Economic Development

# News & Views

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

Volume 7 Number 2
Fall 2001

Inside this Issue:



## *FLLIP Financial Education and Asset-Building Programs Ready to Launch in Illinois*

After nearly two years in development, the Financial Links for Low-Income People (FLLIP) coalition's financial education and Individual Development Account (IDA) programs are set to launch this month.

FLLIP is a diverse coalition dedicated to expanding financial education and asset-building opportunities for low-income people in Illinois. Its members and advisors include representatives from banks, credit unions, insurance and securities firms, nonprofit organizations and foundations. Also involved are the Federal Reserve Bank of Chicago, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, adult educators, social service providers, researchers, government agencies and others.

Dory Rand of the National Center on Poverty Law coordinates the FLLIP coalition and serves as general contractor for both programs in partnership with the Illinois Department of Human Services (IDHS). (See "Your Views" in the October 2000 issue of Economic Development News & Views.)

### The FLLIP Financial Education Program

FLIIP's financial education program, "Your Money & Your Life," was created to help low-income families learn the skills they need to make sound financial decisions. The free, 10- to 12-hour course is set to run at six sites throughout Illinois.

Programs at three initial sites begin in the Chicago area in September: two sites on the south side of Chicago and one site in Maywood. FLIIP's goal is to evaluate these programs and then expand the program statewide by December 2001.

Course hours are spread out over three weeks. In addition to class time, instructors will be available for five hours of individual counseling per session.

The instructors will use the University of Illinois Extension's All My Money manual, as well as a new manual specifically co-developed by FLLIP and the Extension for this course. The curriculum, which reads at a fifth-grade literacy level and includes a multitude of hands-on activities, is designed to help students gain understanding of mainstream financial services.

FEDERAL RESERVE BANK OF CHICAGO

*Continued on page 2*

## *FLLIP* *continued from page 1*

All My Money topics include: Making Spending Choices; Envelope Budgeting; Planning your Spending; Understanding Credit; Handling Credit Problems; Building Consumer Skills; Taking Consumer Action; Checks and Checking Accounts. Your Money & Your Life topics include: Managing Your Debt; Avoiding Money Traps; Using Financial Institutions; Choosing Insurance; Realizing Job Benefits; Making Money with Money; Taking Advantage of Public Benefits; and Understanding Taxes.

***FLLIP Coordinator Dory Rand***

Extension trainers provided FLLIP training in July to instructors from the Center for Law and Human Services, the YMCA Training Alliance and a stockbroker from Salomon Smith Barney. The Extension also provided an overview of the curriculum to IDHS staff from participating local offices.

IDHS sent class notices in July to recipients of Temporary Assistance for Needy Families (TANF) cash assistance, food stamps and medical assistance. TANF participants who obtain caseworker approval may count class hours toward fulfillment of their weekly work activity requirement. IDHS will provide transportation and child-care reimbursements to TANF participants.

FLLIP and instructors plan to develop relationships with local financial institutions and to encourage bankers to visit the classes and answer questions, offer field trips to local branches, share information about free and low-cost products, help students open accounts, waive fees and overcome credit score and other barriers wherever possible. These activities will not only help the FLLIP project, but also generate goodwill and customers for the financial institutions, as well as favorable consideration under the Community Reinvestment Act's services and investments tests.

"I hope that this program will help low-income people become savvy consumers of mainstream financial products and services, avoid high-cost fringe banking services and abusive lending practices and meet long-term goals for asset development and financial security," Rand said.

Rand and FLLIP financial education assistant Katie McClure, an AmeriCorps VISTA member working full time on FLLIP, recently met with community representatives and IDHS staff in Springfield, Bloomington, East St. Louis and Marion to discuss plans to expand the program to downstate sites. FLLIP staff also plans to meet with groups in Elgin, Rockford and Peoria.

Organizations interested in partnering with FLLIP on financial education projects can contact FLLIP (see below). Current funding will allow FLLIP to expand to several sites beyond the initial six, and additional funding would enable continued expansion of the program.

