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Inside this Issue:

FEDERAL RESERVE BANK OF CHICAGO

Mergers and the Changing Landscape of Commercial Banking

The following excerpts are from the February 2000 issue of the Chicago Fed Letter. *The author, Robert DeYoung, is a senior economist and economic advisor at the Federal Reserve Bank of Chicago.*

In the Fed Letter, *DeYoung discusses the prospects for small commercial banks in a post-merger-wave, post-Internet banking industry. He poses the following question: Should we expect "branchless" delivery of financial services to be dominated by a few large banks, or will the advent of electronic banking provide important strategic opportunities for small banks? He proposes a simple conceptual framework for thinking about this question, one that considers the strategic advantages and disadvantages of increased bank size.*

Readers are encouraged to review the article in its entirety. Copies are available without charge from the Public Information Center by phone, 312/322-5111; fax, 312/322-5515; and on the Worldwide Web, http://www.FRBCHI.ORG.

Local versus national banking markets

Between 1980 and 1998, the share of domestic deposits held by the nation's ten largest commercial banks nearly doubled. Large banks achieved this growth primarily by making market extension mergers, which change the ownership of the acquired bank without affecting the structure of local banking markets. The national market shares of large banks increased markedly during the bank merger wave, but the concentration of local banking markets remained stable. Hence, by traditional measures of market structure, 20 years of bank mergers had little adverse impact on competitive conditions in U.S. commercial banking markets.

But these structural changes occurred during the traditional "brick and mortar" banking paradigm model, where most retail banking and small business banking services were provided by local banks in local markets. Today, a growing number of household and business customers access account information, transfer funds, pay bills, make trades, and apply for loans electronically, without ever setting foot in a branch office. The banking industry may be in the midst of a paradigm shift in which electronic delivery channels and automated lending technology will increasingly allow out-of-market banks to compete for retail and small-

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business customers without establishing a physical presence in the local market.

No one knows for sure how electronic delivery channels will ultimately alter the banking landscape, but some changes seem fairly certain. An increasing number of banks will begin to offer financial services to retail and small-business customers nationally. As this happens, local market concentration will become a less relevant yardstick for assessing the competitive impact of bank mergers. And bank mergers themselves will become less necessary for geographic expansion because electronic distribution will provide an alternative channel for growth.

Successfully managing this new technology may require existing bank managers to develop new styles and approaches. Some of the most acquisitive U.S. banks of the past decade have recently experienced subpar financial performance due to unexpected difficulties absorbing the operations of the acquired banks, dissatisfied target bank customers and the challenges of managing a firm that suddenly doubles or triples in size or complexity. These difficulties suggest that the skills required to build large banking empires are not necessarily the same skills needed to operate those empires successfully. Similar managerial challenges could arise as banking companies recently reshaped by geographic transformation enter a new period of technological transformation.

New technology and nationwide banking markets

It seems certain that the Internet will bring more banks, regardless of their size or location, into closer competition with each other. Will large banking companies have an advantage in this competition, or will the Internet level the playing field by neutralizing large banks' existing distributional advantage (i.e., their systems of multiple branch and ATM locations)?

The answer may depend on a decidedly low-tech strategic behavior not generally included in the analysis of banking markets: advertising. Although establishing a physical presence on the Internet is relatively inexpensive, attracting customers to the web site can be difficult. Potential customers trying to decide among hundreds of online banking options will find themselves guided by brand images developed with expansive advertising campaigns. Besides having deeper pockets than small banks, large banks tend to benefit more from national or regional advertising campaigns. The high visibility of large banks' many branch locations helps remind customers of the advertising campaign and increases the chance that they will visit the Internet site. This potentially potent combination of "click and mortar" puts small banks at a clear marketing disadvantage.

The marketing advantages for large banks could be reinforced by Financial Institutions Modernization Act. In a world where large, diversified financial firms can cross-sell an increasing array of financial products to their customers, firms may be willing to spend more on advertising to attract new customers than will a more specialized bank. This may be especially true for retail buyers of financial services, who have clear incentives to shop for loans, pay bills, buy insurance products, and manage assets from a single site.

Large financial-services firms tend to be well-suited to highly standardized, commodity-like activities that can be produced and distributed in large volumes at low-unit costs. The Internet tends to be well-suited to delivering highly standardized financial products in large volumes. For example, Allstate insurance is phasing out its traditional, relationship-based distribution channel of insurance agents in favor of selling its retail insurance products directly over the Internet and through call centers.

Customized financial services

Some of the most desirable banking customers are those willing to pay high prices for customizing financial products and services. Given the impersonal nature of technology, the Internet may be a poor channel for delivering customized financial services. For example, the creditworthiness of many small businesses cannot be ascertained using a "one-size-fits-all" underwriting approach like credit scoring. Instead, close monitoring and relationship-based practices provided by small, local banks are needed. Similarly, some private banking customers may require high-touch, personalized services that simply cannot be delivered via a nexus of ATMs, call centers, or the Internet. Although some large banks may be exceptions (i.e., the private banking strategy of a Northern Trust or the automated small-business lending practices of a Wells Fargo), the future profitability of small banks may ultimately depend on how well they exploit their natural advantages at serving relationship-based banking niches.

Conclusion

Just as the wave of domestic bank mergers produced the first nationwide banks, the implementation of new electronic delivery channels threatens to transform the banking landscape once again. The February 2000 issue of *Chicago Fed Letter* explores the prospects for small commercial banks in a post-merger-wave, post-Internet banking industry. I argue that the future success of small banks hinges on their traditional advantages in relationship banking and personalized financial services and on how these advantages stack up against the combination of low costs, convenient one-stop shopping and, powerful brand images that large banks may wield over electronic delivery channels.

As we consider how the Internet will transform banking, it is important to remember that this new delivery channel is unlikely to change the fundamental nature of the financial products delivered over it. Consider an example from e-commerce. Amazon.com and its competitors may be making the traditional bookstore obsolete, but they have not (yet) made the printed book obsolete. Ironically, these Internet firms deliver the books they sell, not electronically, but by regular mail. Whether e-banking leads to a substantial change in the number and/or size of commercial banks or just changes the way that existing banks deliver financial services to their customers remains, for now, an open question. ■

Ag Entrepreneurship Initiative Launched by U of I Extension

Dar Knipe
University of Illinois Extension

A program creating a network where agribusiness entrepreneurs can obtain advice, information, and marketing and management information has been launched by University of Illinois Extension. The "Ag Entrepreneurship Initiative" will be headquartered at extension offices in the Quad Cities but will extend its scope statewide.

"It will come as no surprise, especially to those in agriculture, that the rural economy has been severely challenged in the past few years by low commodity prices," said Dennis Campion, U of I associate dean for extension and outreach. "Many producers want to stay in farming but recognize the need to find new products and/or ways of doing business to succeed. This effort will put them in touch with the best information over a broad range of concerns."

David L. Chicoine, dean of the College of Agricultural, Consumer and Environmental Sciences (ACES), said the Initiative is another example of the college's commitment to Illinois agribusiness. It brings together ACES and extension efforts that are underway throughout the state.

