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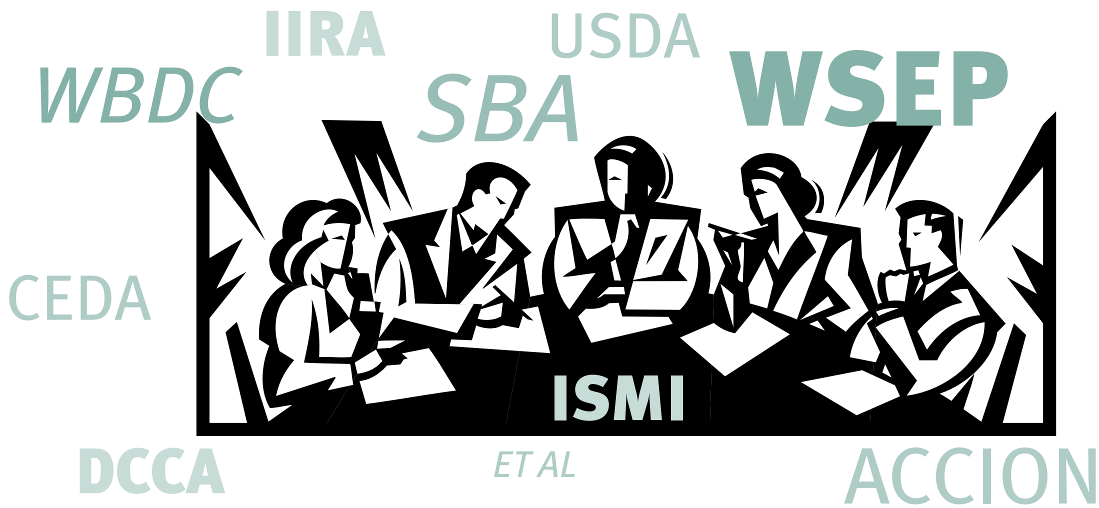
Economic Development

News & Views

Published by the Federal Reserve Bank of Chicago Consumer and Community Affairs Division

Volume 4 Number 2
August 1998



Inside this Issue:

Partners Uniting Microenterprise Development

More states are beginning to understand that microenterprise development can be an essential part of economic development and welfare reform strategies, resulting in job creation and self-sufficiency.

Illinois is at the forefront of this effort thanks to the Chicago-based Women's Self-Employment Project (WSEP). WSEP, the largest microenterprise development program in Illinois, serves low-to-moderate-income women and offers specific programs to welfare recipients.

Under WSEP's leadership, the Illinois State Microenterprise Initiative (ISMI) was created more than two years ago. The initiative is bringing together professionals from various aspects of microenterprise and economic development to further their local, regional and statewide goals.

ISMI is a coalition of microenterprise development practitioners, community and economic development service providers, financial institutions, and federal, state, local and private agencies. Its mission is to provide an organized voice that advocates community economic empowerment and to create growth opportunities in microenterprise development.

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Microenterprise *continued from page 1*

ISMI consists of more than 90 different organizations, agencies and individuals, all of whom are committed to promoting microenterprise development throughout the state of Illinois. The coalition continues to expand as more groups and individuals join each year. Some ISMI members include:

- *ACCION Chicago*
- *Association for Enterprise Opportunity*
- *Bank of America NT&SA*
- *Bank One, Illinois, N.A.*
- *City of Chicago, Department of Planning and Development*
- *Community Economic Development Association (CEDA)*
- *Community Economic Development Law Project (CEDLP)*
- *First of America Bank-Illinois*
- *Illinois Department of Commerce and Community Affairs (DCCA)*
- *Illinois Development Finance Authority*
- *Illinois Institute for Rural Affairs (IIRA)*
- *Institute for Entrepreneurship*
- *LaSalle Bank*
- *Madison County Community Development*
- *Pullman Bank and Trust Company*
- *The Northern Trust Company*
- *Salvation Army*
- *Small Business Administration (SBA)*
- *University of Illinois, Extension*
- *Women's Business Development Center (WBDC)*
- *World Relief Chicago*
- *Women's Self-Employment Project*

Microenterprise Conference

Illinois' first statewide microenterprise conference and the first conference held by ISMI was held recently at the Crowne Plaza Hotel in Springfield. The conference was entitled "Uniting Microenterprises Across Illinois." It provided participants an opportunity to network with individuals representing every aspect of microenterprise development, learn more about ISMI and various microenterprise issues in Illinois, discuss collaborative opportunities for microenterprise and economic development, and plan policy goals for the future. The event was attended by a broad base of organizations and individuals, including Illinois legislators and was reported to be beneficial for those attending. The speakers and panelists included:

- *Representative Barbara Flynn Currie, Illinois House majority leader*
- *Dawn DeFraties, director of U.S. Senator Carol Moseley-Braun's Springfield Office*
- *Bill Houlihan, director of U.S. Senator Dick Durbin's Springfield Office*
- *Connie Evans, Women's Self-Employment Project*
- *Paul Gibson, Illinois Department of Commerce and Community Affairs*
- *Tom Henderson, Illinois Enterprise Zone Program*
- *Jenice Jones-Kibby, Illinois State Microenterprise Initiative chair*
- *Harry Pestine, Federal Reserve Bank of Chicago*
- *Greg Truninger, Illinois Revolving Loan Fund Association*
- *Dan Walker, Rural Economic Technical Assistance Center*

At a pre-conference policy breakfast, ISMI committee members met with State legislators to discuss microenterprise and establish relationships for further cooperation. Rep. Rick Myers, Sen. Donne Trotter and Patrick Fucik from Gov. Edgar's office were among those who attended.

Robin Hanna of the Illinois Institute for Rural Affairs (left), and Alvin Hall, CEDA (far right), lead a discusion group at the ISMI Conference.

Representative Barbara Flynn Currie addresses microenterprise development issues.

Conference coordinators said that the ISMI Springfield Conference would not have been possible without the sponsorship of the following organizations:

- *Bank One, Illinois, N.A.*
- *Federal Reserve Bank of Chicago*
- *First of America Bank-Illinois*
- *Illinois Department of Commerce and Community Affairs*
- *Illinois Institute for Rural Affairs*
- *LaSalle Bank*
- *Pullman Bank and Trust Company*
- *Rural Economic Technical Assistance Center*
- *The Northern Trust Company*
- *U.S. Department of Agriculture*
- *Women's Self-Employment Project*

ISMI plans to increase its membership by 20 percent in the coming months and will continue its efforts on behalf of microentrepreneurs and microenterprise organizations. Next year will be an exciting one for the Illinois State Microenterprise Initiative. ■

If you have any questions about microenterprise development or ISMI, please contact the ISMI coordinator, Joyce Davidson-Seitz, or the ISMI chair, Jenice Jones-Kibby, at 312/606-8255.

