

News & Views

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DELTA Loan Program Launched

Small businesses adversely affected by Department of Defense reductions can participate in a \$1 billion loan guaranty program.

The program, Defense Loan and Technical Assistance (DELTA), is jointly sponsored by the U.S. Small Business Administration (SBA) and the Department of Defense (DOD). It is designed to provide loans to help many "defense-dependent" small businesses enter broader commercial markets while retaining their defense capabilities, according to SBA Administrator Philip Lader.

"These loans will lend a much-needed helping hand to people working hard to rebuild their businesses, communities, and local economies. Small businesses are the backbone of our economy and it is imperative that we provide them with every opportunity to succeed," Lader said.

"This program will help small businesses become less dependent on defense contracts and more adaptable to commercial markets. Wherever we can do that, it's good for employment, good for the American economy, and good for the defense technological and industrial base."

The program is financed by a \$30 million DOD appropriation, enough to underwrite about \$1 billion in loan guarantees. Eligible borrowers can participate in DELTA under one of two SBA loan programs. Under the 7(a) program, loans are limited to \$1.25 million. Under the 504 Certified Development Company program, SBA guarantees up to \$1 million.

DELTA loans can be used for working capital or to finance machinery and equipment purchases, plant renovation, and other capital improvements. The program is available nationwide.

To participate, applicants must have derived at least 25 percent of their revenues in the previous fiscal year from defense contracts. They also must meet small business size standards and other eligibility requirements of SBA loan programs.

An applicant must also meet one of the following policy objectives:

- Job retention — The project should be designed to retain defense workers whose employment would otherwise be terminated because of defense reductions
- Job creation — It should create job opportunities and new economic activity in communities adversely affected by defense reductions
- Plant retooling and expansion — It should modernize or expand the applicant's plant to enable it to remain in the national technical and industrial base available to the Department of Defense. ■

Economic Development News & Views is now entering its second year. We wish to thank you, our readers and contributors, for your support.

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Leadership Requires a Community Development Strategy

The goal of fostering and maintaining vital, growing communities is central to economic development and is the very heart of the Community Reinvestment Act. To help meet the needs of low- and moderate-income residents, many lenders offer specialized loans and participate in loan programs to meet the specific needs of disadvantaged community members. Such programs can be profitable for the institution, a benefit to the community, and play an important role in its economic development.

As important as these programs are, lenders are in a position to do more. They can provide leadership in the economic development of their communities.

By assuming leadership roles, financial institutions can become catalysts for the revitalization of economically distressed areas, while providing safe, sound, and profitable loans. Few other organizations in low- and moderate-income communities have the resources and expertise to structure and implement an effective economic development program. Over time, it is expected that their commitment to the community will attract private investment and create economic growth.

In assuming a leadership role in local community development, a financial institution needs to develop a comprehensive Community Development strategy. Each lender's strategy will be different because of differing communities and needs. Nevertheless, in developing a strategy, there are various factors that any institution must consider, including:

- **Internal Resources** — The institution needs to evaluate its own internal resources to determine how much it is able and willing to devote to an economic development program. It should include Community Development activities as a fundamental part of its business plan, to assure there is sufficient staff and management time, capital, and equipment allocated. Depending on the institution's size, the resources could be an entire department or a single person. Regardless of size, some resources should be available consistently and should be devoted exclusively to community and economic development.
- **Community Resources** — The institution needs to examine the resources that the community has available, looking for partnership opportunities with capable and experienced community development organizations to help identify community needs and help structure effective development programs.
- **Community Needs** — Before lenders can establish their programs and prioritize their investments, they must understand the needs of the community. A partnership with an existing community development organization can provide an information resource to help identify community needs and direct the lender's resources to investments that can be most beneficial.
- **Profitability** — Lenders should have a realistic idea of the return they expect to earn on community development investments and use the expected return to help guide their strategy.

Tapping Community Resources: Partnerships with Community Organizations

Any financial institution, large or small, can benefit from accessing resources in the community. Community-based nonprofit organizations are particularly good resources to identify and associate with. Many lenders have found that forming partnerships with nonprofits is a good way to extend a bank's resources. Such partnerships provide opportunities to increase efficiency and limit risk on the part of financial institutions pursuing economic development goals.

Smaller institutions particularly have found that partnering with non-profits is an effective and efficient way to meet a community's economic development needs. Non-profit organizations devote all of their resources to improving their communities, and, as a result, they can help financial institutions identify and prioritize community needs.

Relationships with nonprofits can be mutually beneficial. Non-profits can help lenders identify critical needs and focus programs geographically to achieve the greatest impact. Lenders can assist constituents of non-profits in the loan application process. Frequently these constituents are small business borrowers who must develop a business plan to obtain financing and SBA loan guarantees.

An added benefit of partnerships with nonprofit organizations is that banks can access grant and financing programs available only to nonprofits. Examples of these include some of the programs funded under the Community Development Block Grant Program, usually

administered through city or county agencies, and Housing and Urban Development programs used for housing rehabilitation. Other types of grant or financing programs do not require nonprofit applicants but are more effective in cooperation with non-profits. Whether oriented to small business, housing, planning, or other purposes, these programs help to fill gaps where private funds are not available.

Community Development Investments

Many community development investment options are available to financial institutions. Investments in community development corporations or other ventures enable financial institutions to play a direct role in public/private partnerships for community revitalization and job creation. These investments can help leverage public and private funds, strengthen the capacity of community-based organizations to undertake key projects, and provide the capital to support other, more traditional forms of bank financing.

A financial institution that limits its role merely to lending is missing an opportunity. By taking a leadership position in community development, a institution can not only solidify its position in the community, it can actually promote economic development that will provide both long- and short-term benefits to the institution as well as the community. ■

Women in Business

Women's Business Ownership Council reports

The Illinois Women's Business Ownership Council recently issued a nine-point policy statement strongly supporting affirmative action and an increase in financing options for women entrepreneurs.

These recommendations were part of the Council's first annual report issued January 18, 1996. The Council was formed in October 1994 to provide a link between the state's quarter of a million women business owners, the Governor and the legislature.

Illinois is only the second state in the country to have a Women's Business Ownership Council.

The report and its affirmative action recommendation come at a time when affirmative action programs are under fire from a variety of opponents. By making a clear statement to maintain these programs, the Illinois Council joined other advocates for women- and minority- owned businesses in pressing their elected officials for support.

Diana Conley, president of ComputerLand of Downers Grove and chairperson of the Illinois Women's Business Ownership Council, says the group's mandate is "to identify barriers that keep women-owned businesses from full participation in the state's economy, to monitor how state government promotes women-owned businesses, and to gather and circulate statistics and data that offer a complete picture of female entrepreneurship in the state."



In 1995, its first year of operation, the Illinois Council worked with numerous women-owned businesses, conducted many public hearings, testified before the state subcommittee on equal opportunity, and began developing a database of women-owned businesses.

