Economic Development

News & Views

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New Development Tool: EQ2 Equity Equivalent Investments

On February 27, 1997, The National Association of Community Development Loan Funds(NACDLF)accepted a $1 million investment from Citibank to capitalize NACDLF's Central Fund. In so doing, NACDLF introduced an innovative, new community development finance tool — "equity equivalent investment."

The equity equivalent investment(EQ2) allows NACDLF to leverage additional debt and enables Citibank to receive Community Reinvestment Act (CRA) credit under the lending and investment tests from its regulator.

The investment has the potential to bring significant amounts of new bank capital to non-profit Community Development Financial Institutions (CDFIs).

The EQ2 model can work for all NACDLF members and non-members, large and small, urban and rural. In its current form, the equity equivalent investment makes most sense for non-profit CDFIs that are:

- Experiencing insufficient permanent capital.
- Responding to moderate to strong demand for loans.
- Looking for new sources of loan capital.
- Willing to invest time understanding EQ2's attributes.

The equity equivalent investment is a new, but not especially complex, financial instrument. Like any new tool, learning how to use it requires practice and patience.

Overview of the equity equivalent product
For-profit corporations often raise equity by issuing stock, but non-profit organizations generally do not have that option.

Traditionally, non-profit CDFIs have raised capital to support their lending and investing activities through grants from philanthropic sources, or in some instances, through retaining, lending and investing earnings. This permanent capital is essential because it increases a CDFI's risk tolerance and lending

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FEDERAL RESERVE BANK OF CHICAGO

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flexibility, lowers the cost of borrowing funds, and protects lenders by providing a cushion against losses in excess of loan loss reserves.

In 1992, NACDLF launched a $25 million program to raise equity for its members and the association's Central Fund. Early on, the association realized that a strategy relying exclusively on grants was limited by the finite number of foundations and corporate philanthropies, and that NACDLF had to cultivate additional sources of equity. The growing visibility of CDFIs as effective community development lenders, coupled with expected changes in the Community Reinvestment Act, made conventional financial institutions likely partners in garnering additional equity sources.

NACDLF started the Bank Equity Project in 1995 with support from the Ford Foundation to create a new financial instrument that would function like equity for non-profit CDFIs. Their intention was to complete a transaction that would serve as a model for replication by their members and other non-profit CDFIs. They need an experienced partner. Citibank's demonstrated support for NACDLF's work and Citibank's commitment to community development made it a logical choice.

The result of the collaboration is EQ2, a long-term deeply subordinated loan with features that make it function like equity. These features include the following six attributes which, under current bank regulations, distinguish this financial instrument from simple subordinated debt:

1. The equity equivalent is carried as an investment on Citibank's balance sheet in accordance with Generally Accepted Accounting Principles.

2. It is a general obligation of NACDLF that is not secured by any NACDLF assets.

3. It is fully subordinated to the right of repayment of all other NACDLF creditors.

4. It does not give Citibank the right to accelerate payment unless NACDLF ceases its normal operations or changes its line of business.

5. It carries an interest rate that is not tied to any income received by NACDLF.

6. It has a rolling term and therefore, an indeterminant maturity.

Like permanent capital, the equity equivalent investment enhances NACDLF's lending flexibility and increases its debt capacity by protecting senior lenders from losses. Unlike permanent capital, the investment must eventually be repaid and requires interest payments during its rolling term. However, the rate is well below market at 2.5 percent below the Treasury rate.

Several of NACDLF members are already incorporating the EQ2 in their capitalization strategies — from exploring its potential to capitalize venture funds and other specialized financing pools to using it to supplement permanent capital dedicated to core lending programs.

EQ2 and CRA

Last year, the Office of the Comptroller of the Currency issued an opinion jointly with the Federal Reserve Board, Federal Deposit Insurance Corporation, and Office of Thrift Supervision. The opinion letter stated that Citibank would receive favorable consideration under CRA regulations for its investment in equity equivalents. The letter further stated that the purchase of equity equivalents would be a qualified investment that bank examiners would consider under the investment test, or under the lending test. Furthermore, in some circumstances Citibank could receive consideration for part of the investment under the lending test and part under the investment test.

Although financial institutions have a unique incentive under the Community Reinvestment Act regulations to invest in equity equivalents, other investors can use the tool. For example, foundations may be willing to structure Program Related Investments with EQ2. ■

The Federal Reserve Bank of Chicago would like to thank Allyson Randolph of the National Association of Community Development Loan Funds for her assistance with this article.

For information regarding the Community Reinvestment Act and equity equivalent investments contact your regulator or the Federal Reserve Bank of Chicago, Consumer and Community Affairs Division, 312/322-8232.

For additional information on community development loan fund programs and equity equivalent investments contact Allyson Randolph at 215/923-4754.

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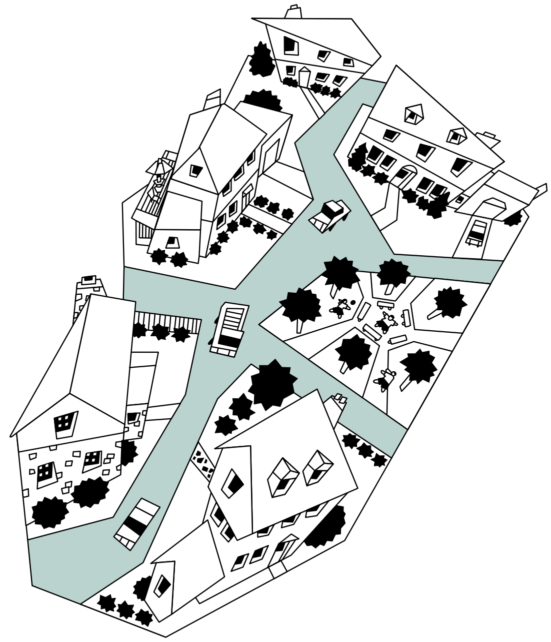
Finance



FaithCorp fund establishes contractor lending program and more

In an effort to expand its lending activities, FaithCorp Fund has developed a new lending program designed to assist African-American building contractors.

The concept is simple: a contractor who needs working capital to fulfill a contract can borrow money from FaithCorp against the value of that contract.

Eligible loan recipients must either live or have a contract to construct or rehabilitate a building in FaithCorp's service area. To date, two loans have been made to contractors under the new program. One has been repaid and the other is in good standing.

FaithCorp Fund "hopes to expand its lending efforts by hiring an additional loan officer who can devote his or her time to this market," said Director Guy Stuart.

FaithCorp Fund is a project of Partners in Community Development (Partners), a collaboration of Centers for New Horizons, Hyde Park and Kenwood Interfaith Council, Kenwood Oakland Community Organization, Jewish Council on Urban Affairs, St. Elizabeth Church, and STRIVE Training and Employment Service. Partners serves Chicago's Mid-South Side communities of Grand Boulevard, Douglas, North Kenwood, Oakland, Washington Park, and Woodlawn.

Its Mission

FaithCorp is a community-based partnership of faith communities, local residents and financial and other institutions on Chicago's Mid-South Side. FaithCorp helps residents and businesses overcome a variety of obstacles that prevent them from gaining access to credit and pursuing their dreams.

FaithCorp's innovative lending practices take advantage of the mutual accountability and cooperation fostered through community partnerships.

"FaithCorp attracts and recycles funds within the community and stewards human and financial resources to build a just and sustainable community," said Stuart.

In 1996, FaithCorp made six loans or guarantees. The loans varied in size from $350 to $7,100. Three of these loans have been repaid, and the other three are in good standing.

The loans varied in purpose and creativity. For example, one $2,400 down payment assistance loan helped a moderate-income family buy a two-flat home in Woodlawn. The recipients were clients that had been working with FaithCorp for nine months. Technical assistance was also provided that enabled the clients to identify the right type of loan for their particular situation.

FaithCorp also provided considerable assistance to a retired homeowner with a number of live-in grandchildren. The homeowner needed funds to undertake a lead abatement project in her home, and also faced a $350 loan application fee that was due to her financial institution at the time of applying for the loan. To help the loan process along, FaithCorp worked with the institution and guaranteed that it would pay the loan application fee if the loan were denied. When the financial institution actually approved the loan, it also agreed to increase the loan amount to fund the $350 application fee. That gave her enough cash to pay for lead abatement work and the loan application fee.

During 1996, FaithCorp also provided one-on-one credit education services to 43 prospective home buyers. These services involved educating clients so that they could make sound financial decisions to put them in a position to buy a home.

In 1996, eight FaithCorp clients bought homes — seven of these benefited from FaithCorp's education services and the other sought FaithCorp assistance in dealing with a problem with a lender.