### FLLIP Individual Development Accounts

Another program to help families build assets is FLLIP's statewide IDA program. IDAs are special savings accounts in which a family's savings – toward a home down payment, transportation, higher education, or a small business – are matched by public and/or private funds. For each dollar saved in a FLLIP's IDA program, the government matches one dollar and private funds match one dollar. For example, a family that saves $1,000 would have $3,000 accumulated toward the family's goal. Today, at least 5,000 families in more than 250 communities across the nation are using IDAs.

FLLIP hired the Illinois Community Action Association to conduct a statewide IDA education and outreach campaign and solicit competitive bids to host one of three new IDA programs outside of Chicago in March. Of the 20 nonprofit organizations throughout Illinois that submitted proposals, FLLIP selected Bethany for Children & Families in Moline, the DuPage Homeownership Center in Wheaton and the Partnership Accounts for Individual Development coalition in Champaign to host programs.

*Continued on page 3*

## Communications

Advisor: Alicia Williams
Editor: Harry Pestine

*Economic Development News & Views* welcomes story ideas, suggestions, and letters from subscribers, lenders, community organizations, and economic development professionals. If you wish to subscribe or to submit comments, call 312/322-8232 or write to:

*Economic Development News & Views*
Federal Reserve Bank of Chicago
Consumer & Community Affairs Division
230 S. LaSalle Street
Chicago, Illinois 60604-1413.

The material in *News & Views* does not necessarily represent the official policy or views of the Board of Governors of the Federal Reserve System or the Federal Reserve Bank of Chicago.

*Economic Development News & Views* – ISSN: #1083-1657

*Editor's Note: A special thanks to Tony Iweagwu for his assistance in preparing the First Bank and CDFI Programs are Working article.*

# *Lawndale Christian Development Corporation: Committed to Economic Development*

Although the Lawndale Christian Development Corporation (LCDC) is best known for its excellent track record in affordable housing development, this community development corporation is also strongly committed to economic development in the North Lawndale community of Chicago.

Executive Director Richard Townsell explains, "The No. 1 issue in our community is living-wage jobs. This is a very difficult thing to deliver. We are making strides in this area through strategic partnerships."

One recent example of such a stride is LCDC's role in the development of the Jubilee Family Resource Center. Before LCDC acquired the vacant lot at 3701 W. Ogden Ave., it was occupied by a car dealership. Now the new, $3.2 million Jubilee Family Resource Center stands at that address, thanks to LCDC's role in a creative collaboration called the Family Resource Partnership (FRP).

FRP consists of the LCDC, the Carole Robertson Center for Learning, the Illinois Facilities Fund and The Resurrection Project. In addition to the Jubilee Center, the FRP expanded a sister facility, in Little Village, the Carole Robertson Learning Resource Center in November 2000.

The 22,755-square-foot Jubilee Center opened September 5, 2001 and is a vital economic asset for North Lawndale. It offers a wide range of high-quality family support services to the community, including job training and counseling. The families of 247 children can take advantage of subsidized childcare, potentially allowing them to seek better job opportunities. In addition, the Jubilee Center provides 50 new jobs for community residents.

The Jubilee Center has also partnered on an initiative with the Little Village Center to enroll 60 children in subsidized, in-home daycare. Seventeen in-home child-care providers from the community have been licensed through the Family Child Care Home Network, which also provides regular training and support services to an additional 23 license-exempt, in-home providers.

**Creative Collaboration and Funding**

Both Jubilee and Little Village used innovative funding sources from a wide variety of public and private sources. The Jubilee project qualified for $3 million in equity through the Empowerment Zone/Enterprise Community Program. In addition, each center received financial commitment from The Northern Trust Company; Community Development Float financing from the Chicago Department of Planning and Development; a Community Service Block Grant loan and a Community Service Block grant from the Chicago Department of Human Services; and a loan from the Illinois Facilities Fund. LCDC and the Carole Robertson Center for Learning each raised $175,000 in capital for the project. ■

*For more information about LCDC and Jubilee Family Resource Center, contact Richard Townsell at LCDC, 773/ 762-8889.*

## *FLLIP* ***continued from page 2***

The FLLIP IDA aims to serve 175 low-income workers by the end of 2002. Each participant must complete the "Your Money & Your Life" financial education course, plus at least six hours of training specific to their asset goal, before receiving matching funds. Financial institutions, foundations, corporations and individuals can support this project by contributing toward the FLLIP IDA matching fund. Approximately $100,000 is still needed for program expansion.