One important issue in 1995 was selling to government agencies. According to Conley, an important issue for the Council was the "need to educate more women business owners about opportunities to sell goods and services to state agencies, and we recommended the state increase its efforts in that direction." Currently, Illinois has a goal of 5 percent of state purchases directed towards women-owned businesses even though, the Council notes, "more than 30 percent of all Illinois businesses are owned by women."

The lack of financing options for women business owners is another issue the Council focused on in 1995. In addressing the issue, the Council advised the State "to initiate and support partnerships with financial institutions and inter-

mediaries for creative financing strategies for women entrepreneurs, including increased bank lending, investor-based equity financing, individual development accounts, short-term micro-loans, and linked-deposit programs."

Conley sees the 1995 Annual Report as a reference catalog about Illinois' female entrepreneurs. "Women-owned businesses are a fast-growing segment of the Illinois economy. There are an estimated 242,590 women-owned businesses in Illinois, and 1994 sales generated by these companies exceeded \$25 billion. The Council feels these statistics must be repeated over and over again to lawmakers, government and private purchasing agents, and anyone concerned about the state's economic health. Strengthening women's business ownership is a public policy issue vital to every citizen of this state."

Illinois' Lt. Governor Bob Kustra received the first copy of the initial Annual Report published by the Illinois Women's Business Ownership Council. With him in the photo are Council members (from left) Hazel King, Hedy Ratner, Diana Conley (council chairperson), Dolores Lopez, Marilu Meyer and Mollie Cole. Two of the recommendations in the report strongly support affirmative action programs and an increase in financing options for women entrepreneurs.

For a copy of the annual report, or additional information on the Women's Business Ownership Council, contact Susan E. Nicol, Executive Director, 100 W. Randolph, Suite 3-400, Chicago, Illinois, 60601, 312/814-8818. ■

Finance

CDFI & Bank Enterprise Awards Program

 Applications are now being reviewed by the U.S. Treasury's Community Development Financial Institutions (CDFI) Fund for the CDFI and Bank Enterprise Awards (BEA) programs.

The CDFI Fund's programs are designed to facilitate the flow of lending and investment capital into distressed communities and to individuals who have been unable to take full advantage of the financial services industry. The initiative is an important step in rebuilding poverty-stricken and transitional communities and creating economic opportunities for people often left behind by the economic mainstream.

The Fund received 262 applications for the CDFI Program and 50 applications for the Bank Enterprise Awards Program.

The CDFI and BEA programs were established by Congress to help revitalize distressed urban and rural communities by helping to create new jobs, promote small businesses, and build affordable housing. The CDFI program is authorized to select and provide financial and technical assistance to eligible applicants. The Fund intends to award up to \$31 million in CDFI Program funds.

The Fund also intends to award up to \$15.5 million in Bank Enterprise Award Program Funds. The BEA Program is authorized to provide assistance to insured depository institutions for the purpose of promoting investments in Community Development Financial Institutions and facilitating increased lending and provision of financial and other services in economically distressed communities.

The Treasury Department estimates that one dollar of Fund resources invested will generate \$10 in new development activity.

In a letter supporting the program, President Clinton wrote, "The Fund will accomplish its goal by facilitating the creation of a national network of financial institutions dedicated to community development, as well as promoting lending and investment among traditional financial institutions. Representing a new generation of community development programs, the Fund's Bank Enterprise Program will catalyze investment activities that complement and support existing local reinvestment efforts. The Fund's investments will help develop private markets in distressed areas, building healthy local economies that will create new jobs and promote small businesses. By ensuring greater access to capital and credit, we will tap the entrepreneurial energy of America's poorest communities and help individuals and communities become self-sufficient."

Secretary of the Treasury Robert E. Rubin also supports the program. "The Fund's CDFI Pro-

gram will work in partnership with local community financial institutions to provide critical seed capital and technical support. The Fund's seed capital will leverage the private resources essential to community development. The Bank Enterprise Program recognizes the important role that traditional financial institutions have played, and should continue to play in serving the credit needs of distressed communities. The BEA Program will build partnerships between specialized and traditional lenders and encourage such lenders to expand their loans and other services to distressed communities."

To help bankers complete their applications for the Bank Enterprise Awards program, the Federal Reserve Bank of Chicago hosted a workshop last December. ■

The next issue of Economic Development News & Views will highlight successful applicants and their programs in the Seventh District.

SBA Success News

LowDoc Loan Program

Like many other small-business entrepreneurs, Balkrishna and Nirmala Patel had a great plan but no collateral.

The Patels run a successful Dunkin' Donuts franchise in Blue Island, Illinois, and wanted to add a Baskin-Robbins ice cream franchise to their business.

The Dunkin' Donuts did fine during the early morning and midday, peak hours for doughnuts and coffee. The Patels figured that if they added a Baskin-

Robbins to the same premises, they could sell ice-cream items for the balance of the day, thereby increasing overall sales significantly.

The Patels had plenty of cash flow but no collateral for a loan. That's when the First National Bank of Blue Island, armed with the U.S. Small Business Administration's LowDoc program, came to the rescue.

LowDoc, which stands for low documentation, is an extremely popular, user-friendly SBA loan program. With a simplified appli-

cation and a rapid response from SBA loan officers, LowDoc allows entrepreneurs to borrow up to \$100,000 quickly and easily.

The Patels were well-suited for a LowDoc loan, which relies on the borrower's good credit history and character. No predetermined percentage of equity is required and lack of full collateral is not necessarily a determining factor.

Last January, the First National Bank of Blue Island loaned the Patels \$100,000 under LowDoc to finance the purchase of the

new franchise. The deal was made possible because of the bank's familiarity with LowDoc.

According to bank officials, the loan might never have been made without the LowDoc program and the SBA's 90 percent guarantee. The majority of lenders would have turned the Patels down because they had no collateral. But thanks to the SBA and the bank's expertise, the Patels were able to expand their business and continue to serve the community. ■

Loan Guarantees

Midwest Region leads Nation in 1995 lending

Calendar 1995 was a banner year for U.S. Small Business Administration lending programs, according to John L. Smith, the SBA's Illinois District Director.

The Agency's Midwest Region ended calendar 1995 with nearly 7,500 loan approvals for more than \$950 million in the 7(a) Loan Guaranty Program. The Agency also approved more than one thousand loans for more than \$346 million in the 504 Certified Development Company Program.

According to Smith, the Midwest Region had a 107 percent increase in loan approvals, twice the national growth of 52 percent. "This was an enormous increase nationally and that is why we are especially proud of our achievements in Illinois and the region."

Regionally, there was a 99 percent increase in loans to minorities, more than 40 percent more than the national increase. Also, there was a 140 percent increase in loans to women, more than 50 percent more than the national increase.

"Loans to veterans increased 85 percent, twice the national rate, and export working capital loans increased 400 percent, two and one half times the national rate. Overall, the volume of loans in the Midwest Region led the nation," Smith said.