As part of a broader outreach effort, FaithCorp conducted or participated in 18 credit workshops on the Mid-South Side of Chicago. ■

For information on Partners in Community Development or the FaithCorp Fund contact Guy Stuart, director, 312/674-2333.

"FaithCorp attracts and recycles funds within the community ... to build a just and sustainable community."

– Guy Stuart

Making Dreams Become Realities

A non-profit community development corporation (CDC) was established in 1987 in Lake County, Illinois to improve economic conditions in the communities of Waukegan, North Chicago and Zion.

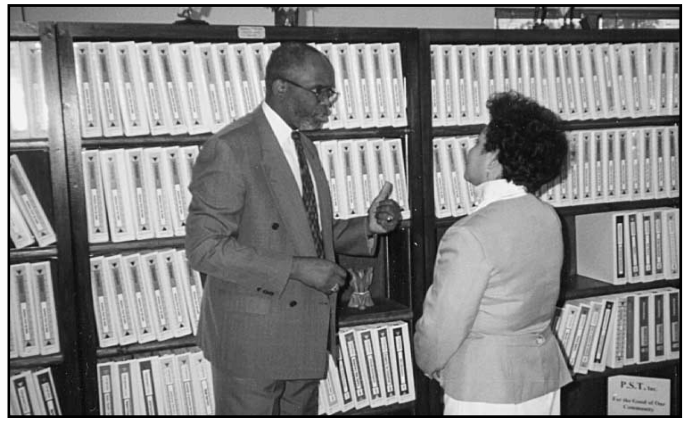
Positive Systemic Transformations, Inc. (PST) provides individuals with small loans to improve their lives and thus the well-being of their communities. PST also provides business plans and counseling to local entrepreneurs. It targets the smallest of businesses, such as the home-based caterer, part-time word processor, child care provider, tailor, messenger or landscaper.

PST's philosophy is that each community has an abundance of prospective micro-entrepreneurs — a potentially vital source of revenue. Assisting them offers an alternative to minimum-wage jobs, fosters self respect and self reliance, and offers opportunities for upward mobility.

"The revitalization of neighborhoods is central to a sound America because without them there would be no America," said PST's Executive Director Thomas E. Williams. "There is a mistaken tendency in this country to think of the economy in global terms rather than in terms of how American cities fit in the mix. But those cities are made up of neighborhoods. If the neighborhoods fail, so will America."

PST's Progress

PST has a working relationship with Grand National Bank (GNB) in Waukegan. PST negotiated with the bank to provide funds for a revolving loan fund. These funds are administered through PST's Business Development Center.



Thomas E. Williams assisting Flor De Maria Luis in the resource library.

"PST will never operate primarily as a lender." Said Karioki Uhuru, director of the Business Development Center. "For many small businesses, that will do more harm than good and the owners will continue to struggle. I think lending has become popular with economic developers because it's quantifiable and visible. Much neglected are the hundreds of services that entrepreneurs need for viability — namely legal and accounting assistance. Helping people, not making loans, will always be our first priority."

PST has received Small Business Administration 8(a) and State of Illinois Certifications for Minority, Women and Persons with Disability Owned Businesses.

In January, PST made its first loan under its new Community Development Micro-Enterprise Loan Fund. The loan provided an entrepreneur funds to cover the cost of utilities while the start-up small business was awaiting approval of a larger loan.

PST's latest accomplishment is the opening of a 200-volume business library and the expansion of its technical assistance program. Materials for the library cost $10,000. PST was able to raise $5,500 from public and private grants, and the Grand National Bank contributed the balance. The library will provide local residents with information to develop business plans, learn about business and tax-record-keeping procedures, and offer data on the facilities and types of equipment required to open a particular business.

Recognition

In 1995, PST was nominated for the President's Award for outstanding community service. Last year, in recognition of its accomplishments, the non-profit was awarded a $35,000 community development block grant from Lake County. ■

For additional information on PST's various assistance programs contact Thomas Williams, executive director, at 847/249-0921.

Chicago Fed Facts

The Federal Reserve Bank of Chicago is one of 12 regional Reserve Banks that, together with the Board of Governors in Washington, D.C., serve as the nation's central bank, the Federal Reserve System.

The role of the Federal Reserve System is to foster a strong economy and a stable financial system.

The Chicago Reserve Bank:
- participates in formulating national monetary policy,
- supervises and regulates banks and bank holding companies, and
- provides financial services to banks and the U.S. government.

Employees: 2,150
Assets: $49.5 billion (as of 12/31/96)
Depository Institutions in Seventh District: 3,908
Banks and bank holding companies supervised: 1,340
Financial services volumes (1996):
Checks processed — $1.3 trillion
Automated Clearinghouse transfers — $2.2 trillion
Wire transfers — $33.8 trillion
Currency received and counted — $35.9 billion
Unfit currency destroyed — $9.6 billion

ACCION Chicago

Investing in people and expanding their reach

In its first two years, ACCION Chicago has helped over 85 businesses in predominantly Hispanic neighborhoods obtain more than $655,000 in business loans.

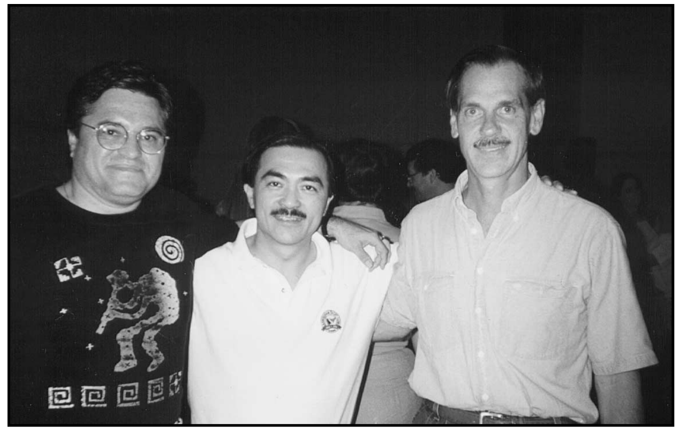
ACCION Chicago's three-member staff has made a total of 159 loans to businesses in Chicago's "Little Village", Pilsen and other surrounding communities — with a loss rate of less than 2%.

As a banking intermediary, ACCION Chicago depends on its banking and foundation partners to provide the capital it needs to lend to Chicago's micro-entrepreneurs. Each dollar in ACCION Chicago's loan portfolio is recycled at least twice per year, essentially doubling its potential to affect the stability and growth of local businesses.

ACCION Chicago partners Bank of America, La Salle National Bank, and The Northern Trust Company have provided a total of $150,000 in lines of credit toward the program's loan portfolio. Also, First Chicago and the Wieboldt Foundation have made investments to help capitalize the loan portfolio. ACCION Chicago also received a major $500,000 investment for the loan fund from the MacArthur Foundation.

ACCION Chicago Clients

Currently, ACCION Chicago clients come from the following business sectors: 77 percent service, 17 percent commerce/retail, 5 percent artisan/arts & crafts, and one percent industrial production. The majority are in contracting or trades-related activities, followed by those who are mechanics or in repair businesses, clothes/jewelry sales/manufacturing, or business-related or consulting services. Additionally, some clients are small restaurant owners, photographers or neighborhood grocery store owners. Nearly all of ACCION's clients are sole proprietors.



Left to right: F. Leroy Pacheco, Executive Director, ACCION Chicago; Michael Chu, President, ACCION International; and William Burrus, Senior Vice President, U.S. Division.

Each dollar in ACCION Chicago's loan portfolio is recycled at least twice per year, essentially doubling its potential to affect the stability and growth of local businesses.

Eighty-four percent of ACCION Chicago clients are Hispanic, followed by approximately five percent Caucasian, five percent African-American, one percent Asian and five percent other. Thirty percent of the clients are women and 70 percent are men.

The average monthly take-home pay for ACCION Chicago clients is just over $1,600.

In Partnership with the Community

In partnership with business and foundation leaders, ACCION Chicago's board and staff are fulfilling a promise to their community — to foster financial independence for those striving to support themselves and their families through small entrepreneurial initiatives. Chicago's small business owners need working capital, and ACCION Chicago helps make it accessible. ■

For additional information, contact F. Leroy Pacheco, executive director, ACCION Chicago, 773/522-0272.

Creating Income, Opportunity and Jobs in Chicago's Neighborhoods

Buenavida Immigration and Income Tax Services owner, Olga Villarreal noticed the immigration services business in Chicago's Little Village was becoming increasingly competitive.

At the same time, neighboring Berwyn was experiencing a steady growth in its Hispanic community, and no immigration services were operating in the neighborhood.