**Program Evaluation**

In July, FLLIP selected Professor Steve Anderson of the University of Illinois from among six researchers who responded to a Request for Proposal to evaluate the FLLIP Financial Education Program. Professor Anderson will evaluate the marketing, implementation and outcome of the program over a two-year period. Protocols will be developed this fall for use starting early next year.

"FLLIP wishes to acknowledge the generous support of the Illinois Department of Human Services, the Joyce Foundation, the Richard H. Driehaus Foundation, the Grand Victoria Foundation, William Beck, William M. Mercer, Inc., Bank One Foundation, Charter One Bank, Fifth Third Bank, LaSalle Bank, Lisle Savings Bank and Allstate," Rand said. "FLLIP would also like to acknowledge the many invaluable contributions of its "Dream Team" of Chicago-based regulators including Harry Pestine of the Federal Reserve Bank of Chicago, Bruce Derbigny of the Office of Thrift Supervision, Michael Frias and Brenda Tharpe of the Federal Deposit Insurance Corporation, Paul Ginger of the Office of the Comptroller of the Currency," Rand continued.

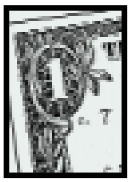
"Among other things, they have actively participated in and hosted FLLIP meetings, fostered new collaborations with financial institutions, and generously shared their expertise." ■

*For more information contact Dory Rand or Katie McClure at the National Center on Poverty Law at 312/263-3830 or find FLLIP on the Internet at www.povertylaw.org.*

## Finance

# First Bank of the Americas and CDFI Programs are Working

*By Tony Iweagwu*



The First Bank of the Americas on Chicago's South Side has developed a business model aimed at increasing the financial awareness of the surrounding community. Through creative programs, First Bank has reached out to a customer base too often ignored by mainstream financial institutions.

With more than 5,000 current accounts, First Bank has experienced steady growth during the last three years. Located at 1715 West 47th Street, the bank has a customer base comprised mostly of Hispanics and African Americans, as well as many Polish immigrants. Because the bank's primary customers have little or no banking experience, First Bank is challenged with developing innovative ideas to attract new customers.

### First Accounts

Because many of the bank's customers may be hesitant to open an account, the bank offers potential customers the ability to open a First Account for only $3. First Accounts are designed to bring people into the financial mainstream and offer advantages such as low-cost checking and low monthly minimum requirements.

### ETA Accounts

First Bank also offers Electronic Transfer Accounts (ETA). ETA accounts allow users to have their government assistance payments, such as welfare and Social Security, transferred into their accounts. ETA users are also given ATM cards and are allowed four free withdrawals each month. The ETA program allows consumers to gradually become familiar with the banking industry. Financial institutions that participate in the ETA program are initially given $12.60 per account by the United States Department of The Treasury to subsidize operating costs. As of the end of fiscal year 2000, First Bank had opened 167 ETA accounts.

*First Bank of America's President, Pamela Voss*

### Outreach

First Bank also has numerous community outreach programs designed to foster a trusting relationship with its surrounding community. In conjunction with local schools, the bank has set up mentoring programs, as well as the Bank Start program that teaches high school students the basics of personal finance. Since the bank serves a predominately Hispanic community, there are often language barriers that need bridging. To ease the transition for new customers, the bank provides English-language classes taught by Spanish-speaking instructors.

First Bank has also used non-traditional means of advertising. To promote an upcoming financial literacy seminar, the bank had staff members speak to parishioners at a local church before and after services. Primarily through word of mouth, the bank's reputation as an institution willing to accommodate its customers is spreading.