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Federal Reserve Bank of Chicago
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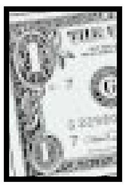
Economic Development News & Views – ISSN: #1083-1657

Finance

Bank Lending to Small Businesses on the Rise



The number of outstanding small business bank loans—especially loans under $100,000—increased by 25 percent from 1996 to 1997, according to a study released by the Office of Advocacy, U.S. Small Business Administration. Total small business loans outstanding amounted to $184 billion in June 1997.

The 1997 edition of *Small Business Lending in the United States* provides a comprehensive state-by-state ranking of banks in order of their "small business friendliness" which is defined in the study. All banks that were required to provide call report data to federal bank regulators in 1997 are included.

Advocacy's lending studies are analyses of the Consolidated Reports of Condition and Income, or "call reports,"that banks must file quarterly with their bank regulatory agencies.

Bank consolidations reduced the number of reporting banks from 9,670 in 1996 to 9,293 in 1997 and also affected the relative importance of different sized banks. While the number of small banks with assets below $100 million declined, the number of banks with assets between $250 million and $1 billion increased in 1997. Mergers and acquisitions decreased the number of banks with assets above $1 billion.

"We need to pay attention to the effects on competition of a decline in the number of banks because we know that more competitive markets provide better services," said SBA Chief Counsel for Advocacy Jere Glover. "By publicizing this information, we believe we're helping increase bank competition to provide capital to the dynamic small business sector. Previous research has also indicated that small-business-friendly banks are more profitable than banks making few small business loans. So both small firms and banks profit from healthy small business loan portfolios."

Paper and microfiche copies of all Advocacy reports are available for purchase from the National Technical Information Service, 800-553-6847.

Investment Capital Angels on the Internet

Illinois entrepreneurs have a new, high-tech way to obtain investment capital.

The Illinois Coalition and the Illinois Secretary of State's office have announced a joint project to provide entrepreneurs with access to "seed money" over the Internet.

The Coalition and the Secretary of State's Securities Department will serve as a local gateway to the Angel Capital Electronic Network (ACE-Net), a nationwide Internet-based listing service founded by the U.S. Small Business Administration (SBA) in 1996.

ACE-Net is designed to make it easier for firms to tap into venture capital investors, many of whom keep low profiles to avoid being swamped with proposals.

ACE-Net provides wealthy "angel" investors with information on emerging businesses seeking $250,000 to $5 million in equity financing. By allowing entrepreneurs to post offerings on a World Wide Web site that can be seen only by accredited investors, it provides a centralized spot for investors to evaluate investment opportunities without revealing their identities.

"Raising seed-stage financing is one of the greatest challenges facing high-tech entrepreneurs in Illinois," said Illinois Coalition Chairman Stephen C. Mitchell, whose group will market the program statewide.

"There's a real gap between where support from friends and family runs out and where venture capital firms typically are willing to become involved," he continued. "By providing a strong link to angel investors through Ace-Net, we hope to bridge that gap and make it easier for start-ups to access the financing they need to grow and create jobs."

Angel investors typically are wealthy individuals with significant business experience. The SBA estimates that 250,000 such investors pour more than $20 billion yearly into more than 30,000 ventures nationally, with individual investments ranging from $100,000 to several million dollars.

"A key goal of my office is to stimulate the growth of small businesses by opening access to the equity markets," said Secretary of State George Ryan, whose organization will help oversee the program's Illinois operation. "ACE-Net will help achieve this important objective."

Illinois firms wanting to be listed on ACE-Net must satisfy federal and state securities registration or exemption requirements. A firm must complete the Small Corporate Offering Registration form to be posted on ACE-Net. Then, the offering can be viewed only via the Web site by accredited investors registered with ACE-Net.

ACE-Net is overseen nationally by the SBA but is managed on a day-to-day basis across the U.S. by a network of regional operators that are university- or state-based nonprofit entrepreneurial development organizations.

Officials stressed that ACE-Net is not a matching service and does not serve as an investment advisor or broker-dealer. No securities trading takes place on ACE-Net. No fees will be charged by The Illinois Coalition for listing either companies or investors, and it will not participate in any sales transaction. ■

For additional information on ACE-Net or The Illinois Coalition, contact John Dougherty, project director, 312/814-3482. The ACE-Net Web site is at https://ace-net.sr.unh.edu.

Joint Program to Finance Disadvantaged Businesses

Anthony J. McMahon, Chicago District Director, Small Business Administration

The Illinois Department of Transportation (IDOT) and the U.S. Small Business Administration (SBA) recently announced a joint financing program for IDOT-certified disadvantaged businesses.

The program is designed to help minority and woman-owned contracting firms take advantage of increased opportunities to enter into contracts with IDOT. The program will prequalify eligible contractors for SBA-backed loans to finance these transportation contracts.

"This joint initiative follows the SBA's commitment to triple SBA-backed loans to minority business owners," said Anthony J. McMahon, the SBA's acting Chicago district director.

"This joint initiative follows the SBA's commitment to triple SBA-backed loans to minority business owners," Anthony McMahon.

Added Beverly Peters, IDOT's Small Business Enterprises bureau chief, "This program will help IDOT and its prime contractors meet their goals for increasing contract opportunities for minority- and woman-owned contractors."

The SBA's contract financing program guarantees up to 80 percent of a loan made by a lender. These loans may be prequalified which means the contractor can obtain a loan guaranty commitment in advance and take that commitment to a lender. Prequalification applications will be handled by First Illinois Development Credit Corp., an IDOT-certified contractor. More than 700 certified firms statewide will be eligible for the program under IDOT's Certified Disadvantaged Business Enterprises program. ■

For additional information, contact the First Illinois Development Credit Corp. at 217/241-1440.

Economic Injury Disaster Loans Available

Federal disaster loans are available from the U.S. Small Business Administration (SBA) for small, non-farm, agriculture-dependent businesses located in Clark, Crawford, Edgar, Lawrence, Vermilion, and Wabash counties in Illinois.

The loans are available to businesses that were economically impacted last year by drought conditions and hot and dry winds that occurred July 1 - September 10, according to Anthony J. McMahon, the SBA's acting Chicago district director.

"These counties are eligible because they are contiguous to designated disaster areas in Indiana," McMahon said. "The SBA recognizes that disasters don't usually stop at county or state lines. For that reason, Illinois counties that are adjacent to the Indiana counties that were designated disaster areas are included."

This disaster designation for non-farm businesses was issued as a result of similar action taken by the Secretary of Agriculture to help farmers in those counties.

Farmers are not eligible to apply to the SBA, but nurseries are eligible for economic injury caused by drought conditions.