That prompted Villarreal to make a critical business decision. She moved her operations to Berwyn and went to ACCION Chicago for an initial $3,500 loan to cover the first month's rent and security deposit. Her decision paid off. Villarreal's business has grown so much that she has recently hired two new staff members — a tax preparer and an administrative assistant. Her most recent loan from ACCION Chicago was $6,000 for a computer workstation.

Olga Villarreal is now a part of the ACCION Chicago family. She is just one example of how ACCION's support often increases with the growth of its client's businesses. ACCION is there at the beginning, and along the way, to help its clients succeed.

Successful Development Corporation Meeting Pilsen-Area Needs

James Isaacs, Executive Director, ESDC

The Eighteenth Street Development Corporation (ESDC) is a full-service economic development agency offering interactive industrial development, retail development, small business development and entrepreneurial training programs.

Its primary service area is the Pilsen and Little Village communities on Chicago's Lower West Side. ESDC is also a leader in economic planning and advocacy and is committed to development that benefits community residents.

ESDC builds Pilsen's income base through employment and business development. It has maintained jobs in the community by ensuring that local industrial corridors meet employer needs. This is accomplished by retaining growing businesses and attracting new ones.

ESDC has supported retail development through beautification programs and by marketing the attributes of the area's retail stores, thereby generating business and employment opportunities. Counseling services and entrepreneurial training has supported business growth in the local Latino and neighboring communities.

ESDC's Industrial Development Program helps 200 manufacturing and distribution firms annually through the City of Chicago's Local Industrial Retention Initiative (LIRI). ESDC also helps carry out strategic plans developed by community leaders in Pilsen, and in the Pilsen and Western/Ogden Model Industrial Corridors. The value of industrial development projects in both corridors is more than $2 million. Through the Empowerment Zone Program, ESDC is placing Empowerment Zone residents into employment opportunities.

In terms of business development, ESDC has been designated as a Small Business Development Center (SBDC) by the State of Illinois. Last year, ESDC provided 568 one-on-one business counseling sessions to its SBDC clients. These sessions covered starting a business, financial planning, marketing research, and loan-packaging issues.

ESDC secured $631,250 in loans for its clients resulting in the creation and expansion of 21 businesses. They also conducted an 11-week business literacy training program. Its program graduated 25 participants, eight of whom established new businesses.

In the retail area, ESDC organized a decorative street banner program and a sidewalk sale to coincide with the Fiesta Del Sol festival. In 1996, ESDC received approval for $521,000 in Empowerment Zone funding for its Model Commercial Area Program. Funds will be used to subsidize programs such as facade rehabilitation and streetscape improvements, which lead to the increased marketability of Pilsen's commercial district. ■

For information on the ESDC programs contact Maria Munoz, associate director, 312/733-2287.

Banker + SBA Guaranty + Customer Service = Succe$$

President of Medical Equipment Company wins SBA's 1997 Illinois Entrepreneur of the Year Award

Obed Pena, Jr. has won the 1997 U.S. Small Business Administration (SBA) Award as Small-Business Young Entrepreneur of the Year for Illinois.

Pena, 27, is president of Chicago-based Hope Medical Equipment, Inc., a full-service durable medical equipment company that sells and leases home medical equipment to Medicare patients.

He was nominated by Eva Aquino of the Pioneer Bank in Chicago.

While living in Miami, Pena dreamed of owning his own business — a restaurant. But instead he turned to health care and in 1990 became a consultant with a medical firm. Realizing the potential of the medical industry, he started a medical systems company in 1992.

Interested in moving to Chicago, Pena sold the company and founded Hope Medical in October 1993. Revenue has grown from $180,000 to $389,000, and the firm has hired five employees.

The revenue growth allowed Hope Medical to use an SBA guaranteed loan of $120,000 from Pioneer Bank to buy the building it is operating in. The firm now has the financial foundation to add new clients.

Pena's knowledge of Spanish allows his firm to provide medical services to the underserved Hispanic community. Hope Medical's personal service ensures that its clients know how to operate the medical equipment.

"Mr. Pena is a dedicated entrepreneur who is providing a valuable community service," said Aquino. "He develops a personal relationship with his clients so they know how to properly use the medical equipment vital to their recovery. In addition, Mr. Pena uses his management and leadership skills so that his five employees are able to provide the same level of service." ■

For information on Small Business Administration loan guaranty programs call 1-800-827-5722.

Ten from Illinois Receive Small Business Awards

Ten people representing various Illinois businesses and organizations received statewide awards for their contributions to the small business community as part of a week-long national salute to America's independent entrepreneurs and advocates.

The awards were presented by the U.S. Small Business Administration (SBA) at a luncheon ceremony at Navy Pier in Chicago as part of Small Business Week.

The luncheon was sponsored by the SBA and the Chicagoland Chamber of Commerce, in partnership with Crain's Small Business, and was held in conjunction with the Chicagoland Small Business Expo. This year's theme was "Small Business: Building Tomorrow's Economy Today."

The awards program included a video tribute to the winners, a presentation ceremony, and guest speakers. Along with similar tributes and celebrations across the country, the awards are part of a tradition that began in 1963 when Small Business Week was first designated.

"These individuals and companies are excellent examples of how a well-managed, innovative small business can beat the odds and continue to increase profitability in a very competitive market," said John L. Smith, the SBA's Illinois District Director. "And the advocates show true commitment and dedication to the small-business community."

The 1997 SBA Illinois award winners were:

- Small Business Person of the Year — Lauren R. Leifer, President, IAFS, Inc., Morton Grove.
- Minority Small Business Advocate of the Year — Mary F. Morten, Executive Vice President, Women's Self-Employment Project, Chicago.
- Women in Business Advocate of the Year — Diana Conley, President, Computerland, Downers Grove.
- Accountant Advocate of the Year — Linda Forman, CPA, Partner, Gleeson, Sklar, Sawyers & Cumpata LLP, Skokie.
- Financial-services Advocate of the Year — Robert D. Doty, Senior Vice President, First National Bank, Harrisburg.
- Media Advocate of the Year — Bruce Q. Mackey, Editor and Publisher, *Springfield Business Journal.*
- Small Business Exporter of the Year — The team of T. Bruce Slamans, President, and Anthony Beyer, Vice President, Tek Pak, Inc., Batavia.
- Young Entrepreneur of the Year — Obed Pena, Jr., President, Hope Medical Equipment, Inc., Chicago.
- Entrepreneurial Success Award — Kathleen M. Buck Holst, President, Alternate Construction Controls, Inc., Romeoville.

Forman, Morten and the team of Slamans and Beyer also won the Midwest Regional awards in their categories and will go on to compete at the national level. ■

For information on Small Business Administration programs and services, please call 1-800-827-5722.

Banker + LowDoc + SBDC = Succe$$

Doty wins SBA's 1997 Illinois Financial Services Advocate of the Year Award

Robert D. Doty has won the 1997 U.S. Small Business Administration (SBA) Award as Financial Services Small-Business Advocate of the Year for Illinois.

He is chief credit officer and senior vice president at First National Bank of Harrisburg. He was nominated by Becky Williams of the Small Business Development Center (SBDC) at Southeastern Illinois College, Harrisburg. For eight years, Doty has volunteered his services to the SBDC as a private consultant and instructor on the credit process for small business owners. Doty is a strong supporter of small business development and teaches classes at the SBDC to would-be entrepreneurs. He volunteers more than 100 hours a year.

Due to Doty's efforts, First National Bank has been very active in SBA's successful low documentation (LowDoc) program. The bank is using LowDoc to originate more than half of the SBA-guaranteed loans in Saline County. Doty heads a team of nine loan officers with a total loan portfolio of $91 million and plans to increase the loan portfolio by 10 percent this year.

"Through his leadership and direction, Doty is making a significant contribution to advance small business interests," said Williams who nominated him. "Under his leadership, the First National Bank of Harrisburg is making every effort to encourage the flow of investment capital to small business ventures." ■

For information on Small Business Development Centers and the programs they offer, contact Becky Williams, Southeastern Illinois College SBDC, at 618/252-5001.

Robert D. Doty

Women in Business

Leifer overcomes adversity and wins award as small business person of the year

When ill health forced Lauren R. Leifer's father to hand her the reins of his company in 1981, she was unprepared for the responsibility.

But Leifer persevered, and her efforts have fostered a very successful business and brought her the 1997 U.S. Small Business Administration (SBA) Award for Small Business Person of the Year in Illinois.

Leifer is president of IAFS, Inc., a Morton Grove manufacturer providing audio and disk duplication, CD-ROM mastering and replication, and audio-recording studio facilities.

She was nominated for the prestigious SBA award by Deborah Sawyer of the National Association of Women Business Owners (NAWBO).