The SBA has several loan products that are very helpful to small businesses. For example, about two-thirds of the SBA's 1995 guaranteed loans were approved using the popular LowDoc (Low Documentation) Loan Program.

LowDoc reduces the paperwork and time involved in loan requests of \$100,000 or less.

With LowDoc, the SBA uses a one-page, two-sided application and relies on the strength of the applicants' character and credit history.

Businesses submit these loan applications through banks and commercial institutions that participate with the SBA, and the applications are usually processed within one week. Smith said, "We recognize and appreciate the strength of our partnerships and hope to reach out to small businesses in an unprecedented way in 1996."

Financial institutions, readers, veterans, and small business owners are encouraged to contact the SBA to learn more about its services and programs.

Small defense-dependent businesses, economic development professionals, and financial institutions are encouraged to contact their nearest SBA field office for more information about DELTA, LowDoc, and other small business assistance programs.

To identify the nearest office, consult the government office listings in your local telephone directory or call:

Illinois	312/353-4528 217/492-4416
Indiana	317/226-7272
Iowa	319/362-6405 515/284-4422
Michigan	313/226-6075
Wisconsin	608/264-5261

Communications

Advisors: Alicia Williams
Morris Reeves
Editor: Harry Pestine

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New Business Information Center

Servicing thousands of entrepreneurs this year, the SBA's new Business Information Center (BIC) is a high-tech business resource library located in the agency's Chicago District Office, 500 West Madison Street.

"As the word spreads, more and more small business people are taking advantage of the BIC for everything from doing a business plan by computer to researching census data. It's an incredibly valuable resource," said John L. Smith, the SBA's Illinois District Director.

For information or access to the Business Information Center call 312/353-1825.

Business Assistance

Small Business Development Center news

Donald J. Dalton has overcome far more than business obstacles to develop his highly successful company.

Five and a half years ago in his Naperville garage, Dalton started Micro Overflow Corporation, a distributorship which adapts computer technology for the disabled. Now he expects sales to top \$700,000. By any measure, Dalton's success is phenomenal, but it is even more striking when you realize that Dalton is paralyzed from the chest down as the result of a diving accident 25 years ago and is confined to a wheelchair.

Dalton started his business with no working capital, no clients, no track record, and no business plan. "We have overcome what many people thought were insurmountable odds with this business," he said. That's putting it mildly.

In developing his business, Dalton is also helping other disabled entrepreneurs succeed. Micro Overflow products are helping disabled people who have difficulties finding employment to enter the workforce. Some are becoming entrepreneurs like Dalton.

Items distributed by Dalton to help the disabled include voice-activated word-processing and computer equipment, screen review products which read aloud information typed into a computer, document readers that read aloud, information

scanners that read aloud, magnifying devices for the visually impaired, and voice-recognition systems which allow paralyzed people to take notes by speaking.

Dalton credits the U.S. Small Business Administration and the DuPage County Small Business Development Center for helping Micro Overflow grow from a one-person operation with \$18,000 in sales to a ten-employee, \$700,000 operation today.

David Gay, Program Manager for the DuPage County Small Business Development Center has worked closely with Dalton. Gay stated that, "Mr. Dalton tapped into resources and expertise available through the Small Business Development Center at the College of DuPage as he transformed his solo-operation into a viable organization and leader in the field of assisted technology. SBDC staff assisted in market, financial and organizational analysis, then facilitated a strategic business planning process with Don and his management team. Through SBDC guidance, a cohesive plan was developed and implemented. As an added benefit, potential problem areas were identified in the rapidly growing business allowing Mr. Dalton to implement corrective actions before situations got out of hand." ■

For additional information on the DuPage County Small Business Development Center and its programs, contact David K. Gay, Program Manager, 708/942-2771.

Woodstock Institute

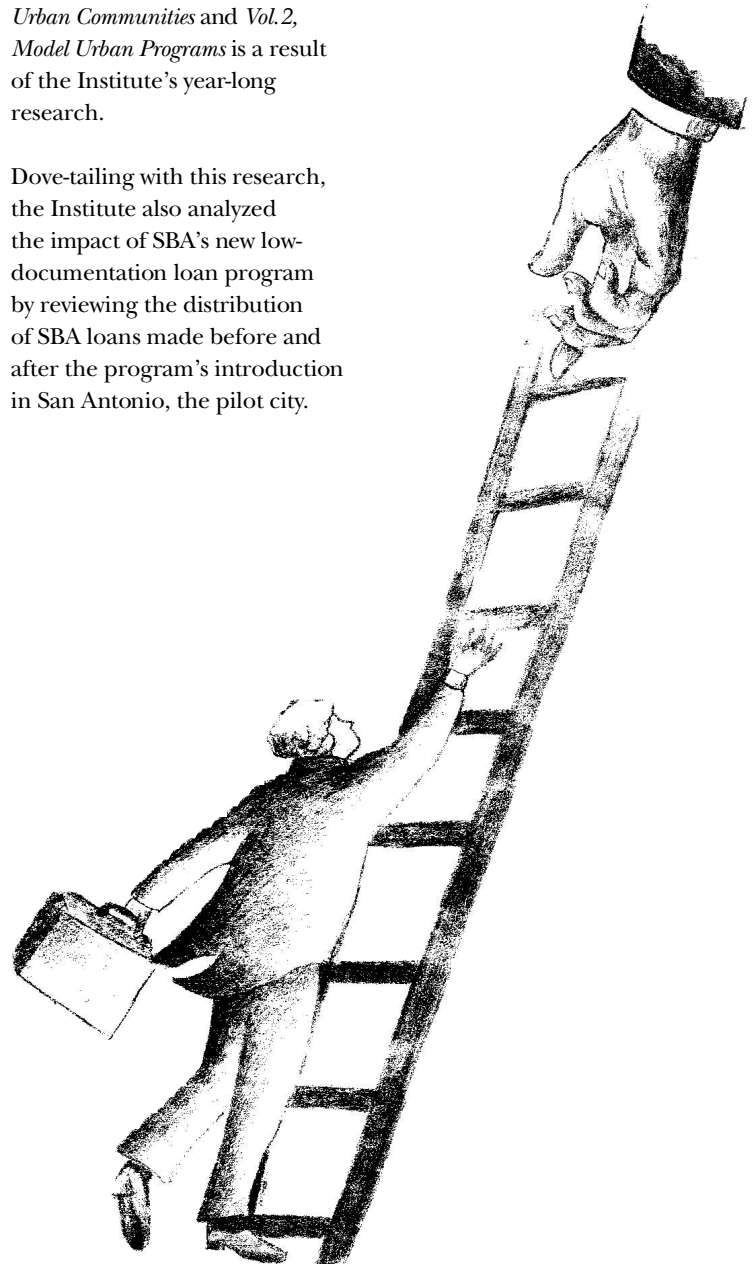
The non-profit Woodstock Institute just issued a two-volume report compiling their research on small business lending in low-to moderate-income urban communities.