Economic Injury Disaster Loans (EIDL) provide working capital to small businesses to pay bills and meet normal operating expenses. Maximum loans to a business of up to $1.5 million are available at 4 percent interest with maturities of up to 30 years. The SBA determines eligibility for the program based on the size and type of business and its financial resources.

"Loan applications and program information are available by calling 800/359-2227. The Telecommunications Device for the Deaf and speech-impaired number is 404/347-3751," said McMahon.

Applications are also available by writing: Area 2 Disaster Assistance Office, U.S. Small Business Administration, One Baltimore Place, Suite 300, Atlanta, GA 30308. The EIDL application filing deadline is November 25, 1998. ■

Banks Unite to Form New Business Financing Tool

Six Springfield, Illinois- area financial institutions announced the creation of a community development corporation (CDC) called The Capital Fund, Inc.

It was organized to finance eligible commercial projects throughout Sangamon County. The shareholder banks are Bank of Springfield; First National Bank of Central Illinois; Bank One Springfield; Carrollton Bank; First of America Bank - Illinois, N.A.; and Illini Bank. They have committed to purchase over $500,000 of stock in the CDC. In addition, The Capital Fund received a grant award from the Illinois Department of Commerce and Community Affairs (DCCA) of up to $50,000 in matching funds. The funds will be used to provide debt and equity financing to aid business expansion.

Creation of this CDC will result in benefits to the region and to the supporting banks and other investors. Economic development projects will receive additional credit to pursue expansion plans. By sharing riskier loans with other participating banks, financial institutions will have an opportunity to support more expansion projects. "The new CDC is designed to improve and expand the local business climate," said Leon Mizeur, executive vice president and chief operating officer of Bank One Springfield and President of the CDC Board. "It will create and retain new jobs for people throughout the region," he explained, "The shareholder banks' involvement is the result of a growing need in the community for additional financing options. The Federal Reserve System and other financial institution regulators have made bank participation in projects much more flexible through CDCs."

The eligibility requirements are quite general with manufacturers as the primary firms for consideration. The program does not target such employers as restaurants and other retail operations, but other businesses will be considered, including distribution, services, and a variety of others. A typical applicant profile, Mizeur discussed, "is a for-profit, basic employer located in or locating to Sangamon County who represents diversification for the economy or supplements existing industry."

"A significant feature, one not found in many other financing sources, is that the funds may be used for equity investments," he said.

Loan rates will be determined by the Board and Credit Review Committee, but they will generally range from prime to prime plus 5 percent while financing up to 30 percent of the total project. Bank participation and owner's equity are also required.

The Greater Springfield Chamber of Commerce and the Economic Development Council for Springfield and Sangamon County have advocated this project repeatedly and have contracted with the CDC for administrative and marketing functions. Bradley Warren, the Chamber's Vice President - Development & Planning, said, "A fundamental component of economic development is being prepared for growth. This new tool is one more indication of the public and private sectors' intent to aggressively target and pursue projects that hold the promise of expansion."

The Federal Reserve Bank of Chicago (FRBC) was instrumental in facilitating discussions and providing direction regarding interpretation of various banking regulations. In addition, the FRBC assisted in identifying other partnering programs to enhance the overall effectiveness of the CDC.

While no projects have been reviewed formally, many discussions have taken place to consider potential projects for formal review.

Economic Development News & Views will keep you posted on the progress of this exciting new program. ■

For additional information regarding The Capital Fund, contact Patrick Henkel at the Greater Springfield Chamber of Commerce, 217/525-1173.

For additional information regarding banking regulations, permitted investments, and the formation of community development corporations, contact the Federal Reserve Bank of Chicago's Consumer and Community Affairs Division at 312/322-8232.

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: 2,100
Assets: $51.7 billion (as of 12/31/97)
Depository Institutions in Seventh District: 3,769
Banks and bank holding companies supervised: 1,340
Financial services volumes (1997):
Checks processed — $1.3 trillion
Automated Clearinghouse transfers — $2.2 trillion
Wire transfers — $37.0 trillion
Currency received and counted — $39.3 billion
Unfit currency destroyed — $10.8 billion

CDFI Fund's Workshops Are Successful

The U.S. Treasury's Community Development Financial Institutions (CDFI) Fund recently announced that it has received 243 applications from community development financial institutions for funding.

Of the 243 applications received, 131 applicants requested $169 million from the Core Component of the CDFI Program. Another 112 applicants requested $6 million from the new Technical Assistance Component.

Under the Core Component, financial assistance may be provided through an equity investment, a grant, a loan, deposits, credit union shares, or some combination of the above. The CDFI Fund will award up to $40 million for the Core Component. The anticipated maximum award per applicant is $2 million.

Under the Technical Assistance Component, an applicant can apply for a grant to be used for activities that enhance the capacity of both CDFIs and entities proposing to become CDFIs. Among other activities, the funds can be used to develop loan, investment, and other programs; train personnel; improve internal operations; or enhance a CDFI's community impact. The CDFI Fund will award up to $5 million for the Technical Assistance Component. The anticipated maximum award per applicant will be $50,000.

The CDFI Fund staff, working with the Federal Reserve Bank of Chicago and nine other Federal Reserve Banks across the country, earlier this year conducted 10 of the Fund's 13 workshops designed to serve potential applicants. The free workshops provided potential applicants with information about both the core and new technical assistance components of the CDFI Program.

"We were delighted with the tremendous response to the CDFI Program, especially the new Technical Assistance Component," said CDFI Fund Director Ellen Lazar. "I am truly grateful to the Federal Reserve Banks and their dedicated staffs as they were a critical part of the Fund's successful outreach to potential applicants."

A total of 425 individuals representing 33 states attended the 13 workshops. Forty-seven people attended the Chicago Fed's workshop. Workshops were also hosted by Federal Reserve Banks in the following cities: Boston, Cleveland, Dallas, Houston, Los Angeles, Minneapolis, New York, San Francisco and St. Louis.

The CDFI Fund's mission is to expand access to critically needed capital and financial services in underserved urban, rural and Native American communities. These are places where one of the biggest obstacles to economic development is a lack of access to mainstream sources of private sector capital. ■

For more information about the CDFI Fund and its programs, call the Community Development Financial Institutions Fund at 202/622-8662.

For information on how financial institutions can assist CDFIs and how this assistance could be treated under the Community Reinvestment Act, contact the Federal Reserve Bank of Chicago, Consumer and Community Affairs Division, at 312/322-8232.