Leifer took over the business without the benefit of any mentoring or succession planning. She discovered that she had not been privy to the company's full financial picture or to the extent of the firm's indebtedness — and finance was not her strong point.

While ambivalent about continuing with the firm, Lauren was driven by a deep love for her family. The business was all her parents had financially. They were nearing retirement, were inadequately insured, and were deeply in debt because of the business. Leifer felt increasingly responsible for ensuring that the business continue to provide for both her parents and for her extended family of loyal employees.

She set out to acquire the expertise to deal with IAFS' finances. At the same time, she needed to keep an eye on the marketplace, which was in constant flux due to advancing technology. She determined that diversifying offered the best promise for revitalizing the company and ensuring a future for its employees.

Leifer identified the emerging floppy-disk market as the best way to expand the business. But that strategy required significant capital for equipment, staff retraining, and other expenses involved in entering a new market.

Therefore in 1983 she turned to the U.S. SBA and its 7(a) loan program. The process was not easy, but Leifer prevailed thanks to support and guidance from her NAWBO colleagues. Thanks to the SBA-guaranteed loan, a new division called COMPDISK was created. The strategy paid off, and sales skyrocketed. That allowed Leifer to pay back the SBA loan early, release her parents from debt, and provide them with a secure retirement.

Her creative and dynamic leadership is shown in IAFS' continued growth. When the firm was founded 30 years ago, it was housed in a 500-square-foot facility and had two employees. When Leifer assumed control, sales were around $750,000. Sales are now roughly $3 million, the firm has 50 employees, and it occupies 25,000 square feet.

Leifer was recently honored by Abbott Laboratories as its Woman Vendor of the Year. She was cited in a *Forbes* magazine story on successful business women and was listed by *Crain's Chicago Business* as one of the area's top women business owners. ■

Holst Wins Entrepreneurial Success Award

Kathleen M. Buck Holst has won the 1997 U.S. Small Business Administration (SBA) Entrepreneurial Success Award for Illinois.

Holst is president of Alternate Construction Controls, Inc., (ACCI) of Romeoville, a service company which provides traffic control and safety protection on Illinois roadways. ACCI is also a distributor of safety products including traffic control devices. Holst was nominated by Leslie N. Matteson, First National Bank of Chicago.

To win the Entrepreneurial Success Award, a business must be launched as a small business, receive SBA assistance, and then grow into a large business.

When Holst founded the firm in 1988 it had two employees, occupied 600 square feet of office space, and had annual revenue of $700,000. This year has proven to be the largest growth year in the company's history with revenue projections of $5.2 million and a season-high of 60 employees.

ACCI's success and rapid growth were helped by SBA guaranteed loans of $500,000 in 1995 and $350,000 in 1996.

"In winning this honor Kathleen has proven that when you communicate effectively, understand what your expectations are, and not only meet but exceed those expectations, you become the preferred provider of service," said her nominator, Leslie Matteson.

Additionally, Holst has worked with highway agencies to institute standards and specifications requiring certification for traffic safety workers on construction projects, thereby improving safety in the work zone. ■

Morten Wins Minority Advocate of the Year Award

The executive vice president of the Women's Self Employment Project (WSEP) in Chicago, Mary F. Morten, has won the 1997 U.S. Small Business Administration Award as Illinois Minority Small Business Advocate of the Year.

Morten also won the Midwest Region award in her category and will go on to compete at the national level. She was nominated by Hedy M. Ratner of the Women's Business Development Center.

Founded in the mid-1980s, WSEP is a non-profit organization concerned with economic self-sufficiency for women. It has been nationally recognized for its pioneering programs, which include financial services and entrepreneurial training.

As director of policy for WSEP, Morten has been instrumental in developing programs, initiatives and legislative activities designed to increase economic self-sufficiency for minorities through business ownership. WSEP's primary focus is to help low- to moderate-income women obtain economic self-sufficiency through micro-entrepreneurial activities.

Morten helps ensure that these new business owners are not overlooked by policy-makers and that the special barriers they face are addressed.

She is a leader in the Home-Based Business Coalition, which helped pass legislation in Chicago permitting home businesses. The ordinance reflects Morten's concern that minorities, low-income people, and women are afforded equal access to financial and income-generating services by repealing old laws prohibiting home-based businesses.

Morten is also active in the statewide development of the Micro-Enterprise Coalition, which educates and supports micro-entrepreneurs, the majority of which are founded by minorities. ■

For information on the Women's Self-Employment Project and other small business information contact Mary Morten, executive vice president, at 312/606-8255.

Mary F. Morten

Conley Wins Business Advocate of the Year Award

Diana Conley has won the 1997 U.S. Small Business Administration Award as Women's Small Business Advocate of the Year for Illinois.

Conley, president of Computerland Downers Grove, was nominated by Hedy M. Ratner of the Women's Business Development Center (WBDC) and E. Rachel Hubka of the National Association of Women Business Owners (NAWBO).

Conley's firm is a consulting and service center focusing on the needs of business customers. She serves in a variety of capacities as advocate for women-owned businesses and serves as chair of the Illinois Women's Business Ownership Council and the Illinois Small Business Council of 100.

A past president NAWBO's Chicago Chapter, Conley was named 1996 Advocate of the Year by the WBDC, in addition to being listed by *Crain's Chicago Business* as one of the area's top 25 women business owners.

Conley generated support for women-owned businesses within the established corporate business world, "a critical element in ensuring continued opportunities" for women, said Ratner and Hubka.

She is committed to furthering programs that expand the opportunities for women and preserve affirmative action programs for women. Conley advocates certification for women's business enterprises and is a nationally acknowledged and published spokesman for public and private procurement programs. These programs encourage procurement officials to purchase goods and services from women-owned businesses.

According to her nomination, "Conley's creativity and commitment is exhibited not only in her business acumen but in the efforts she has made to ensure that women and minority business owners are furthered in their efforts to access procurement opportunities and to preserve and expand affirmative action programs for women." ■

For information regarding women's business enterprise certification and other programs contact the Women's Business Development Center at 312/853-3477.

Diana Conley

Brownfields

So, What are brownfields?

Brownfields are vacant, abandoned, or under-utilized commercial and industrial properties where the fear of real or perceived environmental contamination and/or liability is a serious obstacle to their successful redevelopment or improvement.

Nationwide, people are realizing that brownfields represent a huge waste of resources. Urban areas are paying an economic and social price as tax revenues dwindle, people and jobs leave for the suburbs, and vacant properties create unacceptable hazards and eyesores.

The question is how to encourage developers to take a serious new look at the vast acres of prime, buildable land in our inner cities? The answers have been coming so fast and furious that it's almost impossible to keep up with all the good news.

Some of the proposed solutions:

- Absolute protection from environmental liability for owners, developers, and lenders.
- Sweeping changes to federal and state regulations designed specifically to foster the redevelopment of brownfields.
- Faster, less costly investigation and cleanup standards without sacrificing safety and environmental protection.
- More flexibility in cleanup standards without sacrificing safety and environmental protection.
- Creative business incentive programs designed to "jump-start" downtown redevelopment projects.
- Special outreach programs designed to generate long-term community support, involvement, and investment.

Clearly, brownfields are no longer just perceived as liabilities — but lands of opportunity, limited only by our vision and our desire to take full advantage of the new redevelopment climate. Believe it!

If you do, share your experiences. If not, read on and watch for future issues of *Economic Development News & Views.* ■

Do you have a brownfields program that is working in your community? If so, contact us and let us share your program with our subscribers. Contact Harry Pestine, editor, *Economic Development News & Views*, Federal Reserve Bank of Chicago, 230 South LaSalle Street, Chicago, Illinois 60604, 312/322-5877.

Grant Targets Redevelopment of Brownfield Sites

An association of Chicago neighborhood development organizations has been awarded a $539,000 grant to help identify brownfield sites that can be cleaned up and redeveloped in Chicago's Empowerment Zone.

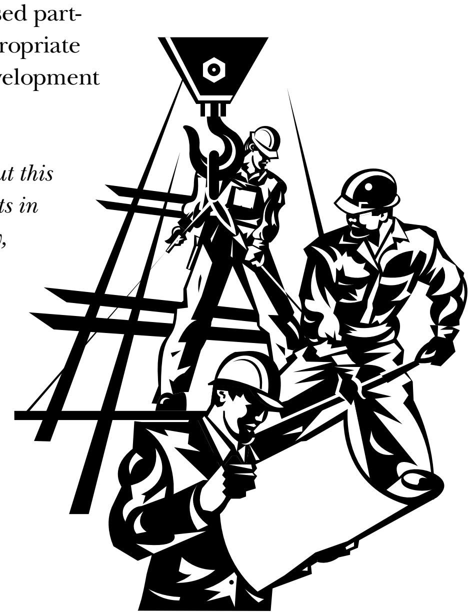
The Chicago Association of Neighborhood Development Organizations (CANDO), will use the Federal Empowerment Zone Grant to host a two-year Brownfield Redevelopment Institute and a Predevelopment Initiative.