"Illinois has many competitive advantages in food production," he said. "The expertise of our research and outreach is committed to helping Illinois producers make the most of this fact. The initiative is another way of serving our stakeholders."

Martha Bazik, unit leader of the Rock Island County extension unit, initiated the formal request for funding the initiative. A director to coordinate the effort will be hired shortly.

According to Dar Knipe, an extension community and economic development educator based in the Quad Cities, the initiative's network of expertise is already functioning. ACES faculty members have already assisted in projects. Two examples are Doug Parrett of the Department of Animal Sciences and Burt Swanson of the Department of Agricultural and Consumer Economics. The expertise of other faculty members will be drawn upon as well in the future.

The impetus for this effort is the result of the experiences of extension personnel in the Quad Cities and throughout Illinois with the impact of low commodity prices on producers and their families. "Many of these producers are facing tough decisions," said Dar Knipe. "Some may have to leave farming; others should be able to succeed by repositioning themselves and their operations. The key can be getting the information they need in a timely and understandable manner."

Knipe explained that the initiative will operate similarly to the Small Business Development Center network, which provides technical assistance to entrepreneurs trying to start a business.

"The Agriculture Initiative takes that idea and specializes it for farmers," said Knipe.

Rich Knipe, who is also an Extension educator based in the Quad Cities, noted that the initiative recognizes that something more than better cost controls is needed to help producers.

"A couple of years ago, a beef producer came to me and said, 'Look, I've cut costs but I'm still not making money.' I realized then that we needed to provide better information to farmers on how to run their businesses, especially in regard to getting closer to their consumers to produce a desired product."

This idea involves extensive marketing information not usually found among corn, soybean,

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Communications

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Finance

Partnerships Expand Access to TIF Funding in Chicago

During the last ten years, public-private partnerships in Chicago have invested more than $3.3 billion in community development and revitalization projects through the use of Tax Increment Financing (TIF). TIF uses anticipated incremental increases in property-tax revenues from new development to fund eligible expenses needed to spur development. In Chicago, TIF-funded projects have been credited with creating or retaining nearly 34,000 jobs; and for every dollar of public investment in those projects, the private sector has invested $5.36.

Many of the successful projects funded through TIF were large projects: the rebirth of the central business district's retail and entertainment district in Chicago, the creation of modern business parks in the old Stockyards and Goose Island industrial areas, and the development of large grocery stores and retail centers.

The success of these projects created the perception that TIF funding was inaccessible to small businesses or neighborhood groups. Also, the nature of real-estate assessment and tax collection in Cook County creates a two-year delay in the collection of the incremental taxes. Two years of waiting for reimbursement is too long for many small businesses to wait.

New Partnerships

In response to this situation, the city recently announced a new partnership with several financial institutions and the Local Initiatives Support Corporation (LISC). The partnership has created new programs to help small businesses and homeowners gain access to TIF funding for eligible activities. A few of the programs are illustrated below.

CBD Momentum — To sustain the momentum of the central business districts downtown resurgence over the past decade, the city developed vision plans for State Street and the Wabash/Michigan Historic Retail District, which encourage pedestrian-friendly improvements such as new signs, awnings, facades, doors and windows, and building-system upgrades. The city also created its "Get in the Loop" program, to encourage neighborhood-based entrepreneurs to expand their operations in the 24-hour downtown district and contribute to a uniquely "Chicago experience" in the central business district.

> *To encourage local small businesses and property owners to take advantage of the TIF-designated areas, the city has identified a mechanism to "front fund" projects.*

Small-Business Improvement Fund — The Small Business Improvement Fund (SBIF) is essentially a loan from LaSalle Bank to the city, with TIF proceeds pledged to repay the loan. With the funding from LaSalle Bank in place, the city is able to reimburse small businesses and building owners for TIF-eligible investments that preserve existing building stock, improve neighborhood appearance or economic value and enable businesses to stay in the neighborhood, remain competitive or expand within the TIF district.

Neighborhood Investment Program — Finally, the city has also teamed with the Local Initiative Support Corporation (LISC), Neighborhood Housing Services (NHS), Community Investment Corporation (CIC) and a consortium of eight financial institutions in a pilot program to provide financing assistance for home repairs in the Bronzeville and Woodlawn neighborhoods in Chicago. Chicago's TIF-funded "Neighborhood Investment Program" will be featured in an upcoming issue of *Economic Development News & Views'* sister publication, *Profitwise.*

Loan Programs

Proceeds from the Central Loop Tax Increment Finance District will fund the Central Loop Improvement Fund (CLIF) and the Central Loop Loan Program (CLLP). CLIF provides small businesses and building owners with grants of up to $150,000, or 50 percent of eligible costs for projects, that help implement the vision plans for downtown. The CLLP program provides loans for up to $50,000, at 3 percent over five years, for retail, commercial and service-oriented businesses to finance leasehold improvements, inventory, working capital, equipment and building rehabilitation.

Front Funded Projects

Unlike the Central Loop TIF District that has been in place for more than a decade and is generating incremental revenues, several recently created TIF districts in Chicago neighborhoods are still anticipating incremental revenues. To encourage local small businesses and property owners to take advantage of the TIF-designated areas, the city has identified a mechanism to "front fund" projects. The city, in partnership with LaSalle Bank, has initiated a pilot program to spur commercial revitalization and small-business development in the Jefferson Park TIF District on Chicago's Northwest side. ■

For additional information on TIF Districts in Chicago, and for Community Reinvestment Act information and regulatory treatment of loans, investments and services in TIF districts, contact the Community Affairs staff of the Federal Reserve Bank at Chicago at 312/322-8232.

Editors note: Economic Development News & Views *wishes to thank Jeremiah Boyle, community affairs program director, for his assistance in preparing this article.*

CEDA Small Business Lending Programs & Partnerships Working

In Cook County, Illinois, the Community and Economic Development Association's (CEDA) Revolving Loan Program has worked with a wide array of small businesses to create small businesses and employment opportunities.

Through CEDA's Revolving Loan Program, small businesses are provided with low, fixed-rate loans for start-up or expansion. One of the major requirements for a loan is job creation. For every $15,000 loaned, the business is required to employ at least one low-income community resident.

Since the inception of CEDA's Revolving Loan Program in 1983, 64 businesses have received loans totaling $3,781,666, which leveraged $46,688,670 in private capital resulting in the creation of 580 jobs in low-income communities. Recipients range from a hair-care manufacturing and distribution company located in Chicago Heights, to a caterer in Evanston, to a precision tool manufacturer in Broadview, to a child-development center and computer-training lab in Maywood.

Last summer, President Clinton toured some of the most impoverished urban and rural communities in the United States with prominent company CEOs. They were promoting the concept that low-income communities are untapped markets waiting to be revitalized by investment during this booming era. CEDA and its partners have been reaching out to meet the needs of the untapped market for years and know the social and economic benefits that have accrued.

CEDA is a private, not-for-profit community-action agency that designs and delivers programs to low-income families and individuals residing in Cook County. CEDA's mission is to spur economic development of the low-income communities that it serves.