1998 Calendar

Aug. 8-11
Washington, DC
"Neighborhood Reinvestment Training Institute." Sponsor: Neighborhood Reinvestment Corporation. Contact: 800/438-5547

Sept. 9
Chicago, IL
"Entrepreneurial Women's Conference." Sponsor:Women's Business Development Center. Contact: 312/853-3477

Sept. 9-11
San Diego, CA
"Economic Development Finance." Sponsor: Council for Urban Economic Development. Contact: 202/223-4735

Sept. 24
Ypsilanti, MI
"Women's Government Contracting Conference." Sponsor: Small Business Administration. Contact: 313/226-6075

Oct. 2
Milwaukee, WI
"Our impact in the Millennium-The Future of Small Business" luncheon. Sponsor: Wisconsin Women's Business Initiative Corp. Contact: 414/263-5450

Oct. 15-16
Detroit, MI
"Community Investment Conference." Cosponsors: Federal Reserve Bank of Chicago and Federal Home Loan Bank of Indianapolis. Contact: 312/322-8232

Oct. 15-16
Charleston, SC
"Cutting Edge Techniques for Development Finance." Sponsor: Council of Development Finance Agencies.Contact: 202/857-1162

Nov. 16-20
San Francisco, CA
"Neighborhood Reinvestment Training Institute." Sponsor: Neighborhood Reinvestment Corporation. Contact: 800/438-5547

The Illinois Facilities Fund Puts CDFI Funds to Work

The Illinois Facilities Fund (IFF), a certified CDFI, statewide nonprofit lender, helps nonprofit organizations successfully complete real estate and facility projects.

As a nonprofit community development financial institution (CDFI) serving low-income communities, the IFF makes affordable loans to nonprofit human service agencies, community development agencies and community support projects in Illinois. It also provides real estate development and planning assistance to these groups.

The IFF was one of the awardees of the first round of the CDFI Fund grants, receiving a $900,000 grant for its loan program. This allowed the IFF to meet identified financing needs and extend its current loan program to include higher-risk borrowers. The following profiles two IFF borrowers that Ellen Lazar, CDFI Fund Director, visited on a recent trip to Chicago:

Ezzard Charles School

Chicago, Ill.

Ezzard Charles School is a child care agency serving infants, toddlers, and school-age children from families in two of Chicago's low-to moderate-income communities. The agency owns and operates two properties (across the street from each other) as child care centers. One site serves 73 children and the other serves 24 infants and 26 toddlers.

To improve its cash flow, Ezzard Charles needed to refinance two bank loans and one IFF loan on the two properties. A new $362,000 IFF loan, at an affordable interest rate, enabled Ezzard Charles to improve its cash flow position by over $19,000 a year.

The previous IFF loan had enabled Ezzard Charles to purchase and renovate the facility that serves infants and toddlers. By acquiring that site, Ezzard Charles was able to serve an additional 50 children and provide infant care.

For more than 20 years, Ezzard Charles has been providing quality child care and educational programs to children from low-and moderate-income families. These communities are predominantly African American, have high rates of poverty and unemployment, and an increasing number of high school dropouts and teenage pregnancies. Ezzard Charles addresses these problems by providing a safe place for children while parents pursue education, training, and employment.

Matthew House

Chicago, Ill.

"The whole community benefits from the IFF loan to Matthew House. A new facility will improve the quality of our services and programs. It is a significant investment in our neighborhood," said Reverend Sanja Stinson, Executive Director.

Matthew House is the only nonprofit agency providing support services to the homeless in the Douglas and Grand Boulevard communities. To meet demand, the agency needed a larger facility. Matthew House found a property that required major renovations. Unfortunately, the agency could not obtain a loan from a commercial bank to finance the renovations. The IFF helped Matthew House make the project a reality.

(Left to right) Ellen Lazar, CDFI Fund Director; Arnelia LeNoir, Ezzard Charles teacher; Jane Dilger, IFF Director of Finance & Lending; and Kristine Westerberg, IFF Director of Development, visit Ezzard Charles School.

Ellen Lazar speaks with Reggie Harden, Program Director of Matthew House.

The IFF made a $500,000 loan enabling Matthew House to:

- completely rehabilitate a 5,240 square-foot building;
- relocate the program and administrative services to a larger, more adequate site;
- double the number of clients served at each meal;
- add five full-time and one part-time staff positions.

In addition to a loan, the IFF also provided Matthew House technical assistance. When the agency first contacted the IFF in December 1995, it was not in a position to increase its debt or manage the project successfully. With help from the IFF staff, Matthew House was able to upgrade its financial and management systems, making the project a reality.

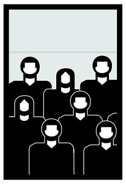
Matthew House services include case management, education, employment training, money management and daily meals. Matthew House serves three meals daily. The agency also administers a Payee Program, serving 225 clients per month, and helps clients identify employment opportunities. ■

For additional information on the Illinois Facilities Fund and its programs, contact IFF at 312/629-0060.

For additional information on community development financial institutions and various CRA and banking compliance regulations, contact the Federal Reserve Bank of Chicago, Consumer and Community Affairs Division, 312/322-8232.

Your Views

Community-based Nonprofits: The Last Unmet Credit Need



by Delena Wilkerson, Executive Director, Nonprofit Financial Center

Which 8,000 organizations in the Chicago area almost never make the business prospect lists of local banks? Community-based nonprofit organizations--the vast majority of whom are small--serving a wide range of individuals and needs. Located in low- and-moderate income communities, these organizations are vital to Chicago.

Traditionally, the credit needs of nonprofits have not been met. Chicago's banking community has had difficulty extending loans to them, especially for working capital credit. They can be a risky business. Their collateral, government "receivables" or vouchers, cannot be liened. And lending to nonprofits is not cost effective because their working capital needs are too small or too inconsistent.

Still, they need credit. If community-based nonprofits are to continue solving the problems they were formed to address, they need to be healthy--economically and organizationally. Without credit, nonprofits can't develop the capacity needed to attract and retain staff, or develop the capacity of their Boards to address their needs, and consequently they are unable to leverage increasing levels of support and resources.

Fortunately, banks that want to serve these organizations can turn to the Nonprofit Financial Center (NFC). NFC was one of the country's first organizations formed exclusively to address the critical working capital needs of other nonprofit organizations. The organization has evolved significantly since it was founded in 1981 as the Donors' Forum Emergency Loan Fund. Today, it provides a wide array of financial products targeted to the growing needs of small nonprofits.

Equally important to the organizations, NFC provides financial training workshops and on-site technical assistance to executive directors and staff in the areas of fiscal responsibility and organizational development. Collectively, the organizations that seek NFC's assistance each year serve well over 100,000 people annually.

Over the years, some Chicago-area banks have entered into partnerships with the Nonprofit Financial Center by providing capital and operating support. Some, like The Northern Trust Company and Harris Bank, also have had employees serve on the NFC Board of Directors. The Northern Trust's Craig Mizushima is currently president of the board. Through their partnerships, these Chicago banks have been part of NFC's helping more than 4,000 nonprofit organizations by disbursing over $15 million in working capital loans.