The Brownfield Redevelopment Institute is an eight-session course with topics ranging from Real Estate Market Analysis to Interpreting Environmental Reports. The institute will begin operation this month. It is designed to foster community-based partnerships that help neighborhoods create strategic plans for redevelopment and economic opportunities for low-income residents.

CANDO's Predevelopment Initiative will help members of non-profit organizations identify brownfields in their communities and provide redevelopment strategies.

A team of consultants will help create a market analysis for up to 24 sites, conducting Phase I environmental assessments for 15 of those sites and Phase II testing for nine sites. CANDO will also work with the community-based partnerships to identify appropriate ways to fund their redevelopment projects. ■

For more information about this and other brownfield efforts in Chicago, contact Rob May, CANDO's associate director of industrial development at 312/939-7171, ext.16.



Clarified Lender Liability Rules May Encourage Brownfields Redevelopment

by Andrew Warren, United States Environmental Protection Agency

In the closing hours of the 104th Congress last fall, President Clinton signed into law the Asset Conservation, Lender Liability and Deposit Insurance Act of 1996 (the Act), which clarifies lender liability under the Comprehensive Environmental, Response, Compensation and Liability Act (CERCLA or "Superfund"). The Act strengthens the liability exemption available for lenders under CERCLA and describes what action lenders may take with respect to a loan and still take advantage of the liability exemption. Clarification of CERCLA's lender liability provisions significantly reduces a major barrier to the successful redevelopment of contaminated property.

Why is clarification of the lender liability rules relevant to redevelopment of contaminated property? In recent years, the Environmental Protection Agency has identified as a major national priority the redevelopment of "brownfields." Brownfields are abandoned or underutilized sites where real or perceived environmental contamination restricts redevelopment. The U.S. Government Accounting Office estimates there may be as many as 450,000 brownfields nationwide.

Redeveloping of brownfields brings significant environmental and economic benefits. Returning brownfields to productive use can reduce the exposure of urban residents to environmental hazards and help rectify urban blight. Brownfields redevelopment takes advantage of existing industrial infrastructures and reduces the need for developing pristine suburban areas. Thus, brownfields redevelopment may help reduce urban sprawl. Finally, developing brownfields can return property to community tax rolls and provide needed urban employment opportunities.

Historically, concern about CERCLA liability inhibited lenders' participation in transactions secured by property with contamination. CERCLA originally provided lenders with the "secured creditor exemption" to liability by excluding from its definition of "owner or operator" a person "who, without participating in the management" of the facility, "holds indicia of ownership primarily to protect his security interest." Problems arose, however, with judicial interpretation of the phrase "participating in management." Some courts found that if a lender merely possessed the capacity to control a facility's operation, such capacity could trigger loss of the secured creditor exemption and lead to a finding of CERCLA liability as an "operator."

The Act addresses a significant barrier to brownfields redevelopment by increasing the strength of CERCLA's lender liability exemption. The Act effectively refutes earlier judicial interpretation of the exemption by amending CERCLA to allow a lender to take advantage of the secured creditor exemption so long as it does not actually participate in the operational affairs of the facility. Specific examples in the Act of activities which do not trigger loss of the liability exemption include:

- Holding, abandoning, or releasing a security interest.
- Including a condition relating to environmental compliance in a loan instrument.
- Monitoring or enforcing the terms and conditions of the loan or security interest.
- Monitoring or inspecting the facility.
- Requiring the borrower to address a release of a hazardous substance prior to, during, or after the loan.
- Providing financial advice to the borrower to cure a default or prevent diminution in the value of collateral.
- Restructuring or renegotiating the terms of a loan or exercising forbearance.
- Exercising available remedies for breach of a loan condition.
- Conducting a response action under the direction of state or federal officials.

The Act defines "participation in management," which can lead to a loss of the secured creditor exemption, as either:

- Exercising decision-making control over the borrower's environmental matters such that the lender is responsible for hazardous waste practices; or
- Exercising control comparable to a manager at the facility, such as day-to-day environmental decision-making or all other operational functions.

The Act also preserves the secured creditor exemption for lenders who take title to, or possession of, collateral property through foreclosure. Such lenders remain protected by the exemption so long as they seek to sell or divest the property in a commercially reasonable manner. Moreover, lenders may take steps to wind up operations, re-lease the property, and take other post-foreclosure measures without losing the exemption. Finally, the Act provides protection from CERCLA liability for fiduciaries by limiting such liability to the assets held in a fiduciary capacity.

The Act does not resolve all concerns a lender may have regarding loans secured by contaminated property. The Act succeeds, however, by significantly clarifying the scope of CERCLA's secured creditor exemption. This improvement should encourage lenders to become less adverse to transactions involving contaminated property, thus reducing a significant barrier to the redevelopment of brownfields. ■

Andrew Warren is an Assistant Regional Counsel with the U.S. Environmental Protection Agency, Region 5. The views expressed in this article are solely those of the author.

Facilitating the Redevelopment of Brownfields in Michigan

A survey conducted by Michigan's Department of Environmental Quality (DEQ), shows that sweeping changes in environmental clean-up laws have spurred redevelopment of brownfields.

Of 33 municipalities responding to the 1996 survey, representatives of 29 indicated there had been an increase in interest in redeveloping brownfields. Twenty had actually seen an increase in brownfield redevelopment and provided specific examples.

The examples show that the change in the law had facilitated $221.6 million in private investment in brownfield redevelopment and the creation of 2,379 jobs. As of February, new private investment had increased to $285 million and job creation jumped to 4,800.

The amendments to Michigan's Natural Resources and Environmental Protection Act (Part 201) were enacted in June, 1995. The main objectives were to:

- Hold only persons who caused the contamination responsible for the cleanup.
- Base the cleanup standards on future land use.
- Assist in returning brownfields to productive use.

Key benefits to amendments

The most important factor in facilitating redevelopment was liability protection given new buyers through the Baseline Environmental Assessment (BEA) provisions. Lender liability protection, reduced cleanup costs attributed to land-use based cleanup criteria, and due care provisions were also cited as very important factors.

New flexible and clear cleanup standards, based on reasonable risk assumptions, give developers and others performing remediation the option to propose solutions to contamination based on future use of the property.

The new law also requires current owners and operators of brownfield sites, who caused contamination on their property and are aware of the problem, to pursue activities necessary to cleanup the site. While no data is currently available on the impact of this provision, it is expected that it will result in more expeditious cleanups.

In addition, under the "due care" changes, new owners do not need to completely cleanup or remedy all on-site contamination. They are only required to take those steps that are necessary to allow safe use of the property. Such steps could include actions necessary to ensure that their employees and customers can use the property safely, ensure that their activities do not make the contamination worse, and protect against the foreseeable actions of third parties — generally trespassers.

Baseline Environmental Assessment

New owners or operators of property, and lenders who foreclose on delinquent loans now have the ability to obtain an exemption from liability for existing contamination through performance and submittal of a Baseline Environmental Assessment .

The BEA distinguishes existing contamination from any that might occur in the future. In order to make the BEA process as simple and inexpensive as possible, the DEQ has tied the amount of data required for a BEA to the amount and type of hazardous substances the new owner is going to use.

In cases where the new owner will not use hazardous substances, or the use will be different from that which previously occurred on the property, BEAs are simple to perform. As of February, 1997, 844 BEAs had been received by the DEQ.

They're cleaning-up around the State of Michigan

A few examples:

- In Dearborn, the vacant former Sarah-Lil industrial site is now being redeveloped as a new steel plant by Kenwal Products Company. The BEA and due care provisions, land-use based cleanup criteria, lower cost of necessary response action and a covenant not to sue are credited with facilitating this redevelopment. $32 million will be invested in the redevelopment, which will result in the creation of between 100 and 150 jobs.
- In Ionia, five previously vacant properties formerly used for industrial and waste disposal purposes are being redeveloped for a bank, a credit union, medical offices and either a hotel/conference center or shopping mall. The purchaser and lender liability protections, due care provisions, land-use based cleanup criteria, and the associated reduction in cleanup costs provided by the changes to Part 201 are credited with facilitating this redevelopment, which will result in a private investment of $11 million and creation of over 100 jobs.
- In Muskegon, the previously vacant SPX-Terrace Pointe industrial site is now being redeveloped into an office/hotel complex. The purchaser and lender protections and due care provisions of Part 201 are credited with facilitating this redevelopment, which will result in a private investment of $5 million and creation of 200 jobs.
- In Vicksburg, a Prairie Street vacant site previously used for industrial, commercial and residential activities has been redeveloped commercially as the Village Marketplace shopping center. The due care provisions and reduced cost of cleanup resulting from the Part 201 amendments are credited with facilitating this redevelopment, which will result in a private investment of $3 million and creation of 75 jobs.
- In Taylor, vacant property on he corner of Corse and Monroe Street, previously the site of a small manufacturing plant, is now being redeveloped into a Kroger shopping center. The BEA and due care provisions of Part 201 are credited with facilitating this redevelopment, which will result in a private investment of $7 million and creation of 50 to 100 jobs. ■

For additional information regarding the State of Michigan's brownfields and environmental laws, contact Alan Howard, chief of DEQ, Environmental Response Division, 517/335-1104 or Jim Linton, chief of Site Reclamation & List Unit, 517/373-8450.