"The revolving loan program is working to create investment in low-income communities effected by welfare-to-work legislation," said Yevette Newton-Boutall, manager of CEDA's Revolving Loan Program. "Job creation and self-sufficiency for the communities that we serve has been our ultimate goal since 1965. We see real results from the loan program in the form of new business and living-wage jobs."

Yevette Newton-Boutall of CEDA witnesses signing of SBA agreement with Anthony McMahon, SBA deputy director and Robert Wharton, president CEDA.

Besides job creation, 51 percent or more of the total loan requested must be leveraged by a financial institution. During the past year, CEDA's banking partners have included South Shore Bank, Bank One, Harris Bank, Citibank, Northern Trust, Bank of America, Old Kent Bank, American National, Parkview Bank, LaSalle Bank, First National Bank—a BankOne company, and Cosmopolitan Bank.

In September, CEDA signed a memorandum of understanding with the U.S. Small Business Administration to create a partnership encouraging small-business formation. This agreement makes the SBA a partner in CEDA's mission of economic development through job creation and new-business development.

Chicago's Department of Human Services' Business Net Program, with a budget of $691,000, is currently operated by CEDA. Loan applications are reviewed with the same requirements as CEDA's suburban program.

"We're excited to work on business expansion and job creation in the City of Chicago," says Boutall. "Working with our banking partners and the SBA, we strongly believe that innovation and creativity can spark investment and help to secure a more sound future for economically distressed communities and a stronger employment base." ■

For additional information, contact Yevette Newton-Boutall, CEDA's Revolving Loan Program manager, 208 South LaSalle Street, Suite 1900, Chicago, IL 60604, 312/795-8980.

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
2,060

Assets
$73.3 billion
(as of 12/31/99)

Depository Institutions in 7G District
3,485

Banks and bank holding companies supervised
1,325

Financial services volumes (1999)
- Checks processed — $1.6 trillion
- Automated Clearinghouse transfers — $2.5 trillion
- Wire transfers — $53.8 trillion
- Currency received and counted — $41.9 billion
- Unfit currency destroyed — $5.4 billion

SBA Community Express Comes to Metro Detroit

The U.S. Small Business Administration (SBA), the National Community Reinvestment Coalition and Bank One of Michigan have introduced "Community Express," a new loan program to make SBA-backed loans to metro Detroit businesses in low- and moderate-income communities.

Community Express, a part of the SBA's New Markets Initiative, is a five-year pilot program being offered in conjunction with the National Community Reinvestment Coalition, a nonprofit trade association comprised of community development and advocacy groups, and Bank One, the nation's fourth largest SBA lender.

"Community Express is designed to spur economic development and job creation in disadvantaged neighborhoods," said John O'Brien, Bank One's business banking market manager for Southeastern Michigan. "The program will assist small businesses that have difficulty qualifying for traditional loan products."

> *"Community Express is designed to spur economic development and job creation in disadvantaged neighborhoods."*
>
> *John O'Brien*

"We're very excited to be a part of this pilot program and to be working with Bank One to better serve Detroit's small-business community that is accessing capital in the commercial loan markets," said Richard Temkin, Michigan SBA deputy district director.

The Community Express program will provide lines of credit, term loans and commercial mortgages. Once an applicant completes the loan application, the bank will determine the borrower's eligibility and report back within approximately 48 hours.

Loans can range from $10,000 to $250,000, significantly more than the maximum $150,000 provided by the existing SBA Express program. Small-business owners can use the loans to obtain working capital; lease or buy equipment; and purchase inventory, machinery and commercial space.

An important benefit for Community Express borrowers is the program's pre- and post-loan technical and management assistance. This assistance covers various facets of business operations, such as budgeting, marketing and management.

Six metro Detroit-area business-development organizations will provide pre- and post-loan technical assistance: Detroit Entrepreneurship Institute Inc.;

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New Urban Enterprise Fund to Empower Area Nonprofits

When the newly established Urban Enterprise Fund (UEF) completes its funding, Chicago-area nonprofit organizations will have access to essential capital for launching business ventures.

Sponsored by the MidAmerica Leadership Foundation (MLF), the UEF is a venture capital fund for the nonprofit community. It will provide capital and management assistance to help start and expand not-for-profit business ventures.

The Fund will target business ventures that create employment opportunities for disadvantaged people – the homeless, those transitioning from welfare to work, ex-convicts, former substance abusers, low-income youth and the disabled. These business ventures enable not-for-profit organizations to become more self-reliant through earned income.

An example of this type of venture is Goodwill Industries, an enterprise employing individuals in the laundry, landscaping and retail industries.

"The Urban Enterprise Fund operates differently from existing philanthropic institutions," explains Doug Kenshol, the fund's general manager. "Most foundations provide grants to support the programs of not-for-profit organizations. Those grants serve good causes, but they only make a single impact."

The Fund will multiply its civic impact by helping nonprofit organizations launch self-sustaining business ventures that will provide a favorable community impact, year-after-year. In addition, the UEF is structured like a venture capital portfolio. The Fund will provide long-term investments in a limited number of ventures and will ultimately seek a return to grow and sustain the Fund.

By July 2000, the Fund will invest in two business ventures. The investments are made possible by donations from private investors. To date, ideas and plans submitted for consideration run the gamut from a popcorn stand to a graffiti-removal business to a radio station.

For more than a decade, the MLF has played a role in the advancement of community renewal efforts in Chicago. MLF is a faith-based institution that serves as an incubator to nurture and support emerging not-for-profit community agencies. It offers a broad array of services, such as staff recruitment and training, volunteer management, and strategic planning to help fledgling programs evolve into viable, self-sufficient institutions. The foundation attempts to provide the critical tools to successfully manage new organizations. ■

For additional information on the Urban Enterprise Fund, contact Doug Kenshol at 312/322-3000, ext. 301.

Community Action Program Shows Results

CAP Services' Jobs and Business Development (JBD) Department recently announced that central Wisconsin enjoyed significant economic growth in FY'99 with the development of 24 new businesses and the creation of 46 new jobs for residents in Waupaca, Marquette, Outagamie, Waushara and Portage counties.

Individuals previously earning below 150 percent of the federal poverty guidelines filled approximately 74 percent of the new positions. Eighty-nine percent of the jobs created provide an average hourly rate of $8.77. Seventy-three percent of the new jobs offer medical benefits to the employee.

The JBD Department has two primary areas of focus: business and commercial development and self-employment. Programs in both areas offer innovative and unique solutions to some of the most challenging issues facing entrepreneurs attempting to start or expand their operations. Program topics include self-employment, loan packaging, lease/purchase, business incubators, and business mentoring.

All CAP Services' programs reported record activity, serving a total of 288 individuals. CAP Services leveraged more than $600,000 from various lenders to assist 17 businesses with their start-up or business expansion needs. Approximately 34 percent of the businesses assisted by the loan/grant application process obtained the funds requested. Forty-six percent of the entrepreneurs assisted with business start-up were previously earning below 150% of the federal poverty guidelines. The remaining newly established businesses received technical assistance for the creation of living-wage jobs.