Many of these organizations, which include virtually every type of nonprofit providing services

Delena Wilkerson, Nonprofit Financial Center

in the Chicago area, would not exist today if not for NFC's guidance, training, and financial assistance. And many of these same organizations have grown to be leaders in their fields.

But the picture is not entirely rosy. While NFC services are valuable, the same reasons that Chicago banks have failed to address the nonprofits' credit needs also continue to plague NFC's own operations. Their costs of administering working capital loans far exceed the income that can ever be generated from these loans, even if delivered by a nonprofit. NFC is always interested in discussing creative approaches to help improve the situation.

NFC has now been certified as a Community Development Financial Institution. That will make it easier for Chicago area banks to benefit from forming a relationship supporting NFC's services. Investing in or making loans to NFC are both activities that can either qualify for consideration under the Community Reinvestment Act or be included in an application for an award under the Community Development Financial Institutions Fund's Bank Enterprise Award Program.

Most importantly, banks partnering with NFC will be part of various initiatives serving the needs of Chicago's communities. Eighty-five percent of the organizations that have been assisted by NFC have been community-based and located in low-to-moderate income communities, or serving low-to-moderate income individuals. ■

For additional information contact the Nonprofit Financial Center at 111 West Washington, Suite 1221, Chicago, IL 60602; phone: 312/606-8250; Fax: 312/606-0241.

Billion Dollar FHLB Community Investment Program Working

By Curt Heidt, Vice President of Community Investment Federal Home Loan Bank of Des Moines

More than ever, the Federal Home Loan Bank of Des Moines plays an important role in the portfolio management of our member financial institutions. The fact that deposits are down and loan demand is up is not news to many in the financial services industry. Increasingly, members have turned to the Home Loan Bank for funds for a number of reasons, including affordable housing and community development projects.

Many financial institutions are aware of the advantages of the Bank's traditional products; however, few associate those same benefits with a Community Investment Program Advance (CIP).

CIP is a flexible product because it can play many roles. It reduces interest rate risk to our members by providing a long-term, fixed rate. It allows members to keep loans in their portfolio as an alternative to selling them on the secondary market. In the case of economic development loans, no significant secondary market exists, making CIP an innovative way to fund community development. But most of all, a CIP advance is a cost-effective way for a member financial institution to support its community.

The CIP program, implemented in 1990, is a $1 billion revolving source of below-market funds that can be used for commercial and economic development. It can be used to purchase an existing business, construct a building for a business or rehabilitate an existing structure. CIP advances may also be used for operating capital loans, equipment loans, or for funding to enhance, update or replace community infrastructure.

Although project eligibility is determined on a case-by-case basis, a project meeting the following criteria is generally considered eligible for funding.

The project creates or retains jobs. Fifty-one percent of the jobs must benefit low-and moderate-income workers.

The project is located in a low-or moderate-income area.

In our experience, if a financial institution is making commercial loans, it probably has loans that are eligible for funding.

The following two institutions are examples of how CIP funds have been used to bolster their community development. In both cases, the banks and their staffs play a vital role in their community's continued growth.

Farmers Savings Bank, West Union, Iowa.

A partially abandoned warehouse and a quality labor pool prompted Burnsville, Minnesota based Rupp Industries to expand in this rural Northeast Iowa community. The company manufactures, leases and sells portable heating and cooling equipment used in commercial building projects across North America. The firm initially hired 30 employees when the plant opened and has since expanded its labor force to 45. By the end of 1999, the total number of employees is expected to be 160. For the project, the City of West Union applied for and received $480,000 in Iowa Community Economic Betterment Account funding. Farmers Savings Bank provided $300,000 to purchase a participation in the loan to Rupp, which was partially funded by a $250,000 CIP advance. First National Bank of West Union provided $600,000 as a real estate loan on the property. Rupp Industries estimated it would spend $820,000 of its own funds towards building improvements and installation of new equipment.

The Farmers Savings Bank project is a good example of the range of CIP funding. CIP advances do not need to be large sums of money. Many members borrow regularly in the $100,000 to $1 million range. The advance is often part of a larger funding package. For Farmers Savings Bank, this funding was a small portion of the overall cost. Yet this funding was crucial because it allowed the bank to match the 10-year loan maturity needed to attract Rupp to the community.

State Bank of Kimball, Kimball, Minnesota.

State Bank of Kimball President Keith Markwardt played an important role two years ago in improving his rural Minnesota community's infrastructure. He provided the city a $250,000 loan, which was funded by a CIP advance. Although the community had $100,000 for the construction, it fell short of the estimated $350,000 total construction cost.

The project was vital to this community of 600 people because it sustained the city's fire and rescue service, helped maintain current businesses and fostered economic expansion. Because the station can house up to eight full-size fire trucks, also benefits surrounding counties.

This project demonstrates how a financial institution can work within its community to promote community development. Because the bank loaned the money to the city, it saved the community the expense of a bond issue, and interest earned by the bank was still tax exempt.

When it comes to the bottom line, CIP advances are among the lowest-costing funds around. A CIP advance can provide much needed funds to solve current deposit concerns. ■

For more information about the CIP program, contact the Community Investment Department of the Federal Home Loan Bank of Des Moines at 800-544-3452, ext. 1173.

SBA Impacts Michigan Small Business

By: Dwight G. Reynolds, Michigan District Director

U.S. Small Business Administration

Small business has the highest potential for growth of any sector of our economy. Small businesses provide virtually all of the net new jobs in the United States, 55 percent of innovations, and 47 percent of receipts. They also account for 51 percent of the private sector output. Yet small firms often do not have the credit history or collateral to qualify for a business loan through normal lending channels.

This is where the Small Business Administration (SBA) can help. SBA lending programs reduce risk, enabling lenders to provide both long- and short-term financing to small businesses. SBA-guaranteed financing provides a win-win-win situation. Lenders can provide better service, increase profitability, meet Community Reinvestment Act requirements, and achieve higher yields through an active secondary market. Small business owners receive access to necessary financing, and the economy grows stronger.

Loan Programs

SBA offers two major loan programs: the 7(a) and 504. With a 7(a) loan, the SBA may guarantee up to 75 percent of loans over $100,000. For smaller loans, the SBA may guarantee up to 80 percent. The 7(a) loans may be used by start-ups or growing businesses to expand or renovate facilities; purchase machinery, equipment, fixtures and leasehold improvements; finance receivables; augment working capital; and more. Interest rates are not to exceed 2.75 over the prime lending rate and maturities vary up to 25 years. Both fixed and variable rates are available. In fiscal 1997, the Michigan District Office of the SBA guaranteed 763 7(a) loans totaling $194.4 million.

Under the 7(a) umbrella, there are a wide variety of programs to meet nearly every business need, including short-term working capital, seasonal lines of credit, exporting assistance, defense economic transition assistance, and microloans. The LowDoc program (for loans under $100,000) provides greater access to financing than previously available for women, minority and veteran-owned businesses.