For information regarding the survey and other programs, contact Ken Silfven, press secretary, 517/241-7397.

Argonne National Lab and Bethel New Life:

A model for brownfield redevelopment

by Norm Peterson, Argonne National Laboratory

Bethel New Life is a community development corporation serving Chicago's West Garfield Park neighborhood. It has been involved in industrial development efforts since the 1980s.

In 1992, Bethel formed a partnership with Argonne National Laboratory to explore ways to apply technology to help distressed urban communities.

One area of focus of the Argonne-Bethel partnership is the redevelopment of environmentally questionable industrial sites, known as "brownfields." Their first brownfields venture was in 1994. Bethel received a partial donation of a six-acre site in the Northwest Center of Industry industrial park in West Garfield Park. The park is part of Chicago's Model Industrial Corridors program and is also located in Chicago's Empowerment Zone.

Argonne National Laboratory applied its analytical and Expedited Site Characterization programs to test and assess the property for environmental contamination. In addition, Argonne provided technical advice to a minority-owned environmental business that was contracted to evaluate the six-acre site.

The experience gained from their initial efforts have led Bethel and Argonne to further refine the methods used to assess, characterize, and classify urban industrial sites. These methods are being applied in the development of a model to serve as an easy-to-use tool that will enable community organizations to classify brownfield sites for redevelopment. The outcomes will be revitalized industrial corridors and livable-wage jobs for low income community residents.

The model will be developed in 1997 and use a three step approach. First, there will be an initial screen of the neighborhood's existing inventory of industrial sites to narrow the list to those that have redevelopment potential. Information on ownership, present condition, past uses, and tax liabilities will be entered into a specialized data base, a geographic information system. Geographic information systems reference data bases geographically for future analysis.

Second, environmental audits will be performed on selected sites. A major focus of the environmental audit will be to determine the economic potential of the site for redevelopment.

Third, following the audits, plans will be developed for specific sites. A development team will be formed to produce a plan including marketing, physical layout, financing, and priority of development within the total number of sites. ■

For additional information contact Norm Peterson at 630/252-2000.

Export Program

Export working capital program continues to work — Slamans and Beyer win SBA's 1997 Illinois Small Business Exporter of the Year Award

The top executives of a leading manufacturer of plastic carrier tape have won the 1997 U.S. Small Business Administration (SBA) Award for Small Business Exporter of the Year in Illinois.

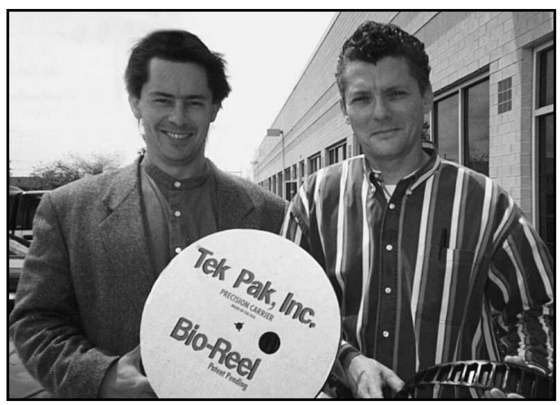
T. Bruce Slamans and Anthony Beyer also won the Midwest Region award and will go on to compete at the national level in the exporter category.

Slamans is president and Beyer vice president of Tek Pak, Inc., in Batavia, Illinois, a leading manufacturer of precision plastic carrier tape used in the electronic surface-mount industry.

They were nominated by Yianna Xenakis of the U.S. Commerce Department.

Tek Pak has been a client of the SBA's U.S. Export Assistance Center since 1994 and has increased sales, profits and employment through creative marketing and hard work.

The company's success is due in part to a loan obtained through the SBA's Export Working Capital Program, which guarantees 90 percent of a loan from a private lender. The loan gave Tek Pak financing to fill export orders to Taiwan.



T. Bruce Slamans and Anthony Beyer

Tek Pak was founded in 1992 in Slamans' garage and has grown from two to 40 employees, while sales have increased 700 percent. Because of its success, the company is expanding its Batavia facility.

Dedicated to the packaging requirements of electronics manufacturers, Tek Pak offers engineering services such as prototype carrier-mold design and fabrication, which it believes to be the fastest in the industry.

The firm has expanded into new markets including Singapore, Hong Kong, Malaysia and Europe. According to Slamans, "the SBA's Export Working Capital Program has played a significant part in the success of Tek Pak." ■

For information on export finance or export assistance programs, contact Mary Joyce or Paul Kirwin at the U.S. Export Assistance Center at 312/353-8065 or 312/353-8059.

State of Illinois Launches Capital Access Program

In February, the State of Illinois announced the establishment of the Illinois Capital Access Program (CAP), a new loan program initiated by the Illinois Department of Commerce and Community Affairs (DCCA).

"It's a fantastic program, because there's no bureaucracy involved."

— Thomas Carter

CAP has the potential to foster local economic growth by providing access to capital to small businesses that are unable to secure loans because they fall outside conventional lending parameters. This capital could help them grow their companies, expand their markets and create jobs.

As an added benefit, CAP also gives lenders an opportunity to expand their customer base and increase commercial loan volume. It's anticipated that the Capital Access Program will be a valuable and non-bureaucratic tool to help strengthen the Illinois economy. DCCA has committed sufficient capital to generate $30 million in private loans anticipating this will be their most successful financing program.

In Michigan

More than 25 states have these types of programs. Illinois' program is modeled after a highly successful initiative established in Michigan in 1986.

To date, over 70 Michigan banks have participated in over 5,300 loans with more than $284 million to new and small businesses — an impressive level of performance by any standard.

Since the formal announcement of the Illinois CAP, 14 banks with over 300 branches statewide have agreed to participate, and 11 loans have been made. A total of $610,013 in private loan activity has already been generated.

Portfolio Insurance

The Illinois CAP program is based on a unique portfolio insurance concept in which the borrower and DCCA each contribute a percentage of the total loan amount into a reserve fund located at the lender bank. The borrower's portion must be between three and seven percent of the total loan amount. DCCA matches the borrower's portion. This reserve fund provides the bank with funds for reimbursement should they experience a loss on one of their CAP loans.

To ensure that the bank's loan loss reserve grows faster during the initial stages of the program, DCCA will provide a 133 percent match on all early loans. An early loan is defined as any loan made where the aggregate amount of the bank's total CAP portfolio is less that $2 million. Additionally, DCCA will provide a higher matching of funds for loans that the bank provides to minority, female and disabled business owners (150 percent) and to businesses located in federally designated Empowerment Zones or Enterprise Communities (200 percent).

Historically, most government lending programs have required extensive paperwork, and the associated transaction costs have made small loans unattractive from the lender's point of view. Not so with the Capital Access Program. The institution has total flexibility in the decision-making and loan approval process. The non-bureaucratic nature of the program lowers the transaction costs and acts as an encouragement for the lending institution.

"It's a fantastic program, because there's no bureaucracy involved," said Thomas Carter, vice president of lending at Park Ridge Community Bank.

As an example, Mr. Carter referred to a loan that went to David Murphy, president of a new independent ambulance service. The loan to this small start-up business was the first under the Illinois CAP. Murphy, 34, had been a stock broker. Normally, Murphy's age and lack of experience might prevent him from getting a loan, but Carter said the loan was handled like any other because of the CAP. Murphy confirmed that getting the loan "was not a big deal at all."

The program is as big a plus for the borrower as it is for the bank, Carter confirmed. "We processed his loan in a matter of days," he said. ■

For more information about participating in the Capital Access Program, contact Gregg Fahey at 312/814-7168 or 217/782-3891.