Vicki Lobermeier, University of Wisconsin-Stevens Point counseling manager for the Small Business Development Center, said, "Starting a business can be overwhelming, and it certainly isn't for everyone. CAP Services' JBD program helps smooth an otherwise jagged path to self-employment by guiding low-income individuals through the process of personal feasibility, idea assessment, business plan development and applying for funding. Without programs like JBD, the dream of self-employment for many individuals may never become a reality."

The USDA's rural development director of public affairs, Stan Gruszynski, said, "Community action programs provide a critical service in the delivery of federal, state and private resources to under-served communities and their citizens." He added that community action programs are the pioneers of the sustainable communities concept.

Since inception in 1988, the JBD has facilitated the development of 124 businesses and 331 new jobs. In addition, CAP-assisted businesses have leveraged approximately $3,926,365 in third-party financing.

CAP Services is a community-action agency that has been helping low-income people attain economic and emotional self-efficiency since 1966. ■

For additional information on programs offered by CAP Services, Inc., call 715/345-5200 or write to the group at 5499 Highway 10 East, Stevens Point, Wisconsin, 54481.

New MSA Profiles and Investment Opportunities Released

The Federal Reserve Bank of Chicago has just issued profiles highlighting current economic conditions and investment opportunities for the Chicago metropolitan statistical area (MSA), the Indianapolis MSA and the Des Moines MSA. The publications, *MSA Profile and Investment Opportunities,* are part of a series of profiles on the major MSAs in the Chicago Federal Reserve District. They are designed to encourage community and economic development by providing information aimed at promoting relationships and partnerships among community organizations, financial institutions, and government agencies.

The profiles highlight economic and demographic characteristics of each MSA and identify potential opportunities for organizations seeking to improve and/or increase their community development efforts. Each profile has three major components:

1. a demographic and economic analysis of the MSA;
2. a summary of the potential needs for housing, services and credit in low- and moderate-income areas in the MSA; and
3. a resource guide listing various community and economic development organizations in the MSA. ■

These and other MSA Profiles *(Saginaw-Bay City-Midland, Flint, and Detroit in Michigan, and Milwaukee in Wisconsin) are available online at* <u>*www.frbchi.org/cedric/cedric.html*</u>*, or you may call the Consumer and Community Affairs Division at 312/322-8232 to obtain a copy.*

Financial Literacy Study Released

"Every time I have money, I spend it, no matter how much it is." "I have good intentions, but something always comes up." "I find myself writing a check on Tuesday because I know money will be in my account on Friday, before the company gets the check." "I want to know how not to rob Peter to pay Paul."

Economic-literacy education is the foundation needed to build assets…

These are just some of the common responses to questions about financial management and budgeting offered during a recent series of focus groups in Wisconsin. They reflect the challenges and frustrations of many low- and middle-income individuals who are pursuing their own versions of the American dream with limited financial income and resources.

The Wisconsin Women's Business Initiative Corporation (WWBIC), in cooperation with the Wisconsin Department of Workforce Development, developed and implemented the Financial Literacy Education Focus Group Project to explore financial literacy issues. WWBIC conducted a series of eight focus group interviews statewide between June and August of 1999. The focus groups specifically targeted low-income individuals, Wisconsin Works' welfare-to-work participants and Wisconsin Works case managers. Wisconsin Works is Wisconsin's welfare-to-work program.

The focus groups—held with individuals from Milwaukee, Madison, Kenosha, Oshkosh, Fond du Lac, Rhinelander and Crandon—covered a variety of topics relevant to low-income individuals, including:

- History of money and credit
- Real "cost" of money
- Knowledge of money matters
- Motivation and behaviors related to money
- Savings and investments
- Delivery system and logistics of providing financial literacy education
- Customer incentives for financial literacy training

The focus-group feedback confirms that a program emphasizing the importance of money and credit management, budgeting, and the availability and accessibility of financial resources is necessary to help Wisconsin Works participants and other economically disadvantaged individuals break the cycle of poverty and move toward self-sufficiency. Without financial education on money management and credit issues, low-income individuals, in particular, will continue to make poor financial-credit choices.

The study suggested that a comprehensive financial-literacy training strategy should embody multiple goals, including teaching people that money management is important no matter how much money they make, and that credit history plays a big part in determining whether they will be eligible for auto loans, home mortgages or student loans. The bottom line, according to the report, is that financial behaviors and practices need to be changed to improve the lives of low-income individuals.

Economic-literacy education is the foundation needed to build assets for low-income individuals and their families. It is only by creating savings and understanding and establishing credit that individuals can achieve the ultimate goal of securing assets, such as a business, a home or an education.

As a result of the project, the Wisconsin Department of Workforce Development is reviewing pilot initiatives and coordinating the efforts of organizations managing and initiating economic-literacy programs. ■

For a copy of the study, contact Jodi Owens at the Wisconsin Department of Workforce Development at 608/264-8165.

Make Your Money Talk: Personal Money Management Program

In response to the results of the Financial Literacy Education Focus Group Project, the Wisconsin Women's Business Initiative Corporation (WWBIC) has launched a new financial-literacy program called ***Make Your Money Talk.***

Make Your Money Talk includes both Individual Development Accounts (IDAs) and economic-literacy education. IDAs are matched savings accounts set up through the program at participating banks. The accounts are used for business development, first-time homeownership or post-secondary education. As program participants deposit their personal savings into these accounts, WWBIC matches their deposits.

Make Your Money Talk is also a personal money management education program that helps eligible participants save money. The program shows participants how to create their own personal budget, develop their own savings plans and open the specially matched IDAs that can be used as eligible investments.

"This makes good economic sense for not only WWBIC and those who participate, but also for the community at large," says Wendy Werkmeister, WWBIC president. "The community will benefit from countless social and financial returns in the form of business development, increased homeownership and a more highly-educated workforce."

Eligibility in the program is limited to members of those households that are eligible for Wisconsin's Temporary Assistance for Needy Families or qualify for the Federal Earned Income Tax Credit. Participants must agree to attend 10 ***Make Your Money Talk*** sessions and meet one-on-one with the program's manager to develop a workable financial plan.

Rejuvenation of Lawndale Officially Underway

Just a few years ago, financiers would have avoided investing $11 million in a shopping center in Lawndale. But thanks to a unique partnership between community-based developers, the City of Chicago, the Local Initiatives Support Corporation/ Chicago (LISC/Chicago) and The Retail Initiative (TRI), Lawndale Plaza is open for business.

The more than 140,000 square-foot shopping center at the corner of Roosevelt and Homan is anchored by Dominick's, the first full-service grocery store to open in Lawndale in more than 40 years.

TRI, a program affiliated with LISC, invested $1.4 million as part of a 10-year commitment to the project, which will be refinanced or sold after 10 years. The other investors are Pyramid West Realty and Management, Inc.; Venterra Associates No. 10, LLC, a developer; and Steen, Inc., the leasing agent.

LISC/Chicago has been involved with Lawndale Plaza since the project's inception. Representatives of TRI first met with Cecil Butler, executive director of Pyramid West, in 1995 to discuss potential collaboration. LISC/Chicago gave a $50,000 grant to fund a job-training program to help fill the more than 500 jobs created by the opening of Lawndale Plaza.