The report, *Small Business Lending for Economic Development — Vol. 1, Strategic Responses for Urban Communities* and *Vol. 2, Model Urban Programs* is a result of the Institute's year-long research.

Dove-tailing with this research, the Institute also analyzed the impact of SBA's new low-documentation loan program by reviewing the distribution of SBA loans made before and after the program's introduction in San Antonio, the pilot city.

This report, *Moving To Economic Development: A New Goal for SBA Loan Programs*, analyzes SBA 7(a) data and offers suggestions for directing SBA programs towards economic development objectives. ■

For information, prices, and ordering procedures, contact the Woodstock Institute at 312/427-8070.



ADVOCAP

ADVOCAP continues to serve the Fox Valley

Wisconsin's Fox Valley is famous for its paper industry and devoted Packer fans. Lately, it's also becoming known as the home of ADVOCAP, Inc. And this makes Mort Gazerwitz, ADVOCAP's director of business development, very proud.

ADVOCAP, Inc., the non-profit corporation serving Fond du Lac and Winnebago Counties since 1966, provides assistance programs for people in need. Programs range from providing food and emergency housing for the poor, to offering technical assistance to small businesses and making micro loans to low-income clients wanting to start their own businesses.

The ultimate goal of ADVOCAP is self-sufficiency through community development that fosters job and economic opportunities for citizens.

ADVOCAP helps create economic opportunities primarily through its business development department. "Our purpose is twofold," says Gazerwitz. "We're able to provide intensive technical assistance to low-income people in all aspects of starting a small business. ADVOCAP works with these new entrepreneurs and start-up businesses through our Business and Job Development Program, which offers short-term management assistance and help in developing business and marketing plans and in finding appropriate financing."

ADVOCAP manages two loan funds. One is a revolving loan fund for very small business loans. The other works through

the Small Business Administration's pilot Micro Loan Program, designed for small businesses that previously have been turned down for business credit by commercial banks.

In addition to the technical assistance and microloan funding, ADVOCAP also operates two business incubators in Oshkosh and Fond du Lac. The incubators provide affordable space for start-up businesses and reduce their overhead by sharing clerical support and equipment.

ADVOCAP established the incubators to accommodate different types of business that the incubators service. According to Gazerwitz, it's more appropriate to separate light manufacturing from white-collar businesses. "Not only is there a location issue, but zoning plays a part, too. Our Oshkosh facility, which is predominantly light manufacturing, is located in an industrial part of town, while our incubator in Fond du Lac, which is almost exclusively office space, is near Fond du Lac's central business district."

ADVOCAP's record indicates that its business development strategies yield some impressive results. According to data compiled by the agency, nineteen new businesses were started through ADVOCAP in 1995, resulting in 53 new jobs. "These are not minimum wage jobs," says Gazerwitz. "Many of them are paying from seven to ten dollars an hour."

ADVOCAP will celebrate its 30th anniversary in 1996 by getting bigger. Mary Bach, housing director for ADVOCAP, says, "Our reputation is so strong that the Green Lake County Board

asked us to expand into nearby Green Lake County. This is a challenge for us, because we've had no real history in rural communities. We're excited about it, however. It's not often that a non-profit is invited to serve a community!"

Green Lake County has long been known for its agricultural economy, its abundant natural resources, and recreational activities. Recently, it has gained a reputation as an affordable retirement area and bedroom community for nearby Fond du Lac, Appleton, and Oshkosh.

ADVOCAP believes that its housing and business development programs will work as well

in rural areas as they have in the urban areas of Fond du Lac and Oshkosh. "There are many single-parent families and at-risk individuals in Green Lake County," says Bach. "Rural poverty tends to be overlooked when people discuss the needs of low-income areas. Affordable housing, for example, is particularly scarce in rural communities. The Green Lake County Board recognized this and has asked us to help them solve the problem." ■

For more information on ADVOCAP, contact Mort Gazerwitz or Mary Bach at the Oshkosh office of ADVOCAP, 414/426-0150.

ADVOCAP's success is partially a result of the relative prosperity of the Fox Valley, which has long been favorable to business growth and development. Located in north central Wisconsin surrounding Lake Winnebago, the region takes its name from the Fox River, which links Lake Winnebago to the Great Lakes. This important waterway provides inexpensive transportation for the thriving paper products and machinery industries.

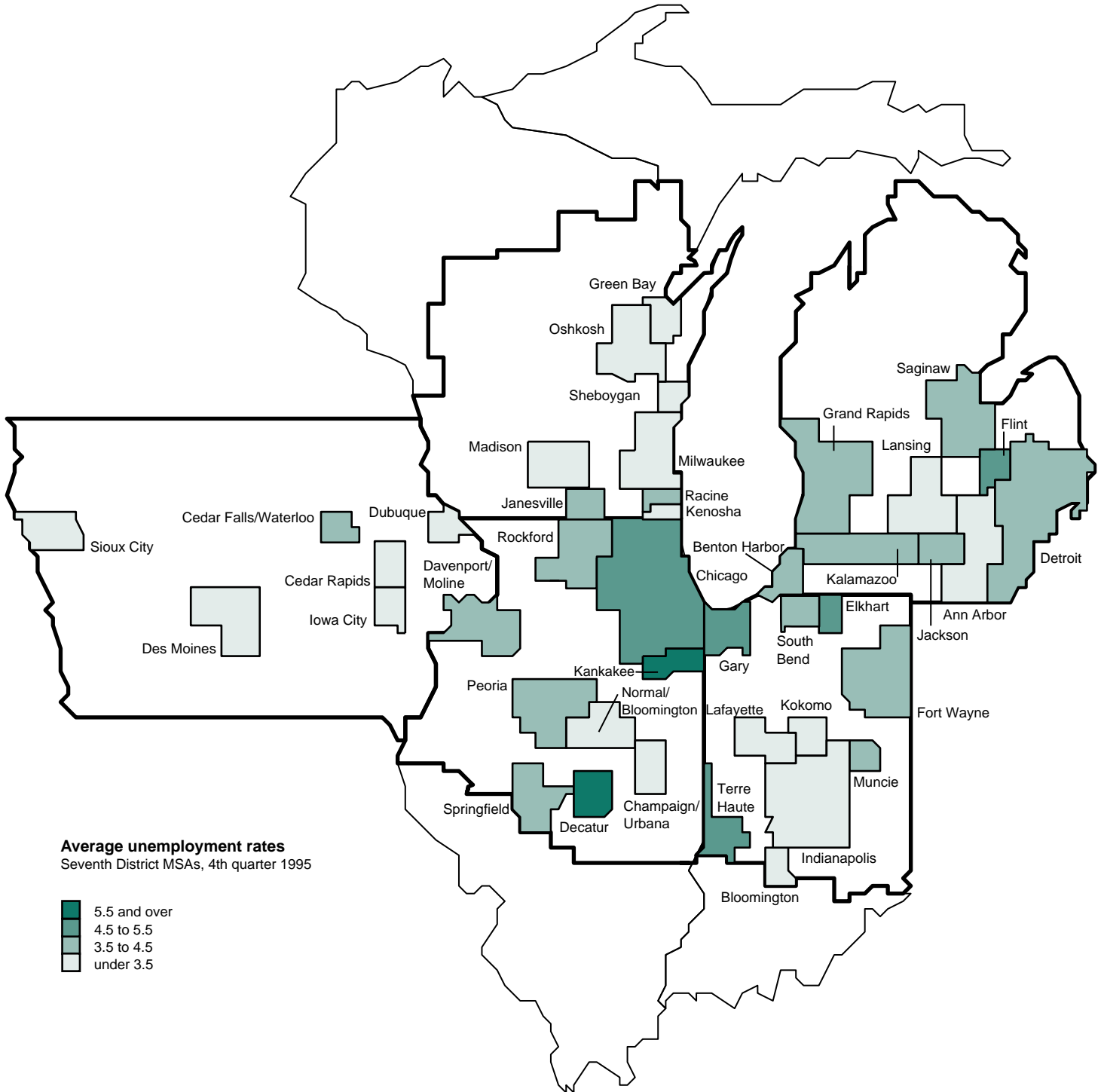
The Fox Valley, including the cities of Appleton, Oshkosh, Neenah, Menasha, and Fond du Lac, is one of the fastest-growing areas in the Midwest. Its population is approximate-