Participants in the Illinois CAP Program:

Bank of Bellwood

Bank of Waukegan

Banterra Bank of West Frankfort

Banterra Bank, N.A., Vienna

Downers Grove National Bank

First of America Bank-Illinois, Springfield

Mercantile Trust & Savings Bank, Quincy

Mutual Bank, Harvey

Park Ridge Community Bank

The First National Bank of Chicago

The Northern Trust Company, Chicago

The South Shore Bank of Chicago

Uptown National Bank of Chicago

Rural Development Guarantee Program Streamlined

The U.S. Department of Agriculture's (USDA) Business and Industry Loan Guarantee Program has been revised to make it more usable by lenders and borrowers.

It is anticipated that the revisions will make the program more effective in creating jobs and stimulating economic activity.

The program is administered by the USDA's office of Rural Development, and typically guarantees losses on up to 80 percent of the original loan amount.

The program is now revised to give the Rural Development Administrator authority to grant various exceptions. For example, for high priority projects, the administrator can authorize 90 percent guarantees on loans up to $10 million.

Also, recent revisions authorize the State Directors of Rural Development to approve exceptions so that up to a 90 percent guarantee may be approved for loans up to $2 million.

Other revisions include:

- Guarantees for agricultural production if the business integrates both production and processing.
- Eligible loan purposes are expanded to include hotels, motels and other tourism and recreational facilities — excluding racetracks, golf courses and gambling facilities.
- A new application form now serves the function of TEN forms previously in use.
- Certain experienced lenders can apply for status as certified lenders.
- A lender's credit analysis will now be relied upon rather than the Agency's own complete analysis.
- Loan servicing is simplified. ■

Lenders, economic development professionals, business and community leaders are encouraged to contact their local Rural Development office for additional information on the Business and Industry Loan Guarantee and other rural programs.

— Illinois 217/398-5412 ext. 244, Charles Specht
— Indiana 317/290-3109
— Iowa 515/284-4152
— Michigan 517/337-6635 ext. 1602
— Wisconsin 715/345-7610

Small Stores Initiative

A National Small Stores Institute (NSSI) team has been established to address the various issues that small retailers throughout the country are facing.

The team is part of the United States Department of Agriculture's initiative "Communities in Economic Transition."

The team is composed of educators from land grant universities and the Cooperative Extension Service, as well as professionals from Small Business Development Centers, the Federal Reserve Bank of Chicago and private businesses. They are working together to focus on retail trade development.

The mission of NSSI is to strengthen, through educational processes, the knowledge, perspectives, and skills of field professionals who provide assistance to people who own and operate small retail businesses across the United States.

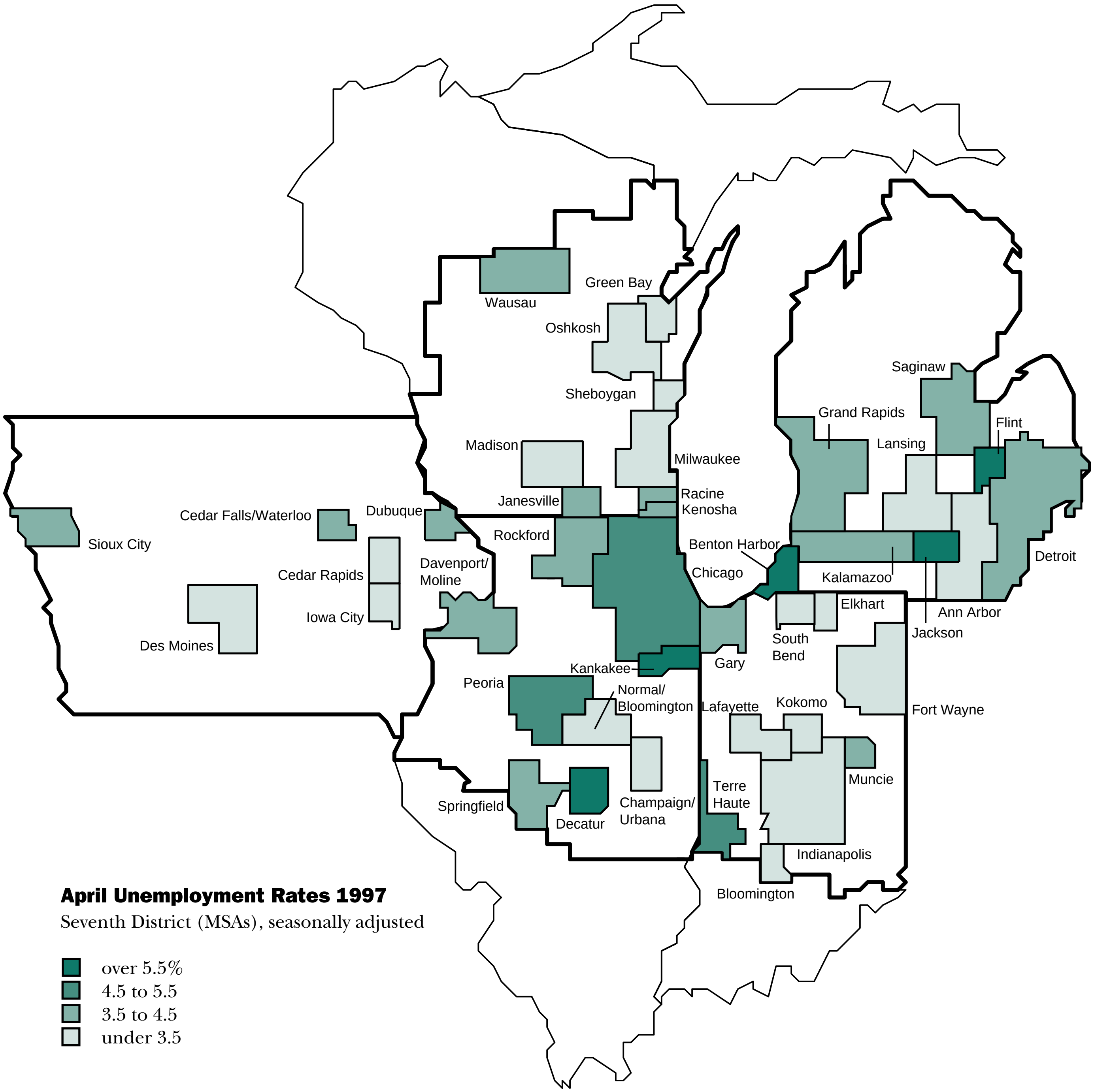
The initiative also is forming partnerships between University Retail Centers, the National Retail Federation, the Extension System, retailers and other professionals. ■

For additional information regarding the NSSI team, its mission and other rural programs contact Norma Turok, University of Illinois Extension Services, 618/453-5561.

... working together to focus on retail trade development.

Seventh District Labor Markets

Unemployment conditions for April 1997



NOTE: All rates are subject to revision.

From Our Research Department

The Federal Reserve Bank of Chicago serves the Seventh Federal Reserve District, which includes the entire state of Iowa along with large portions of Illinois, Indiana, Michigan, and Wisconsin. At the present time, there are 43 Metropolitan Statistical Areas (MSAs) in the Seventh District. The geographic boundaries of MSAs are defined by the U.S. Office of Management and Budget (OMB) as economic areas encompassing communities that are tightly linked by a flow of commuters, migrants, goods and services, and payments.

Unemployment rates are useful indicators of the labor market conditions in local areas. The unemployment rate is defined as the percentage of adults in the work force who are not currently employed but are actively seeking employment. Importantly, the work force, and hence the unemployment rate, does not include workers who are not actively looking for work. This means that workers who have given up looking for work are not counted as unemployed.

Unemployment rates for Seventh District MSAs are derived from data provided by the United States Department of Labor (USDL). Using definitions and guidelines established by the USDL to ensure consistency across state lines, state agencies calculate MSA unemployment rates on the basis of a monthly payroll survey and unemployment insurance records. The rates used here have been adjusted to account for normal seasonal variations.

Currently, labor market conditions are very good in most although not all areas of the Seventh District. The Seventh District makes up a large part of Middle America, which 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 along with growing demand abroad has enhanced the region's exports of agricultural products, consumer goods, machinery, and equipment. The machinery and equipment sectors, along with the regionally important automotive sector, also have gathered momentum due to the generally buoyant national economy. In addition, 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 work down the backlog of over-built real estate from the middle 1980s — a market boom in which many parts of the Seventh District did not participate as heavily. As a result of the District's economic vitality, many local areas are reporting difficulties in hiring workers — especially skilled workers.

Labor Market highlights

The Seventh District's labor markets continued a relatively steady trend of tightening in the first quarter with the average seasonally adjusted unemployment rate falling to 4.1 percent in February and March. This is 0.4 percentage points below the March 1996 rate and the District has not seen a monthly increase in its unemployment rate since November 1995. The national rate for March was 5.2 percent, 0.1 percentage points lower than February's and a 0.3 percentage points change from the March 1996 rate of 5.5 percent. Unemployment rates in the District's metropolitan areas ranged from a low of 1.7 percent in Madison Wisconsin to a high of 7.8 percent in Decatur Illinois.