Lawndale has seen its commercial base vanish and residential areas deteriorate since Sears left the neighborhood 40 years ago. However, the area has been making real strides during the past six years. Thanks to the efforts and leadership of the city, LISC/Chicago and developers such as Charlie Shaw, developer of Homan Square, and Cecil Butler, president of the Pyramid West Development Corporation, investment dollars are rebuilding the Lawndale community. And the work of community leaders, like Father Michael Ivers from St. Agatha's Church and Robert Steele, director of the Lawndale Business and Local Development Corporation, is helping to recreate the social fabric of the neighborhood. Other tenants of Lawndale Plaza include: Century 21, Cineplex Odeon Theaters, Even Prices, Hollywood Video, Mount Sinai Hospital, Murrays Auto, Payless Shoes and Simply Fashions.

TRI accelerates the development of inner-city neighborhood retail centers through equity investments and technical assistance to nonprofit developers. Since its creation in 1994, TRI and LISC, the nation's leading community development support organization, have invested or committed $30 million in equity and debt in 21 retail centers across the country, providing residents with much-needed access to groceries and new jobs.

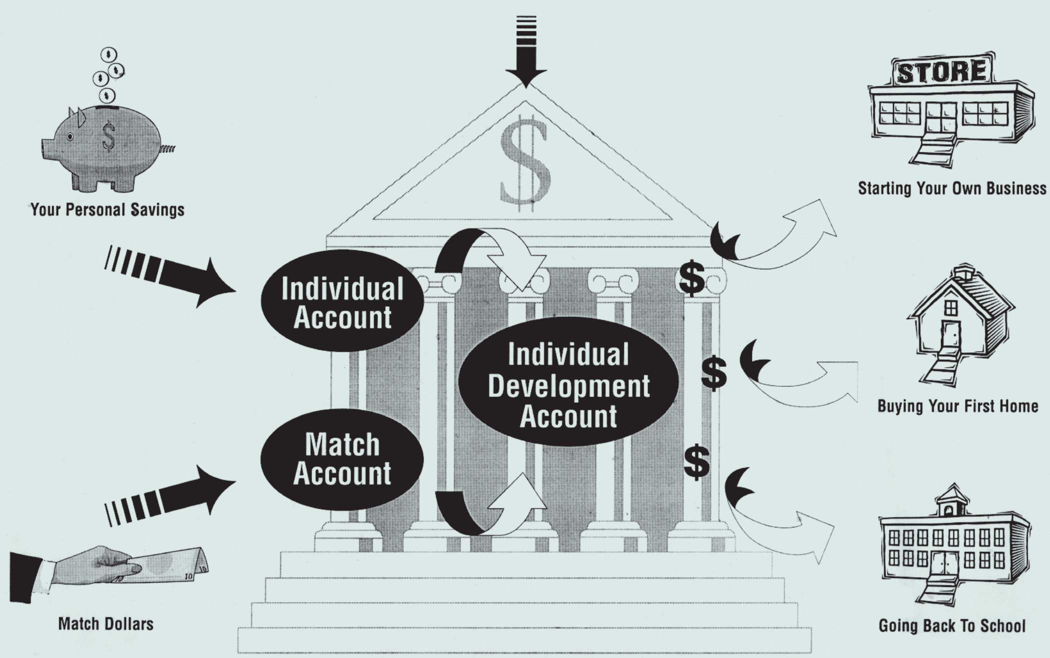
TRI has nine institutional investors, including Bank of America, City of Philadelphia Board of Pensions and Retirement, Deutsche Bank, General Electric Capital Corporation, J.P. Morgan & Company, Inc., Metropolitan Life Foundation, The Prudential Insurance Company of America, Washington Mutual Bank and Wells Fargo Bank. ■

For additional information on LISC/Chicago programs, contact Andrew Mooney at 312/360-0800.

Through asset building and personal wealth generation, individuals come to invest time, effort and resources in themselves and their futures, enabling them to move toward an improved level of economic and personal prosperity. ■

For additional information on WWBIC programs, contact Wendy Werkmeister at 414/372-2070.

Economic Development News & Views *would like to thank Wendy Werkmeister, WWBIC president, and Avani Divgi, WWBIC manager, for their contributions to this article.*

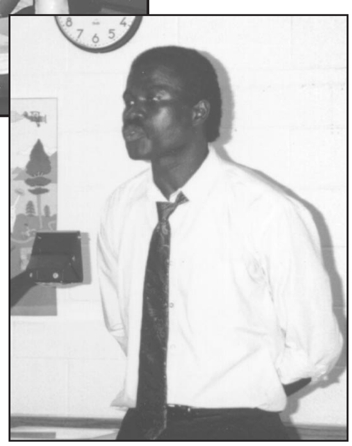


LEED Council Leading the Way to New Jobs

The New City YMCA Local Economic and Employment Development (LEED) Council provides job opportunities to predominantly low-income, low-skilled people to alleviate poverty and enhance community stability. The mission of the LEED Council is to improve the long-term economic well-being of residents and businesses of Chicago's Near North and Near West communities. LEED Council's literacy, employability, industrial skills, workplace and school-to-work transition training programs ensure that area residents are qualified to obtain and keep jobs. Industrial retention and land-use planning programs ensure that companies and jobs remain in the area.

In addition, LEED Council offers entrepreneurial training that encourages self-employment as a means to achieving economic self-sufficiency.

LEED is a community-based organization created in 1982 as the economic development arm of the New City YMCA. LEED primarily serves the residents of North Town, West Town, Lake View, West Lincoln Park and the 600 firms in the North River Industrial Corridor. The Corridor consists of the Clybourn Corridor Planned Manufacturing District (PMD), the Elston PMD, the Goose Island PMD and surrounding industrial areas.



Left to right: Graduates; Monroe Sabay III, Instructor

LEED serves approximately 1,500 individual clients and numerous companies each year with a staff of 25 full-time and six part-time professionals and more than 45 volunteers serving as program advisors, tutors, technical assistants and board members.

LEED Council's Industrial Retention and Development programs include individual business-retention services designed to help companies utilize the services and resources available in Chicago. New initiatives in the industrial unit include developing a new urban industrial park and establishing a Special Service Area (SSA) devoted to business and job-retention and job training services.

LEED Council's education, skills training and job placement programs are specifically designed for local residents who possess few marketable job skills and have experienced underemployment or unemployment for most of their adult lives. The workforce development programs include adult basic skills classes, GED classes and job-readiness training. Their job-specific skills classes for the unemployed are customized to meet the specific needs of employers with job openings. Similarly, their workplace training for incumbent workers seeking to upgrade their skills is customized for their industrial, retail and service employer partners. They provide job matching, referrals and post-placement case management.

LEED is currently providing job-readiness training and placement to more than 800 people moving from welfare to self-sufficiency under the Illinois Department of Human Services' Illinois Job Advantage and Work First programs, and under Bright Future, a U.S. Department of Labor's welfare-to-work program.

To facilitate their training programs, LEED Council opened 10,000 square feet of new classroom and workshop space in the Work-Based Learning Center at 735 W. Division Street. This added space has allowed the Council to expand its customized pre-employment and incumbent worker- training programs.

