comeback. Rural counties, for instance, have added jobs in the 1990s at a rate of around 1.8 percent annually, compared with meager gains in the 1980s.

Some rural counties, especially trade centers or those with scenic amenities that have attracted retirees and tourists, are posting stronger growth than metropolitan areas. Reflecting the economic turnaround, more people are moving to rural areas. For example, about 77% of rural counties had population gains in 1995 compared with half that number in 1990.

So what's the bad news?

Notwithstanding the improved rural economic picture, there remain serious concerns about rural America's economic future. Chief among these concerns is gaining access to capital to fuel continued growth.

Many rural communities, especially those traditionally tied to agriculture, are trying to diversify their economic base, and capital is needed to finance new businesses.

Housing is in short supply, and many communities are seeking to finance affordable housing. And public infrastructure, such as water and sewer systems, is in need of refurbishment in some communities and expansion in others, pointing to additional capital demands. While capital demands mount, questions linger about the adequacy of rural capital markets to meet those demands.

Rural borrowers also face less competitive markets, with fewer capital suppliers and fewer financial products and services. Rural businesses as well tend to rely heavily on community banks for debt financing and often have few if any sources of equity financing. A fresh wave of consolidation among the nation's banks has only heightened concern about access to credit.

Today's program, like many of our other Community Affairs projects, was put together with the valuable assistance of knowledgeable individuals and organizations who work on these issues on a daily basis. In fact, the idea for today's program came from members of our Community Development Advisory Council who saw the need to focus attention on rural development concerns. Some of the members of the Council such as Tom Guerino of the Rural Development Council, Mike

Finnegan of Key Bank, Clara Monier of New Hampshire Housing Finance Agency, and Ron Phillips of Coastal Enterprises in Maine have been directly involved in making this program possible.

Our partners in today's conference are also organizations which pay particular attention to rural development needs. Local Initiative Support Corporation (LISC), Granite State Community Reinvestment Association, the Massachusetts Rural Development Council, and the New England Regulatory Compliance Council along with the Federal Reserve all believe that today is a very important starting point for us to not only collectively identify and discuss issues facing rural communities, but also learn about some very good approaches to community development in the rural context.