When evaluating a guaranty loan applicant, the SBA looks for good character, management expertise and commitment, a feasible business plan, adequate equity or investment in the business, sufficient collateral, and, most importantly, ability to repay the loan from cash flow.

504 Program

SBA's second major lending program is the 504 Certified Development Company (CDC) program. This uses Certified Development Companies to provide long-term, fixed-rate financing to growing small businesses to acquire fixed assets. Typically, 50 percent of the financing comes from the bank (secured with a senior lien), 40 percent from an SBA guaranteed-debenture, and 10 percent from the small business customer. There are eight CDCs in Michigan. In fiscal 1997 the SBA's Michigan office approved 72 loans under the 504 program for $28.8 million. These loans are expected to create 769 new jobs in Michigan.

Impact

The benefits of SBA's loan program are felt across the state. In fiscal 1997, small businesses in 279 cities within 72 of Michigan's 83 counties received an SBA guaranty loan. Many small businesses that the SBA assists grow to become leaders in their industries. Nationally recognized firms including Federal Express, Compac, Intel, and Gymboree all received SBA assistance. Michigan firms such as Mel Farr Automotive Group, Heslops, St. Julian Wine Company, Mexican Industries of Michigan, and Trendway also enjoy great success.

Average loan size is steadily on the rise in Michigan. Like several other states, Michigan offers a capital access program that lenders tend to use for the smaller loans (under $100,000). The lenders tend to use the SBA guarantee for those loans over $100,000. Although the number of loans declined from fiscal 1996, the average loan size increased from $228,095 to $267,262.

SBA impacts all type of businesses in all types of situations, domestic and international. Aside from the "traditional" straight forward loan, SBA programs allow business owners to finance ventures in a more creative fashion. Here are some examples:

County Incentive Plus SBA Programs

Many companies in Michigan's Oakland County have used the 504 program to establish businesses in the Highwood Industrial Park. The companies bought

Dwight G, Reynolds, Michigan District Director, Small Business Administration

the land at a reduced price under a county incentive program. The companies then used the land as equity in a 504 deal. Through this process, most companies were able to obtain 100 percent of their financing needs without straining their cash flow. There are 11 companies in the industrial park, the majority of which are manufacturers, that received SBA financing. The park is filled, and all but one company used an SBA program to locate there. The 11 companies received over $10.5 million in project financing.

Export Working Capital Program

Another unique deal was created for an exporter of industrial-type furnaces. The exporter received a contract to build a furnace for a German company. While the firm would receive progress payments from this German company to cover pre-shipment working capital, they still needed to put up a substantial sum for a stand-by letter of credit. Through the SBA's Export Working Capital Program, the exporter received a $850,000 line of credit for 10 months to fund the stand-by letter of credit for their German customer. This enabled the exporter to fulfill a million dollar contract the company might have otherwise had to turn down.

Investment Programs

SBA has also helped countless high-tech companies grow. Through the Small Business Investment Company (SBIC) program and Small Business Innovative Research (SBIR) program, small firms with big ideas received financing to grow and innovate. One such company we all recognize is Intel. However, local companies such as Mechanical Dynamics, which created a mechanical systems simulator that is used to built and test virtual prototypes, have also been able to see their ideas become a reality.

These two investment programs provide small innovators (most innovations come from small businesses) a way to finance their "high-risk" ventures. Is this program necessary? Absolutely. Try to imagine life in the 20th Century without Intel's microprocessor.

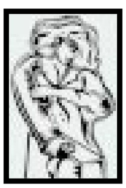
Because we are able to assist businesses in nearly every industry, many non-traditional ventures are presented with opportunities they may not have had without an SBA guarantee. Companies such as Hoegh Industries, makers of pet caskets, and Oink Oink, creators of dried pig's ear treats for dogs, may never have realized their market potential without funding from SBA.

Whether it be traditional financing for a unique company or unique financing for a traditional industry, SBA has and will continue to assist thousands of small businesses, watching them grow into entrepreneurial successes. ■

For additional information on SBA programs, contact the SBA at 800/827-5722, or in:

Michigan	*313/226-6075*
Illinois	*312/353-4528* *217/492-4416*
Indiana	*317/226-7272*
Iowa	*515/284-4422*
Wisconsin	*608/264-5261* *414/297-3941*

Women in Business



Darragh Named Financial Services Advocate of the Year

The finance program coordinator for the Chicago-based Women's Business Development Center (WBDC) has won the 1998 U.S. Small Business Administration Award as Financial Services Advocate of the Year for Illinois and the Midwest region.

Linda Darragh was nominated for this prestigious SBA award by Hedy Ratner, co-director of WBDC, and Norma Lauder, senior vice president of First Chicago / NBD Bank.

"Through her diligence and hard work, Linda has truly shown her knowledge of small business finance and her desire to serve her clients in the best possible way," said Lauder in her nomination.

"What makes Linda stand apart from others in the financial services sector is her creativity in looking for new solutions to assist those who have had difficulty in obtaining financing," Lauder added.

Darragh developed the WBDC collateral pool program and micro loan program, in addition to working nationally on the Women's Prequalification Program.

She is an advocate on the national level to ensure that new programs are developed and that other programs receive the necessary appropriations. She recently prepared testimony for the U.S. House Committee on Small Business regarding the effectiveness of SBA loan programs. Also, nationally, Darragh has contributed to the regulatory reform of the Community Reinvestment Act and to the White House Conference on Small Business.

On the state level, Darragh assisted the Illinois Small Business Financing Task Force in advocating programs such as the Capital Access Program, which will increase capital to small businesses. She also worked with the Illinois state treasurer on the development and implementation of the Women's Finance Initiative.

Darragh and 10 other individuals received Small Business Week awards from the SBA at a recent awards luncheon in Chicago, a national salute to independent entrepreneurs. 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 Exposition. ■

For information regarding financing programs for women in business, contact Linda Darragh at 312/853-3477 ext.22.

Linda Darragh, Woman's Business Development Center

New Agreements to Increase Minority Lending

Aida Alvarez, Administrator, Small Business Administration-- Washington , DC

The U.S. Small Business Administration (SBA) recently signed partnership agreements with three leading minority business organizations.

The agreements are part of SBA's three-year Outreach Initiative designed to sharply increase the amount of financing and other assistance available to America's minority entrepreneurs.

The agreements are in the form of Memorandums of Understanding and represent each organization's commitment to work with the SBA to identify and serve entrepreneurs in minority communities. Signing with SBA were the U.S. Hispanic Chamber of Commerce (USHCC), the National Black Chamber of Commerce (NBCC), and the Minority Business Enterprise Legal Defense and Education Fund (MBELDEF).