ly 500,000, the second-largest in Wisconsin (following metropolitan Milwaukee). According to data released by the East Central Wisconsin Regional Planning Commission in 1994, the region has experienced a 9.3% population increase over the past forty years, greater than the 6.7% increase for the rest of the state.

Part of the Fox Valley success story is its relatively stable employment base. U.S. Department of Labor statistics for October, 1995, show an unemployment rate of 2.8%, slightly lower than the state's average rate of 3.2%.

Seventh District Labor Markets

Unemployment conditions for fourth quarter 1995



NOTE: Unemployment rates for MSAs are not seasonally adjusted. All rates are subject to revision.

From Our Research Department

Labor market conditions in the Seventh District

Labor market conditions throughout most of the Midwest are very good, according to Federal Reserve Bank of Chicago economists.

Labor markets remained tight in the region through the fourth quarter of 1995 although some signs of weakening became evident in the auto-related and retail trade industries. However, this softening appears to be concentrated in these industries and confined to a few metropolitan areas.

The greatest concern continues to be labor shortages. Placement specialists across the region report that unfilled orders for both temporary and permanent workers remained extraordinarily high with the shortages broad-based across occupations and industries.

Unemployment rates are useful indicators of labor market conditions in local areas. The unemployment rate is defined as the percentage of adults in the workforce who are not currently employed but are actively seeking employment. It is calculated using monthly payroll surveys and unemployment insurance records. Importantly, the workforce, and hence the unemployment rate, does not include workers who are not actively looking for work. This may mean, for example, that workers who have given up looking for work are not counted as unemployed.

Unemployment rates are reported for Metropolitan Statistical Areas (MSA). MSAs are defined as economic areas encompassing communities that are tightly linked by a flow of commuters, migrants, goods and services, and payments. At the present time, there are 42 MSAs in the Seventh Federal Reserve District, which consists of all of Iowa, and portions of Illinois, Indiana, Michigan, and Wisconsin.

The Seventh District is experiencing a vigorous economic turnaround in comparison to the early 1980s. In contrast to that period, a more favorable position of the dollar on foreign exchange markets has enhanced the region's exports of agricultural products, consumer goods, machinery, and equipment. The machinery and equipment sectors, along with the important automotive sector, have also

gathered momentum due to the generally buoyant national economy. Finally, defense cutbacks and base closings have bypassed most of the region, or the effects are not so severe in comparison to California, New England, and other coastal areas. Similarly, other regions continue to shake off the backlog of over built real estate from the middle 1980s — a market in which many parts of the Seventh District region did not participate as heavily. As a result, many local areas are reporting difficulties in hiring skilled workers as well as unskilled or entry-level workers.

Significant recent developments within the Seventh Federal Reserve District included the following:

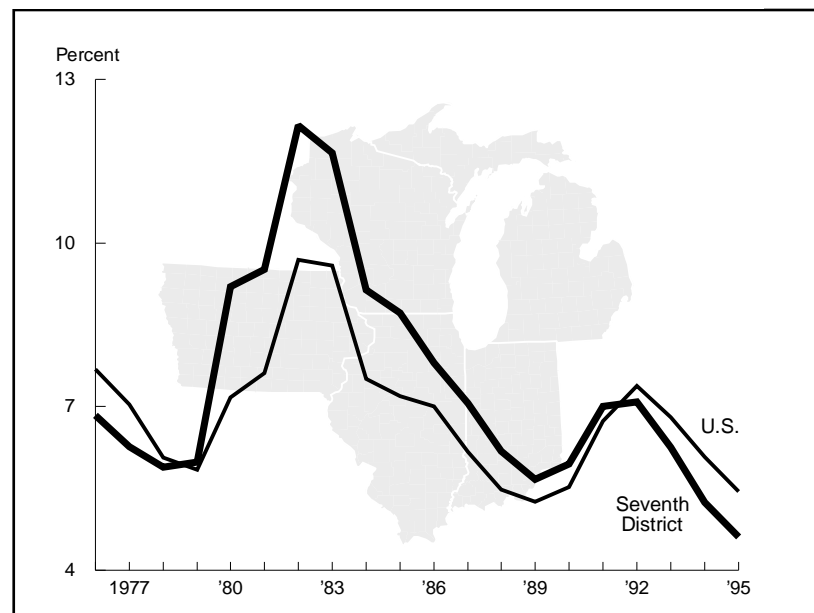
- Slowing automobile sales impact Rockford. Chrysler recently announced temporary layoffs at its Neon assembly

plant in Rockford, Illinois. In addition, Atwood Industries, an auto parts manufacturer, announced permanent layoffs of approximately 160 workers. Moreover, average weekly hours worked in manufacturing industries in the area has declined considerably in year-over-year comparisons.

- MCI expands in Cedar Rapids. The expansion will create 400 new jobs, increasing total employment in MCI's office to 900.
- Mitsubishi to open plant in Indiana. Franklin County, Indiana, received welcome news when Mitsubishi Heavy Industries announced plans to build an automotive air-conditioning parts plant there. When completed, the plant will employ nearly 300 workers. ■

Richard E. Kaglic
Associate Economist

Midwest Unemployment Rate



Midwestern Metropolitan Areas: Performance and Policy

On November 28, 1995, the Federal Reserve Bank of Chicago held the first of a series of workshops assessing the Midwest economy. This workshop focused on the economies of the region's metropolitan areas.