Entrepreneurship Development Program

LEED Council established the Entrepreneurship Development Program (EDP) in 1988. The program's purpose is to provide hands-on training to primarily low- and moderate-income individuals on the basics of small-business start-up or expansion and the importance of business plans. Most EDP clients know little about the technical aspects of drafting a business plan, operating a business or accessing traditional sources of small-business financing. Many EDP students have little more than an idea and a dream of running their own businesses, while others have been operating home-based businesses for years. Another group that the EDP serves through technical assistance workshops are owners of small businesses employing fewer than five people.

The EDP is an important program in the mix of programs and services LEED offers to achieve its mission—to improve the long-term well-being of residents and businesses of the Near North and Northwest sides of Chicago. ■

For additional information contact LEED Council's, Monroe Saybay, III at 312/266-5400.

Court Confirms Environmental Safe Harbor for Banks

A federal appellate court recently affirmed that a bank, acting as a trustee, is protected from environmental liability. In one of the first appellate decisions interpreting the Asset Conservation, Lender Liability and Deposit Insurance Act of 1996 (the "Asset Conservation Act"), the Eleventh Federal Circuit Court of Appeals, in *Canadyne-Georgia Corp. v. NationsBank, N.A. (South)*, applied the safe harbor protection created by the Act. Although the case against the bank will continue for procedural reasons, the substance of the decision should reassure banks, that hold property in a fiduciary capacity that they are protected from environmental liability claims.

The Asset Conservation Act amended Comprehensive Environmental, Response, Compensation and Liability Act (CERCLA) liability provisions to protect fiduciaries by limiting their liability to the assets held in a fiduciary capacity. The court noted that the bank, as trustee of a trust whose assets contained the general partnership interest, was not in the same position as a general partner.

Thus, banks acting in a fiduciary capacity in connection with contaminated property received important assurances that the Asset Conservation Act is functioning as Congress intended. ■

If you have any questions regarding fiduciary or lender liability under CERCLA, please contact your legal representatives.

Excerpts reprinted with permission from Schwarz & Freeman's Banking Law, MiniUpdate, October 1999.

The materials contained herein should not be construed as legal advice or opinion on specific facts or matters.

Do Fair Lending Laws Apply to Business or Commercial Credit?

Even seasoned bankers with long histories in lending are often perplexed about the applicability of fair lending laws and regulations to business and commercial lending. The basic rule is simple: To the extent that ANY aspect of the loan process evaluates personal credit or history or relies upon personally owned collateral, individual guarantees or co-signors, then the laws of fair lending apply. As more and more emphasis is placed on particularly *small* business and commercial (including farm) credit, all creditors need to be aware of the specific requirements of the fair lending laws that govern these transactions.

While a corporation or business *per se* does not have any of the attributes upon which fair lending laws are based—such as race or color, religion, sex, national origin, handicap, etc.—a lender IS required to be fair to that business or corporation to the extent that the business is represented by individuals who do, of course, have those attributes. However, if the pricing or underwriting involved reflects SOLELY corporate or business factors—such as payment of trade credits, strength of capital, analysis of liquidity, record of meeting corporate or business obligations, inventory analysis, evaluation of security tranches and other nonpersonal criteria—fair lending laws do NOT apply. An exception to this rule would be if these factors were used as a ruse or pretext to surreptitiously evaluate the loan request on a personal basis of the owner or other individuals involved in the business.

When the creditworthiness or business history of individuals involved in the business ARE evaluated and when decisions as to pricing or creditworthiness take personal attributes into account, when personally-owned collateral is sought and/or evaluated, or when personal guarantees or co-signers are required, the fair lending laws and regulations come fully into play. Furthermore, Regulation B defines an "applicant" to be "…any person…" and further defines "person" as a "…natural person, corporation, government or governmental subdivision or agency, trust, estate, partnership, cooperative, or association." As a result, it is clear that the title of the applicant on the loan, by itself, does not answer the question of whether fair lending rules apply or have been violated.

Adverse Action Notices

It is interesting to note that Regulation B makes specific provisions for certain technical aspects of compliance when the business credit applicant has:

1. **Gross revenues of $1,000,000 or less in the applicant's preceding fiscal year:**

With regard to complying with the adverse action notice

requirement of Regulation B, such businesses may be given the notice orally or in writing. In addition, disclosure of the applicant's right to a statement of reasons may be given at the time of application, instead of when the adverse action is taken, provided the disclosure is in a form the applicant may retain and contains the information required by Section (a)(2)(ii). This section requires that the applicant be notified of his/her right to a statement of specific reasons within 30 days, if such statement is requested within 60 days of the creditor's notification, or that an actual statement of specific reasons for the action taken is given. Lastly, for businesses with revenues less than $1,000,000, oral statements

continued on page 14

From Our Research Department

Labor Market conditions in the Seventh District

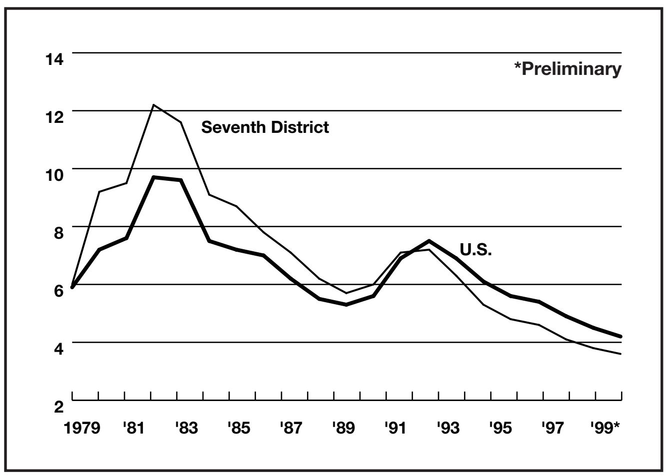
The Federal Reserve Bank of Chicago serves the Seventh Federal Reserve District, which includes the entire state of Iowa along with large portions of Illinois, Indiana, Michigan, and Wisconsin. At the present time, there are 43 Metropolitan Statistical Areas (MSAs) in the Seventh District. The geographic 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 markets in the Seventh District are much tighter than the nation as a whole. In sharp contrast to the 1980s, the region's unemployment rate has been running below the national average since 1992. While good news for the region's workers, whose wages and salaries are growing faster, the very low levels of unemployment are making it difficult for employers to find quality help.

Midwest Unemployment Rate



Broad-based labor shortages, across both industry and occupational categories, have contributed greatly to the District's slowing employment growth in the last few years. Earlier in this decade, a strong rebound in our manufacturing industries, as well as robustness in construction and services, led to employment growth in the region that outpaced that of the nation. As labor markets in the region tightened more dramatically in the mid-1990s, the national rate of employment growth caught up to, and has since surpassed, the region's. With few signs of any softening in the Seventh District economy, and relatively unfavorable migration trends, employers can expect little relief from tight labor markets in the near term.

Labor Market Highlights

Labor markets in the Seventh Federal Reserve District tightened further in the winter as employers found many open positions unfilled. The region's seasonally adjusted unemployment rate in January was down to 3.3 percent, well below the national rate of 4.0 percent.