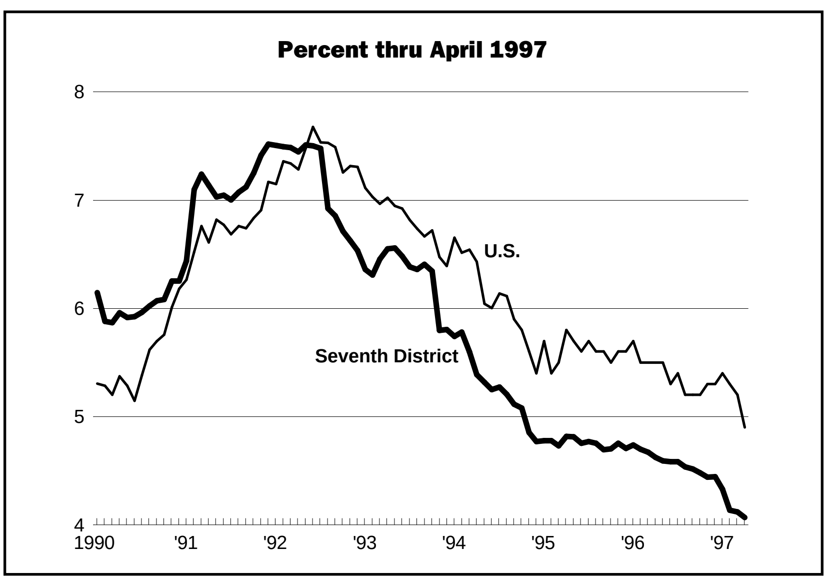
District highlights:

Shortages of qualified workers persisted through most of the District and upward pressure on wages appeared to intensify slightly heading into the second quarter. While national surveys showed that employers in the Midwest had the highest hiring plans of any region in the country, employment growth in District states continued to lag the nation—due in large part to the very tight labor markets. The impact of scattered strikes against auto makers and their parts suppliers had been minimal in most affected labor markets and some of these strikes have been settled.

- Indiana had the lowest unemployment rate of District states in March at 3.2 percent and is

continued on page 18

Midwest Unemployment Rate

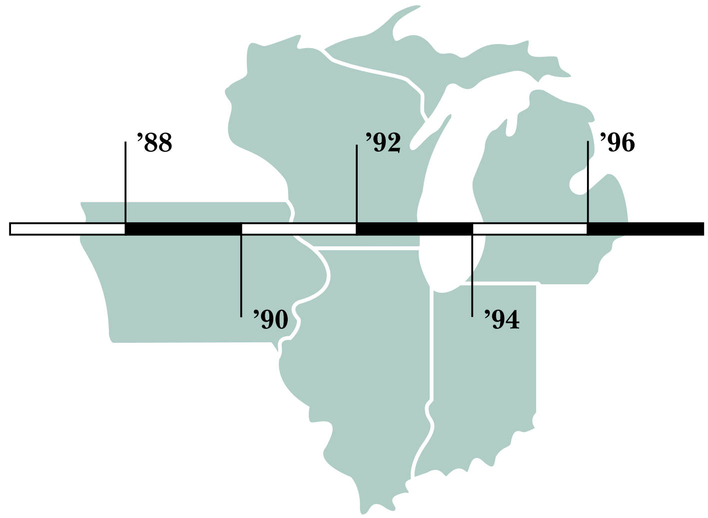


Looking Back for the Future

The Federal Reserve Bank of Chicago has released a report *Assessing the Midwest Economy: Looking Back for the Future.* The report examines the dramatic comeback of the Midwest economy since the early 1980s and the outlook for the region's future.

The Federal Reserve Bank of Chicago is holding a series of high-level summit meetings throughout the Midwest to discuss the study and its implications for regional policy. The meetings provide a unique opportunity for researchers, policymakers, and business, community, and labor leaders to discuss the important public policy questions facing the region and their state. The first of the summit meetings was recently held in Chicago. If you would like to be added to the invitation list for a meeting in your state, please call 312/322-2389. ■

If you would like a copy of the report or additional information on the study, including workshop summaries and working papers, call our Public Information Center at 312/322-5111 or access the Chicago Fed's Web site at www.frbchi.org.



Research *continued*

experiencing the lowest rates in the last two decades. Gary's very low 3.8 percent was relatively high compared to those rates in Indianapolis, Bloomington, and Lafayette, each of which was below 2.5 percent.

- The unemployment rate in Illinois remained at 5.0 percent for the third consecutive month. It is the only state in the District where manufacturing payrolls increased at roughly the same rate as overall employment growth in year-over-year comparisons.

- Total payrolls in Michigan and Wisconsin increased 1.8 percent since last March, the largest increases of District states. Robust housing and construction markets led to very strong increases in construction payrolls in both states. Michigan's payrolls increased by 9.4 percent from last March while Wisconsin showed an 8.1 percent increase. ■

Richard E. Kaglic
Economist

http://www.frbchi.org

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- speeches by Federal Reserve officials

For further information call the Public Affairs Department at 312/322-2378.

Around the District

Districtwide

Export Working Capital

In fiscal year 1997, Small Business Administration staff at the U.S. Export Assistance Center in Chicago have approved 19 export working capital loans totaling $7.2 million. According to the Export Assistance Center, over 20 financial institutions have participated in the Export Working Capital Program in the last two years.

For information on export finance or export assistance programs, contact Paul Kirwin at the U.S. Export Assistance Center, 312/353-8059.

Illinois

Kankakee County Ranks #1

In a recently released study of metropolitan areas with less than 10,000 manufacturing jobs, *Industry Week* magazine rated Kankakee County the best manufacturing climate in the nation. For information on Kankakee County and its programs, contact Dick Durkin, president of the Kankakee County Economic Development Council at 815/935-1177.

Bank Enterprise Award

Household Bank, Wood Dale, has received a Bank Enterprise Award from the Community Development Financial Institutions Fund. The award was in recognition of Household's investment in a community bank that will serve the financial needs of a distressed neighborhood in Chicago.

For more information about the Bank Enterprise Award or the Community Development Financial Institutions Fund contact Bill Luecht at 202/622-8662.

Wisconsin

WHEDA Update

Wisconsin Housing and Economic Development Authority (WHEDA) recently created a new division, Emerging Markets and New Products Group, to assist the Authority in developing new products and services that will help WHEDA position itself as a leader in fostering community and economic development throughout Wisconsin.

The new group's mission and strategy are simple: With the reconfiguring of federal-level programs and initiatives, WHEDA believes it necessary to enhance its ability to bring new products to its customers. Emerging Markets and New Products Group will research, design, test, and package new products to offer to its customers. WHEDA is an independent authority created by the Wisconsin state legislature to sell bonds for the purpose of financing housing and economic development initiatives — principally by offering guarantees through participating lenders. Emerging Markets and New Products Group is headed by Wyman B. Winston, who has had several years experience working within WHEDA, most recently as director of the Authority's Multi-family Group. For more information, contact WHEDA at 800/334-6873.

1997 Calendar

June 20
Hammond, Indiana
"Export Finance Conference for Lenders and Small Businesses." Cosponsored by the U.S. Export Assistance Center, N.W. Indiana World Trade Council, et al. Contact: Paul Kirwin at 312/353-8059.

June 22-25
Toronto, Ontario
"The Retail Industry and Economic Development." Sponsored by the National Council for Urban Economic Development. Contact: 202/223-4375.

July 9
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.

July 21-25
Chicago, Illinois
Neighborhood Reinvestment Training Institute. Sponsored by Neighborhood Reinvestment Corporation. Contact: 800/438-5547.

September 11-13
St. Louis, Missouri
National Small Stores Institute "Communities in Economic Transition." Cosponsored by U.S. Department of Agriculture Extension Services, Federal Reserve Bank of Chicago, et al. Contact: Norma Turok 618/453-5561.

September 12-13
Chicago, Illinois
Midwest African/Americas Business Development Conference and Trade Expo "Establishing Successful Global Partnerships." Cosponsored by the City of Chicago, World Trade Center, et al. Contact: 312/322-5877.

September 20-24
Washington, D.C.
"Community Investment Institute." Sponsored by Neighborhood Reinvestment Corp. Contact: 800/438-5547.

October 30-31
Chicago, Illinois
New Mosaic: New Partners, New Ventures." Sponsored by Federal Reserve Bank of Chicago. Contact: 312/322-8232.

FEDERAL RESERVE BANK
OF CHICAGO

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