It was the first step of the project designed to develop a ten-year overview of the Midwest economy, examining it from many different perspectives.

This first conference emphasized the importance of enhancing the growth prospects of the region's metropolitan areas in sustaining the region's economy. Metropolitan areas have become a dominant feature of the economic landscape, and individual metropolitan areas are becoming distinct and specialized as they establish important economic linkages throughout the nation and the world.

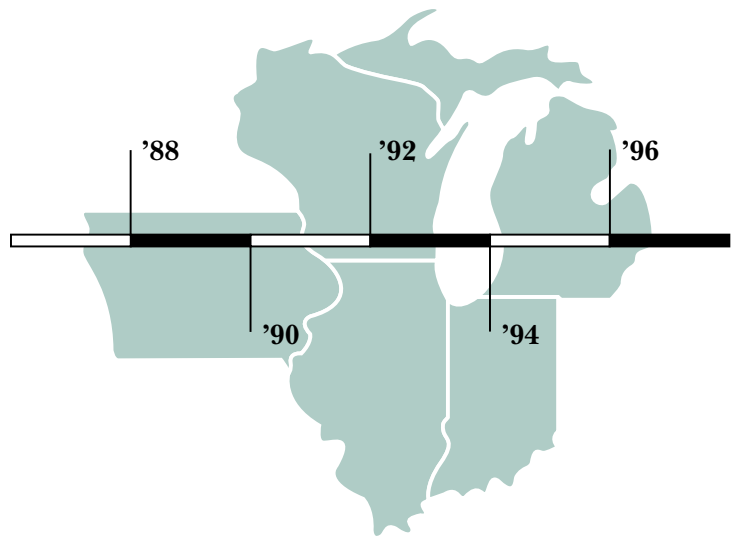
The technological changes taking place in how we process information are dramatically altering the workplace and are affecting where service firms choose to locate. Metropolitan areas that are suitable or those that can adapt to these changes will be more likely to grow and prosper. Quality of life and cost of living as they relate to labor supply have become increasingly important for many types of service establishments.

Midwest metropolitan areas can be distinguished from those in other regions, and their differences will affect their prospects for growth and influence their optimal public policy focus and

direction. Historically, Midwest metropolitan areas have been heavily oriented toward manufacturing, so that the nation's service industry conversions may be more challenging for this region. So too, environmental remediation of formerly used industrial sites may present a larger hurdle for the Midwest.

The region's most rapid development took place during the world's age of mass industrialization from the late 1800s into the early 20th century. For this reason, Midwestern cities often have a very dense core of population, with older buildings and infrastructure. Recently, economic and residential activity has been spreading out toward the urban fringe, leaving behind redevelopment problems for the core. It is an open question whether the current pattern of economic deconcentration can or should be stopped. A richer understanding of the factors that favor deconcentration and the linkages within and between metro areas is needed.

In addition to density problems, central cities face a myriad of other concerns. For example, public services to the poor, as well as public facilities that benefit the wider region, are becoming more and more the responsibility of the central city. Moreover, some public policies seem to have ample room for improvement. Notable here is federal legislation to remediate environmentally-contaminated sites. Decontamination alone may not suffice. Central cities may need to fashion policies to assemble large parcels of land for redevelopment, even though the financial resources for such projects may not be readily available.



Finally, if they are to achieve growth or prosperity, city and suburbs alike will need to address the supply side of the development equation. Workplace changes which require a changing level and mix of skills will be an important determinant. Some areas will also need to address development from a "human" perspective, involving social issues such as health, crime, and education. ■

William Testa
Assistant Vice President &
Senior Regional Economist

Richard Mattoon
Senior Economist

Economic Development News & Views will continue to summarize the findings of this research throughout the year. Orders for a copy of the complete summary of the November 28, 1995 Midwest Metropolitan Areas: Performance and Policy Workshop can be placed by contacting the Public Information Center, Federal Reserve Bank of Chicago, P.O. Box 834, Chicago, Illinois 60690-0834, Tel. 312/322-5111.

Tracking Midwest Manufacturing Activity

In December 1995, Midwest manufacturing activity experienced its biggest decline since last March. After reaching its highest level of the year in September, the Midwest Manufacturing Index began a slight trend downward.

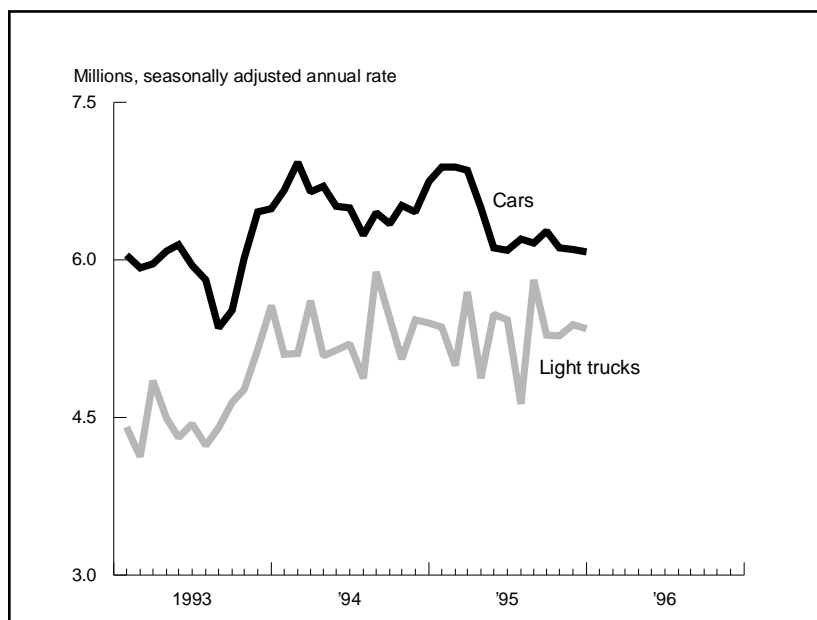
In contrast, the national measure of manufacturing activity was virtually flat in December and only slightly below its September peak.

Other measures of manufacturing activity suggest more underlying

strength to regional production. For example, purchasing managers' surveys for Chicago, Milwaukee, and both the auto and nonauto portions of Detroit indicated improvements in production for December, while western

Michigan showed contraction. Auto production, both nationally and regionally, actually increased slightly in December after being flat for two months. ■

Motor Vehicle Production



Sources: *The Midwest Manufacturing Index (MMI)* is a composite index of 15 industries, based on monthly hours worked and kilowatt hours. *Industrial Production Index* represents the Federal Reserve Board index for the U.S. manufacturing sector. Autos and light trucks are measured in annualized units, using seasonal adjustments developed by the Board. The purchasing managers' survey data for the Midwest are weighted averages of the seasonally adjusted production components from the Chicago, Detroit, and Milwaukee Purchasing Managers' Association surveys, with assistance from Bishop Associates, Comerica, and the University of Wisconsin — Milwaukee.