Iowa had the lowest unemployment rate of District states, at 2.4 percent, and fast food employers in the state were offering to pay for employee's textbooks as a means of finding and retaining workers.

The unemployment rate in Wisconsin was only slightly higher at 2.8 percent. Of the District's 43 metro areas, Madison, Wisconsin had the tightest labor markets, with a remarkably low seasonally adjusted rate of 1.3 percent.

Manufacturing payrolls in Indiana continued to swell and had reached their highest levels in over a decade, despite unemployment rates below 3.0 percent.

The automobile manufacturing sector continues to benefit Michigan's metro areas, particularly Detroit, Grand Rapids, and Lansing. The Flint metro area, however, had the highest unemployment rate in the District at 5.3 percent.

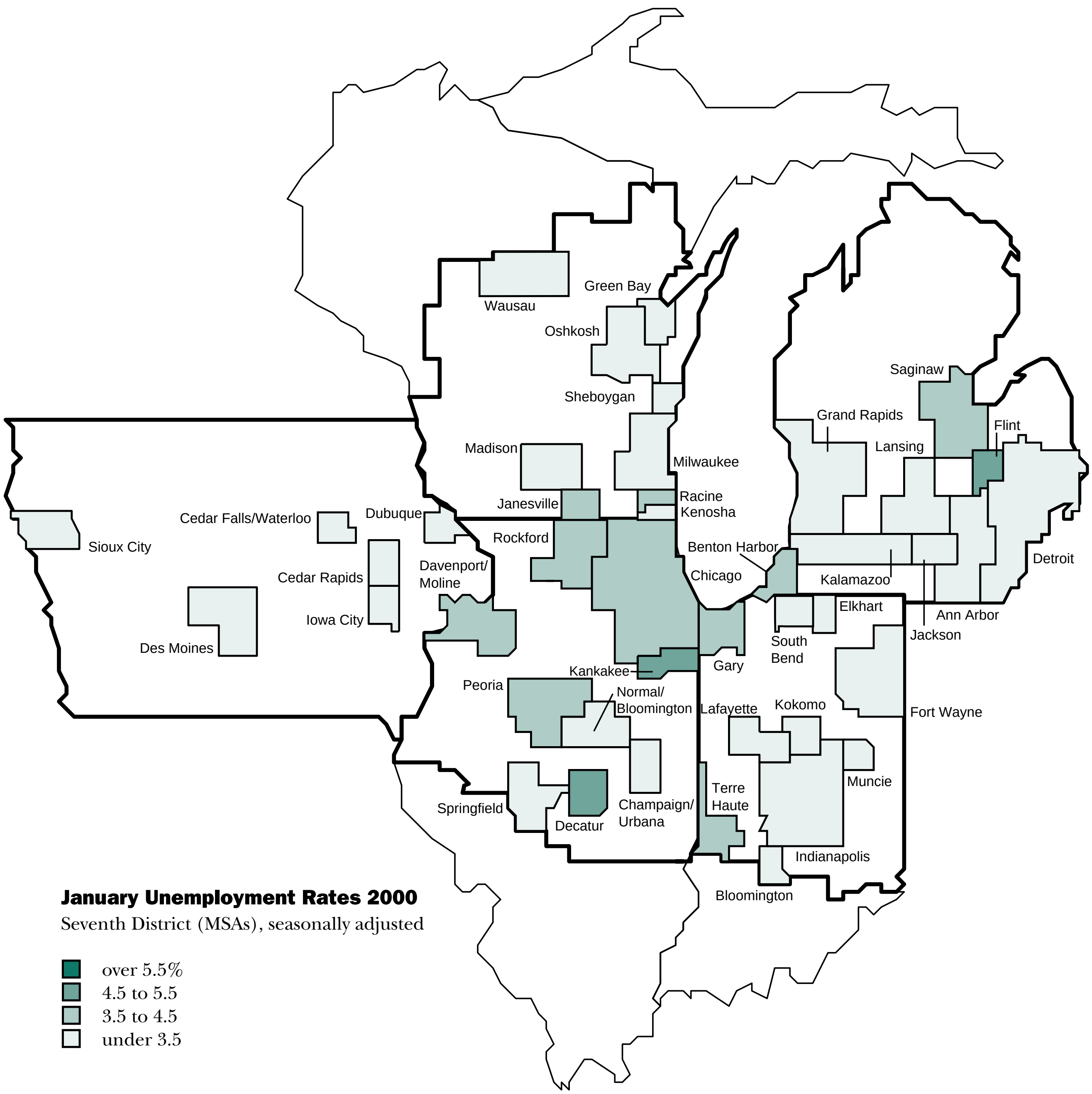
Illinois' rate of 4.1 percent was the highest of District states, but still very low by historic standards. Employment in the construction industry remains robust as the building boom in the downtown Chicago area continues. A strong condo market and development plans for 3.5 million square feet of new high-rise office space is keeping the demand for construction workers very high in the city.

Surveys show that finding and retaining adequately skilled workers is the primary concern of the region's employers. Yet, despite a shortage of workers and exceptional aggregate demand, general wage pressures remain relatively subdued. Significant wage hikes appear to be confined to those industries and occupations where severe shortages persist. ■

Richard E. Kaglic
Economist

Seventh District Labor Markets

Unemployment conditions for January 2000



NOTE: All rates are subject to revision.

Ag Entrepreneurship Initiative *continued from page 3*

pork and beef producers who have long relied on simply selling their commodities to processors who then deal with consumers.

C-FAR Funding

Funding from the Illinois Council on Food and Agricultural Research (C-FAR) made possible the Extension's Branded Lamb project. It sought to produce a high-quality lamb meat product for the Chicago market. Rich Knipe said the program has been successful in linking Illinois sheep producers to Chicago consumers.

At the same time, a similar movement was underway throughout the Midwestern beef industry. "Producers were looking to increase their revenues by providing a high-quality product desired by consumers," he said. "Extension aided this effort through its Beef 2000 educational program, which also received C-FAR funding and was led by Doug Parrett of the Department of Animal Sciences.

"Today, this revolution in beef production is underway as the demand for high-quality, Midwest-produced beef increases. We're working to show our producers how to position themselves to capitalize on it," Knipe said.

A.J. and Jeannie Harland, operators of a cow-calf enterprise in Knox County, have used U of I expertise offered through two programs—the Beef-Cow Enterprise Analysis and Beef 2000.

"The information we gained from the Beef-Cow program has made a world of difference in our operation," said Jeannie Harland. "Based on applications of the information, we have reduced our winter feeding costs dramatically."

Dar Knipe said the basic principle of tailoring products to consumer demand spills over into other agribusiness areas.

"We're exploring connecting producers with retail outlets that want a specific product," she said. "But this sort of repositioning takes a lot of marketing research and data that individual producers do not often have access to. Plus, it needs to be delivered in user-friendly form."

The initiative takes advantage of extension educators and specialists throughout the state to provide the information and expertise.

"The initiative also has an advisory board composed of people outside Extension who are vitally engaged in agribusiness. They can provide invaluable advice and perspective on what we need to provide," she said.