"Today we celebrate the beginning of a closer working relationship, a partnership that we expect to greatly increase SBA services to the Hispanic and African-American communities," said Aida Alvarez, administrator of the SBA.

As a member of the president's Cabinet, Alvarez added that SBA has a major role to play in ensuring that economic opportunities are real for all Americans.

"That's why one of my major goals is a dramatic increase in SBA's financial, technical and procurement assistance for women and minorities. The commitments we are making will open doors of opportunity for years to come," she said.

NBCC President and CEO Harry Alford called it the beginning of a new era in capital access and technical support for minority businesses.

"NBCC, SBA and all interested parties will finally be able to fully perform their missions," he said. "The African-American community will prosper from this relationship."

Ronald Montoya, chairman of the USHCC stated, "This partnership will set a precedent and hopefully encourage this country's leading financial corporations to begin actively targeting the growing Hispanic and minority business communities. I applaud Administrator Alvarez's commitment to minority-owned business and pledge to work closely with the SBA to ensure that this agreement is a success--today and in the future."

MBELDEF President Anthony W. Robinson said, "This initiative will deliver a critical tool –capital –necessary for the growth and development of minority-owned businesses. The momentum of this government-sponsored initiative cannot be understated," he explained. "It should be harnessed by this community as a building block for even greater achievement."

SBA lending to African-American and Hispanic-owned businesses has more than doubled in recent years. Furthermore, Alvarez has announced aggressive new three-year goals as part of SBA's Outreach Initiative.

The SBA plans to deliver $2.5 billion worth of loans to Hispanic-owned businesses by the year 2000, —tripling SBA lending to Hispanics. The SBA has also set a goal of $1.4 billion in loans to African-American owned businesses, quadrupling loans to this community in the same period.

These agreements will:

- strengthen links between SBA and these organizations on the national and local levels;
- help increase the minority business community's access to capital and technical assistance; and
- help small disadvantaged businesses interested in government and private sector contracting.

SBA also has signed letters of intent with the National Association of Government Guaranteed Lenders; the National Urban League; National Association for the Advancement of Colored People; National Bankers Association; National Association of Black Accountants; National Council of Negro Women; 100 Black Men of America; the Texas Association of Mexican American Chambers of Commerce; Phelps Stokes Fund; and ONE -- Organization for a New Equality.

Alvarez said the outreach effort will help SBA keep pace with the changing face of American small businesses heading into the 21st century. She noted that the latest Census Bureau figures show that the number of businesses owned by Hispanic Americans grew by 83 percent over a five-year period, and African American businesses grew by 46 percent. This compares to a 26 percent growth rate for all businesses. ■

The U.S. Small Business Administration, established in 1953, provides financial, technical and management assistance to help Americans start, run, and grow their businesses. With a portfolio of direct and guaranteed business loans and disaster loans worth more than $45 billion, SBA is the nation's largest single financial backer of small businesses. Last year, SBA offered management and technical assistance to more than one million small business owners. SBA also plays a major role in the government's disaster relief efforts by making low-interest recovery loans to both homeowners and businesses.

America's 22 million small businesses employ more than 50 percent of the private workforce, generate more than half of the nation's gross domestic product, and are the principal source of new jobs in the U.S. economy.

Small Business and the Year 2000

How will it impact your firm, business suppliers and other business partners?

The inability of many computer systems to process dates beyond December 31, 1999, commonly known as the Year 2000 problem, seems like a bad joke.

However, the Year 2000 problem is a huge issue, locally, nationally, and even globally, and it poses unique challenges for the small business owner. The problem exists because dates are encoded in a YYMMDD six-digit format rather than a YYYYMMDD eight-digit format. Unfortunately, the six-digit date field doesn't differentiate between the 20th and 21st century. That could cause significant problems in computer systems that process date-sensitive information and calculations.

To assist small businesses in understanding the myriad aspects of the problem, the Fed recently released *Small Business and the Year 2000*. The pamphlet -- available through the San Francisco Fed's web site at http://www.frbsf.org/fiservices/cdc and in hard copy from the Federal Reserve Bank of Chicago -- defines the Year 2000 problem and discusses steps small business owners can take to begin addressing the problem.

The pamphlet provides additional information on maintaining small business information systems in a Year 2000 compliant manner, contingency planning, and useful reference materials is also provided. A five-phase framework (see chart below) is suggested to manage small businesses' Year 2000 approach. If you need to increase your knowledge about the Year 2000 problem, you'll want to get your hands on this informative publication soon. After all, the Year 2000 will come whether you're ready or not. ■

Small Business and the Year 2000

Suggested Readiness Steps

	Phase	Approach
1	Awareness	Educating and involving all levels of your organization in solving the problem
2	Inventory	Creating your checklist toward Year 2000 readiness
3	Assessment and Planning	Examining how severe and widespread the problem is in your business and what needs to be fixed
4	Correction and Testing	Implementing the readiness strategy you have chosen and testing the fix
5	Implementation	Moving your repaired or replacement system into your production environment

Other sources of help

There are many helpful sources you can turn to in making your business ready for the century date change. There are thousands of web sites dedicated to the year 2000 problem. Many sites have links to sources of free software, planning tools, discussion groups, and so forth. Below is a short list of some useful web sites:

http://www.year2000.com
Peter de Jager's web site--a good source of links to other sites

http://www.compinfo.co.uk/y2k/manufpos.htm
links to computer manufacturers' home pages where you can find Year 2000 compliance information

http://www.software.ibm.com/year2000/
IBM's Year 2000 page

http://www.microsoft.com
Microsoft's Year 2000 page

http://www.gmt-2000.com/main.htm
Greenwich Mean Time's home page with evaluations of PC testers and BIOS chips useful for PC evaluation

http://pw2.netcom.com/~helliott/00.htm
the so-called "mother of all Y2K link sites" contains many links to other sites

http://www.jks.co.uk/y2ki/confer/notices/dtisme01.htm
link to report entitled "Helping the Small Business Tackle Year 2000"

http://www.sba.gov/y2k/
The Small Business Administration web site

http://www.year2000.unt.edu/WCS
Society for Information Management

http://www.isquare.com/y2k.htm
The Small Business Advisor web site

If you are a financial institution and you have a regulatory or supervisory question about Year 2000 compliance, contact Ray Bacon, director, Special Exams, Federal Reserve Bank of Chicago, 312/322-5916.

If you are a small business person and have questions about the publication Small Business and the Year 2000, as well as steps the Federal Reserve System is taking to address Year 2000 concerns in financial institutions, contact the Consumer and Community Affairs Division of the Federal Reserve Bank of Chicago, 312/322-8232.

From Our Research Department

Labor Market conditions in the Seventh District

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 virtually 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. Growing world markets and increased productivity, which has kept our goods competitive in those markets, 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 remained much tighter than the rest of the nation, despite the disproportionate effects of the United Auto Workers strike on the region. The seasonally adjusted unemployment rate stood at 3.6 percent in June, 0.9 percent below the national rate.