Source: *Chicago Fed Letter*
Federal Reserve Bank of Chicago
March, 1996

Manufacturing output indexes (1987=100)

	December	Month ago	Year ago
Midwest Manufacturing Index	142.1	142.7	141.4
Industrial Production Index	124.8	124.7	123.8

Motor vehicle production (millions, seasonally adjusted annual rate)

	December	Month ago	Year ago
Cars	6.1	6.1	6.8
Light Trucks	5.4	5.4	5.4

Purchasing managers' surveys: net percent reporting production growth

	December	Month ago	Year ago
Midwest	55.7	52.5	68.9
United States	47.0	46.1	59.4

Around the District

Michigan

NBD Helps Revitalize Detroit

“We have reached a precedent-setting agreement with NBD, and we are very pleased.”

— *Reverend Wendell Anthony, president of the Detroit branch of the NAACP, referring to NBD’s Strategic Plan to help revitalize Detroit.*

NBD has agreed to invest almost \$700 million over a three-year period as part of its new community reinvestment effort to revitalize Detroit. The bank’s Strategic Plan commits \$204.2 million for the revitalization effort in the first year.

Most of the loans will be for small businesses, community

development, housing and home improvements, and retail and commercial ventures. Beyond the dollar commitment, NBD has pledged to step up both its purchasing from minority firms and the hiring and promoting of minorities throughout its ranks.

The bank developed the Strategic Plan in cooperation with the leadership of the Fair Banking Alliance and the people of Detroit. The plan calls for major commitments to the City of Detroit in 1995:

- \$95.0 million for business loans, of which \$20.9 million is for loans to businesses with \$1 million to \$5 million in sales, and \$6.9 million to

businesses under \$1 million in sales

- \$76.1 million for consumer loans and lines of credit, of which \$2.8 million is for home improvement/home equity loans and \$0.7 million is committed to low income areas
- \$16.5 million committed for commercial real estate
- \$14.6 million for mortgages, of which \$6.6 million is for Low/Mod income areas, and \$2.2 million for low income areas
- \$2.0 million committed to the Community Development Corporation

Wisconsin

Innovative Women’s Enterprise Center opens in Milwaukee

The YWCA’s Women’s Enterprise Center opened on December 11, 1995. It offers programs and other assistance to low-income women who wish to establish professional Careers or become entrepreneurs.

The Women’s Enterprise Center is a new, four million dollar state-of-the-art facility located on Milwaukee’s north side, in a predominantly low- to moderate-income community. The facility provides training to low-income women for non-traditional jobs, typically skilled trades, which tend to pay more than clerical jobs. The Center also includes a business incubator, where small and start-up businesses can rent office space and share

NBD Strategic Plan as of third quarter 1995

Commitment	1995 Plan	YTD as of 3rd Qtr.	Percent of 1995 Plan
Business Loans	\$95.0	\$101.1	106.0
\$1 to \$5 million in sales	20.9	23.5	112.0
Below \$1 million in sales	6.9	32.8	475.0
Mortgages	\$14.6	9.0	62.0
Low/Mod income area	6.6	5.0	76.0
Low income areas	2.2	2.4	109.0
Consumer Loans and Lines of Credit	\$76.1	44.6	59.0
Home improvement/home equity	2.8	7.0	250.0
Low income areas	0.7	1.4	200.0
Community Development Corporation	2.0	1.2	60.0
Commercial Real Estate	16.5	7.6	46.0
Grand Total	\$204.2	\$163.5	80.0

clerical support for as little as \$150 per month.

The facility also headquarters the Wisconsin Women's Business Initiative Corporation, a not-for-profit organization that offers technical assistance and provides micro loans to businesses owned and operated by women and minorities.

For more information on the YWCA Women's Enterprise Center, contact 414/374-1800.

Illinois

Kankakee County names new Economic Development Council President The Kankakee County Economic Development Council recently announced the appointment of Dick Durkin as President.

Durkin, former Regional Administrator of the U.S. Small Business Administration, brings extensive experience in community and economic development to the Kankakee River Valley. Durkin indicated he was "focusing on unifying and preparing the Valley for the demands of the 21st Century." His county-wide plan will include marketing for new industries, retention and expansion of existing industries, education, workforce development, modernization/technology, and small business development.

For information on the Kankakee County Economic Development Council and its services, contact Dick Durkin, President, 815/935-1177.

New housing director named

The State of Illinois has named John N. Varones director of the Illinois Housing Development Authority. The agency is responsible for promoting and helping to finance affordable housing throughout the State of Illinois. In addition to housing development, Director Varones stated he sees "IHDA, through innovative, hardworking partnerships, playing an increasing role in revitalizing regions and helping to foster neighborhood and community development activities."

For information regarding the programs and services of the Development Authority, contact Bill Pluta, Manager, Office of Housing Coordination Services, 312/836-5364.

Indiana

Indianapolis Bank receives state award

The State of Indiana recently presented NBD Bank, NA in Indianapolis, with the Capital Access Program Award for the most CAP loans made in Indiana in 1994. In 1994, NBD made 30 CAP loans totaling over \$1.5 million. The Capital Access Program is a state-sponsored initiative that guarantees loans made to small businesses that focus on economic development. NBD seems to be trying for a 1995 CAP Award too. In the third quarter 1995, NBD made 29 CAP loans totaling over \$1.5 million. ■

Off the Press

Community Development Investment Publications

The Federal Reserve Board produced two new publications to help state member banks and bank holding companies establish community development corporations and to make equity investments.

Community Development Investments: A Guide for State Member Banks and Bank Holding Companies explains procedures for establishing CDCs. The companion, *Directory: Bank Holding Company Community Development Investments*, is an annual update of community development investments by bank holding companies.

The *Guide* provides an overview of policies and procedures governing the formation of community development corporations (CDCs) and other uses of equity investments for community development purposes. It also covers key regulatory and strategic issues that financial institutions should address when making investments in CDCs, low-income housing limited partnerships, or other community development entities and projects that benefit low- and moderate-income communities.

It also highlights changes regarding community development investments for state member banks and provides a new interpretation of Regulation Y for community development

investments by bank holding companies. The *Guide* explains how institutions may make community development investments without prior approval from the Federal Reserve and also clarifies when banks need prior approval.

The second publication, *Directory: Bank Holding Company Community Development Investments*, profiles existing CDCs and investments made by bank holding companies. Each profile includes the amount of initial capital invested by an institution, a description of community development activities undertaken or planned, and the names of contact people.

Both these publications provide general guidelines. Any bank holding company or state member bank that is considering making community development investments should consult with the Community Affairs or Applications staff at their Federal Reserve Bank.

To order single or multiple copies of these publications, contact the Community Affairs office of the Federal Reserve Bank of Chicago, P.O. Box 834, Chicago, Illinois 60690-0834. For further information, contact the Consumer and Community Affairs Section at 312/322-8285. ■

Consumer Advisory Council

On January 19, the Federal Reserve Board named nine new members to its Consumer Advisory Council to replace those members whose terms expired on December 31, 1995, and designated a new Chairman and Vice Chairman of the Council for 1996.