Both Dar and Rich Knipe emphasized that the initiative is directed toward helping producers stay in agribusiness.

"There are many, many producers who with a little help can successfully reposition and retool themselves and retain important roles in the ag economy," said Dar Knipe. "We also think that if they do, consumers will also benefit through more choices and more quality products." ■

Producers, communities, and financial institutions interested in learning more about the Ag Initiative should call the University of Illinois' Quad Cities Extension Center at 309/792-2500.

Fair Lending Laws *continued from page 11*

of adverse action or reasons for action will suffice for applications made solely by telephone.

2. Gross revenues in excess of $1,000,000 in applicant's preceding fiscal year:

With regard to complying with adverse action requirements of Regulation B, such applicants may be notified orally OR in writing, within a reasonable time of the action taken (as opposed to the 30 days from date of completed application required otherwise.) In addition, they may be provided with a written statement of the reasons for adverse action and the ECOA notice specified in paragraph (b)(1) if the applicant makes a written request for the reasons within 60 days of being notified of the adverse action.

In summary, it should also be noted that the rules applicable to business applicants with gross revenues in excess of $1,000,000 apply to extensions of trade credit, credit incident to a factoring agreement or similar types of business credit.

Needless to say, business and commercial lenders may simply comply with the stricter adverse action requirements for individuals if they so choose. ■

The staff of the Consumer and Community Affairs Division of the Federal Reserve Bank of Chicago is available to answer questions regarding fair lending, as well as all other compliance laws and regulations. The Division can be reached by calling 312/322-8232.

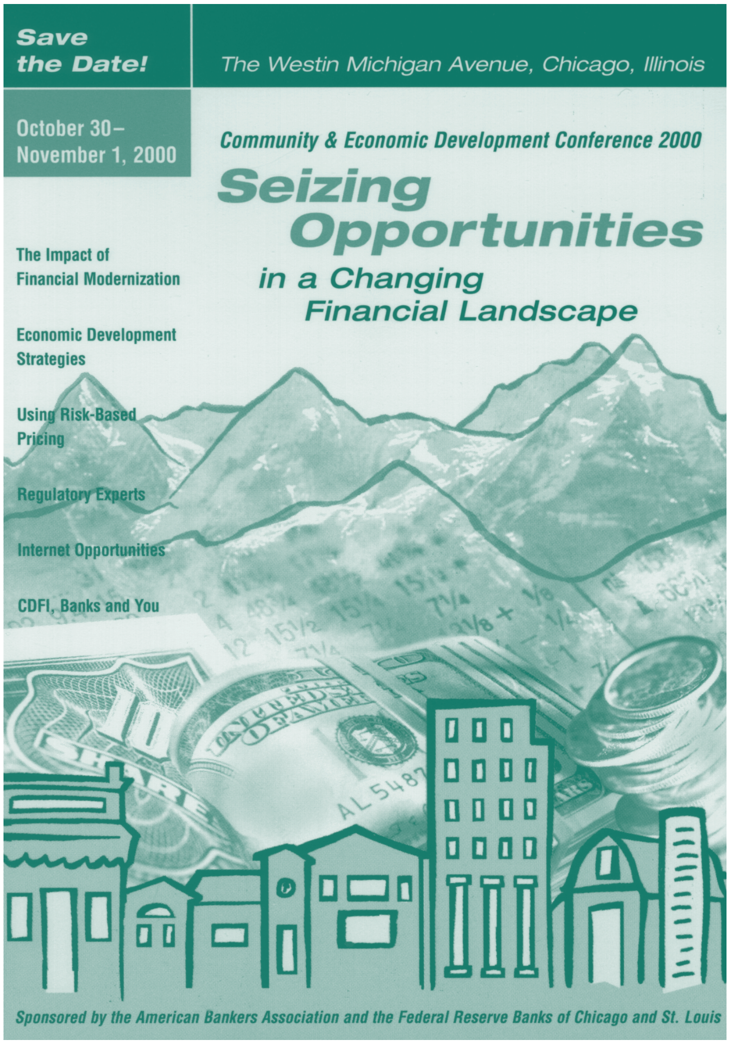
SBA Community Express *continued from page 6*

Jefferson East Business Association; the Michigan Small Business Development Center for Macomb and St. Clair counties; the Michigan Small Business Development Center for Wayne, Oakland and Monroe counties; the One Stop Capital Shop and the Southwest Detroit Business Association.

"We've seen some businesses fail because they've received poor financial advice," said O'Brien. "Through this program, we can help businesses succeed by providing pre- and post-loan closing technical and management assistance." ■

For additional information about Community Express and other SBA programs, call the SBA office nearest to you:

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



Community & Economic Development Conference 2000

A conference exploring community and economic development with an emphasis on seizing financial opportunities and growing your institutions and organizations.

Fax Back Form

To receive additional information, simply complete this form, and fax to 202/663-7543.

Name ______________________________

Company ______________________________

Address ______________________________

Phone ______________________________

Fax ______________________________

E-Mail ______________________________

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Calendar

Community Development Finance Training

Dyersburg, Tennessee
April 18, 2000

The workshop is for community-based organizations, development groups, state and local governments and financial institution staff with little or no experience in community development finance. Some of the topics covered during the workshop will be:

- Fundamentals of community development
- Investment planning that supports community development finance
- Why Finance partnerships are important and how to make them work
- How to increase the flow of capital and credit

To register or for further information, please contact Diana Zahner at 314/444-8761.

Seizing Opportunities in a Changing Financial Landscape Community & Economic Development Conference 2000

The Westin Michigan Avenue
Chicago, IL
October 30 to
November 1, 2000

Topics include:
- The Impact of Financial Modernization
- Economic Development Strategies
- Using Risk-Based Pricing
- Regulatory Issues
- Internet Opportunities
- CDFIs, Banks and You

For more information, please contact the Federal Reserve Bank of Chicago, Consumer and Community Affairs Division at 312/322-8232

2000 Community Reinvestment Conference

Palace Hotel,
San Francisco, California
April 17-19, 2000

The Federal Reserve Bank of San Francisco in co-sponsorship with The Office of Thrift Supervision, The Federal Deposit Insurance Corporation, and The Office of the Comptroller of the Currency presents the 2000 Community Reinvestment Conference that will join hundreds of community investment specialists and development practitioners for an intensive three days of workshops, peer learning and best of all, fun. The 2000 Community Reinvestment Conference training focuses on the topics of Compliance, Context and Capital. From start to finish, the attendees will be engaged in a progression of exciting activities designed to enhance their CRA performance.

For registration or additional information, please contact Lena Robinson at 415/974-2717 or by e-mail to lena.robinson@sf.frb.org.

National Community Capital 2000 Conference

Philadelphia, PA
November 1-4, 2000

National Community Capital's Annual Training Conference attracts more than 350 CDFI practitioners, investors, funders, and policy makers. The conference features training sessions specifically developed for CDFI investors and funders.

For further information, please contact Adina Abramowitz, National Community Capital at 215/923-4754, ext. 205.

FEDERAL RESERVE BANK
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Economic Development

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