Perhaps one of the more interesting stories coming out of the strike is the reluctance of employers to layoff workers in the face of drastically reduced workloads. There have been reports of auto suppliers, as well as dealers, refusing to layoff idle workers for fear of losing them in a tight labor market where broad-based shortages have existed for an extended period.

- Despite the labor strife, the unemployment rate in Michigan decreased to 3.6 percent in June, a slight tightening form May’s rate of 3.7 percent. Flint, where the strike is centered, had the highest unemployment rate in the state at 4.7 percent; Ann Arbor had the lowest rate at 2.1 percent.

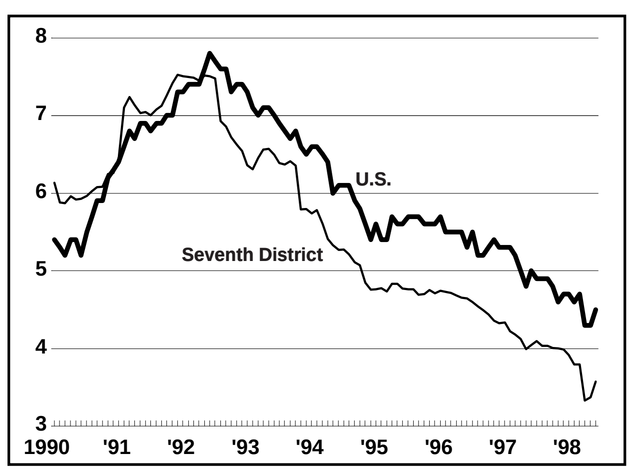
- Indiana’s labor market also tightened in June with the unemployment rate dipping from 2.9 percent to 2.8 percent. Of the five District states, only Iowa had a lower rate of unemployment.

- A surge in workforce participation drove the unemployment rate in Illinois to 4.5 percent in June from May’s rate of 3.9 percent, despite payrolls being at record levels.

- Turning to the metropolitan areas, three-quarters of the regions MSAs had seasonally adjusted unemployment rates below 3.5 percent. The rates ranged from a low of 1.3 percent in Madison, Wisconsin to a high of 5.2 percent in Decatur, Illinois. Besides Decatur, only three other metro areas (Flint, Michigan; Kankakee, Illinois; and Terre Haute, Indiana) had rates that exceeded the national rate of unemployment. ■

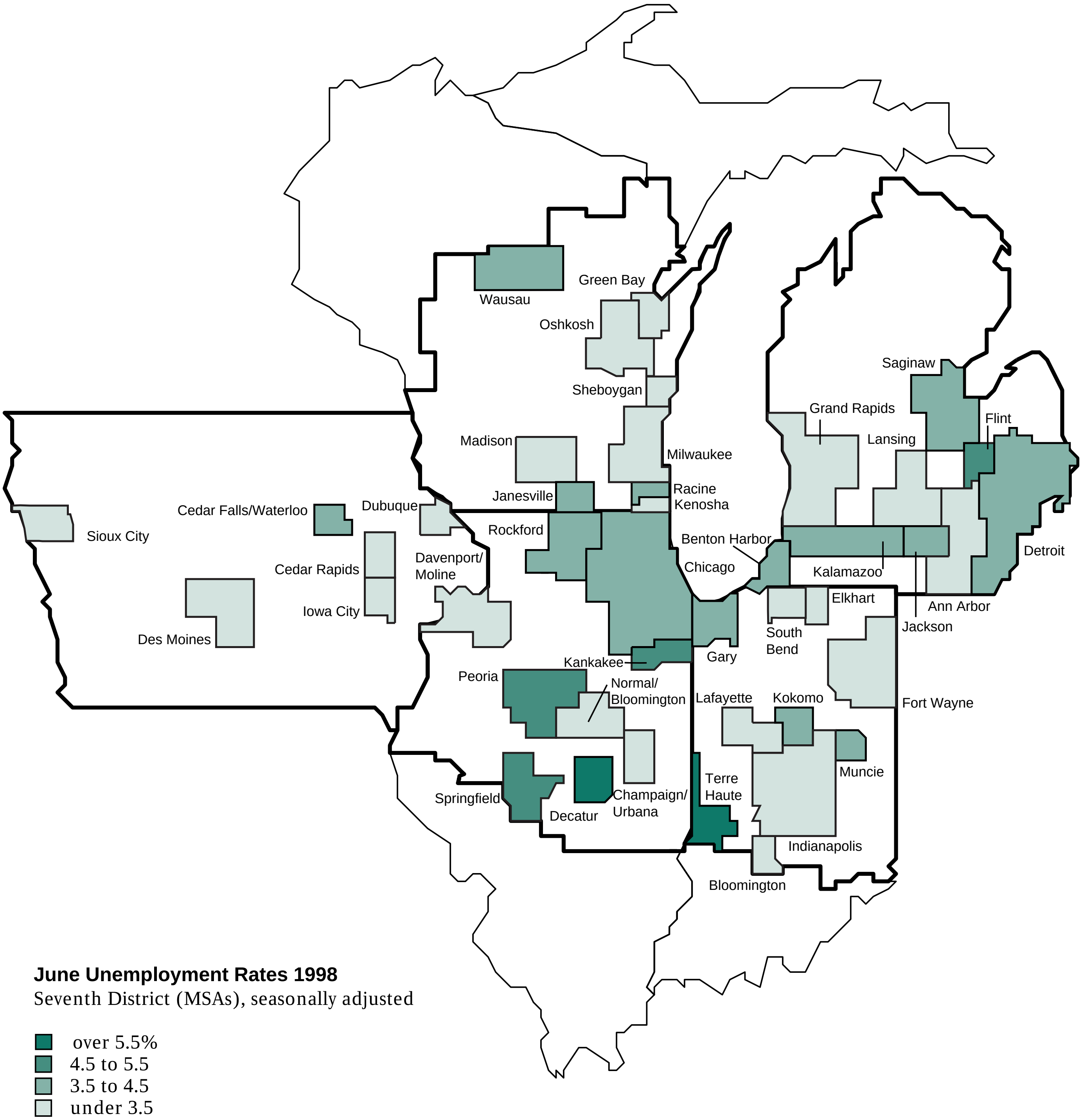
Richard E. Kaglic
Economist

Midwest Unemployment Rate



Seventh District Labor Markets

Unemployment conditions for June 1998



NOTE: All rates are subject to revision.

FEDERAL RESERVE BANK
OF CHICAGO

Economic Development

News & Views

Volume 4 Number 2
August 1998

Economic Development News & Views is published three times a year by the Federal Reserve Bank of Chicago, Consumer and Community Affairs Division. Please address all correspondence to:

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