The Consumer Advisory Council was established by Congress in 1976 at the suggestion of the Board to advise the Board on the exercise of its duties under the Consumer Credit Protection Act and on other consumer-related matters. The 30-member Council, with staggered three-year terms of office, meets three times a year at the Board's offices in Washington, D. C.

Of the nine new appointees, two were from the Seventh District — Theodore J. Wysocki, Jr. of Chicago, Illinois and Gregory D. Squires of Milwaukee, Wisconsin.

Mr. Wysocki is executive director of CANDO — the Chicago Asso-

ciation of Neighborhood Development Organizations. CANDO is the largest city-wide economic development coalition in the United States, with 80 community-based nonprofit organizations and more than 123 affiliate members (including more than 40 banks.) It has been the primary advocate for industrial retention of retail expansion in Chicago neighborhoods, and has worked with the City's Department of Planning and Development to designate twelve "Model Industrial Corridors." Mr. Wysocki is Secretary of the National Community Reinvestment Coalition. He serves on Chicago's Empowerment Zone Coordinating Council and is a longstanding member of the Neighborhood Lending Review Boards for two Chicago Banks.

Mr. Squires is a Professor in the Department of Sociology at the University of Wisconsin — Milwaukee. His research has focused on the racial effects of

urban redevelopment initiatives and mortgage lending and property insurance redlining. Mr. Squires served three years as president of the board of Northwest Side Community Development Corporation in Milwaukee. He is a member of the advisory board to the Metropolitan Milwaukee Fair Housing Council and a consultant to the Fair Lending Coalition in Milwaukee. For the past two years he was on leave from the university to head the newly created Insurance Unit in HUD's Office of Fair Housing and Equal Opportunity, which developed policies clarifying application of the Fair Housing Act to the property insurance industry.

Wysocki and Squires join other council members from the Seventh District:

Thomas R. Butler
President and Chief Operating Officer
NOVUS Services, Inc.
Riverwoods, Illinois

John R. Pines, President
General Motors Acceptance Corporation
Detroit, Michigan

Eugene J. Lehrmann, President
American Association of Retired Persons
Madison, Wisconsin

Katharine W. McKee, Associate Director of the Center for Community Self-Help in Durham, North Carolina, was designated Chairman. Julia M. Seward, Vice President and Corporate Community Reinvestment Officer for Signet Bank in Richmond, Virginia, was designated Vice Chairman. ■



Regulation

Regulation: What should regulators do?

On May 1-3, 1996, the Federal Reserve Bank of Chicago will hold its 32nd annual Conference on Bank Structure and Competition.

This year's Conference on Bank Structure and Competition will examine whether banking should be regulated, and if so, what are the effects of such regulation, and what is the optimal regulatory structure.

The conference, titled "Rethinking Bank Regulation: What Should Regulators Do?" will be presented on Wednesday, Thursday and Friday, May 1-3, at the Westin Hotel in Chicago. The first day of the conference, intended primarily for an

academic audience, will focus on technical research papers. The Thursday and Friday sessions will appeal to a more general audience.

The conference will feature discussions of policy issues by some of the industry's most prominent members. Featured speakers include Alan Greenspan, Chairman of the Board of Governors of the Federal Reserve System, and James Leach, Chairman of the U.S. House of Representatives Banking Committee.

Other speakers include Thomas Brown, Donaldson, Lufkin, and Jenrette; John Hawke, U.S. Treasury Department; Edward Kelley, Board of Governors of the Federal Reserve System; and Lee Hoskins, Chairman

and CEO, Huntington National Bank and former president of Cleveland Fed.

These and other speakers will "rethink bank regulation," addressing questions such as:

- Should banks be regulated to suppress market forces?
- How can regulation address market failures?
- Can regulations be tied to specific market failures?
- Should regulation be structured by institution, industry, or function?
- Should a single regulator supervise a broadly defined financial services industry?
- Are there advantages to international coordination among regulators?

Invitations to the conference will be mailed in March. If you are not currently on the conference mailing list and would like to receive an invitation, please contact the Meeting and Travel Services Department at the Federal Reserve Bank of Chicago at 312/322-5186, or mail your request to Public Information Center, Federal Reserve Bank of Chicago, P.O. Box 834, Chicago, IL 60690-0834. ■

1996 Calendar

March 6-9 Washington, DC

"Building Community Wealth: CRA... ." Sponsored by the National Community Reinvestment Coalition. Contact: John Taylor at 202/986-7898.

March 6 & 7 Springfield, Illinois

"Rural Community Development: Strengthening the Partnership." Sponsored by Illinois Institute for Rural Affairs and the Federal Reserve Bank of Chicago. Contact: Norman Walzer at 800/526-9943

March 13 Chicago, Illinois

"SBA LowDoc Training Workshop for Bankers." Cosponsored by the SBA and Illinois Small Business Development Network. Contact: Carson Gallagher at 312/814-6111.

April 4 Springfield, Illinois

"SBA LowDoc Training Workshop for Bankers." Sponsored by the SBA. Contact: Bob Paoni at 217/492-4416.

April 10 Chicago, Illinois

"SBA LowDoc Training Workshop for Bankers." Cosponsored by the SBA and Illinois Small Business Development Network. Contact: Carson Gallagher at 312/814-6111.

May 2 Springfield, Illinois

"SBA LowDoc Training Workshop for Bankers." Sponsored by the SBA. Contact: Bob Paoni at 217/492-4416.

May 1-3 Chicago, Illinois

"The 32nd annual Conference on Bank Structure and Competition" Sponsored by the Federal Reserve Bank of Chicago. Contact: 312/322-5186.

May 8 Chicago, Illinois

"SBA LowDoc Training Workshop for Bankers." Cosponsored by the SBA and Illinois Small Business Development Network. Contact: Carson Gallagher at 312/814-6111.

May 16-18 Orlando, Florida

"1996 NADCO Annual Meeting." Sponsored by the National Association of Development Companies. Contact: 703/812-9000

June 12 Chicago, Illinois

"SBA LowDoc Training Workshop for Bankers." Sponsored by the SBA and Illinois Small Business Development Network. Contact: Carson Gallagher at 312/814-6111.

June 24-25 Chicago, Illinois

"The Retail Industry and Economic Development." Sponsored by the National Council for Urban Economic Development. Contact: 202/223-4375

July 10 Chicago, Illinois

"SBA LowDoc Training Workshop for Bankers." Cosponsored by the SBA and Illinois Small Business Development Network. Contact: Carson Gallagher at 312/814-6111.

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Please address all correspondence to:

Consumer and Community
Affairs Section
Federal Reserve Bank
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230 S. LaSalle Street
Chicago, IL 60604-1413

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