In addition to traditional measures, the bank also finds creative ways of accommodating customers. Those whose primary language is not English may find it difficult to write out the dollar amount in words on a check. To assist these customers, the bank provides small cards with the spelling of the numbers printed on both sides. To cater to its large immigrant population, First Bank also allows customers to open an account with a valid work authorization (I-9) form and current utility bill. A Social Security number is not required.

### Funding

To finance these community outreach projects, the bank uses a combination of its own revenue as well as grant money received as a result of its designation as a Community Development Financial Institution (CDFI). The Treasury Department created the CDFI Fund in 1994 to increase the number and capacity of private sector organizations providing financial services to distressed communities.

In 1998, the Treasury Department awarded First Bank an equity investment of $1 million and a technical assistance grant of $100,000. The equity investment enabled the bank to purchase two additional branches from a lender who was planning to close the branches. In 2000, First Bank received a Bank Enterprise Award of $935,684 from the Treasury Department, as a result of the bank increasing its deposit-taking facilities, providing "lifeline" utility bill payments and increased lending in distressed communities. This funding will help First Bank to continue serving the community.

Bank President Pamela Voss feels that the bank will continue to expand and develop new community outreach programs. First Bank appears well on its way to providing a successful model of creative and innovative community banking. ■

*For information on the various CDFI Fund's programs or assistance in becoming a CDFI, contact the Consumer & Community Affairs Division of the Federal Reserve Bank of Chicago at 312/322-5877.*

*Editor's Note: Economic Development News & Views wishes to thank Tony Iweagwu, a student at Northwestern University, Evanston, Illinois, for his assistance in preparing this article.*

# MBDA Supports Minority Business Development Centers

The Minority Business Development Agency supports several Minority Business Development Centers (MBDCs) throughout the country. These centers are staffed by experienced business professionals with the skills needed to help clients start, improve or expand business. The services provided by MBDCs are made affordable through both private support and Federal funding.

MBDCs provide each client with in-depth management and technical assistance for nominal fees. Services are tailored to the individual needs of minority or prospective businesses. Services are offered in the following areas:

- Marketing assistance: research, promotion, advertising and sales, pricing, sales forecasting, market share analysis.
- Finance and accounting assistance: mergers and acquisitions, financial packaging, cost accounting, planning, budget and control.

***Carlos E. Guzman,***
***Chicago Regional Director,***
***Minority Business***
***Development Agency***

- Construction assistance: estimating, bid preparation, bonding, and take-offs.
- Personnel management: job evaluation and rating system, management training.
- General management assistance: formulating corporate policy, business planning, organizational development, public relations, reports and controls.
- Manufacturing assistance: plant management, plant location and site selection, materials handling and distribution.
- International trade assistance: export sales, letters of credit, joint ventures, export trading companies.

### Discover Capital Dollars Through Your MBDC

MBDCs identify financing sources for their clients such as loans, bonds, trade credits and equity investments. Although the Agency and the MBDCs have no authority to make grants, loans or loan guarantees, MBDCs are excellent sources of information on private sector as well as federal, state and local capital opportunities. Financial institutions are encouraged to contact their local MBDCs to strengthen their working relationships and enhance their opportunities to meet the credit needs of the communities that they serve.

### Locate Sales Through Your MBDC

Your MBDC is a wealth of information when it comes to market opportunities. Each MBDC maintains a centralized inventory of both public sector opportunities on the federal, state and local levels and private sector opportunities both foreign and domestic, for its clients. ■

*For additional information contact, Carlos E. Guzman, Chicago Regional Director, Minority Business Development Agency, 312/353-0182, or contact your nearest regional office for information on the MBDC nearest you.*

# Frequently Asked Questions

*What is the minority business development agency?*

The Minority Business Development Agency (MBDA) is part of the U.S. Department of Commerce, created specifically to foster the creation, growth and expansion of minority-owned businesses in America.

*How does MBDA help minority businesses?*

MBDA provides funding for Minority Business Development Centers (MBDC), Native American Business Development Centers (NABDC), Business Resource Centers (BRC) and Minority Business Opportunity Committees (MBOC) located throughout the nation. The Centers offer a wide range of business services to minority entrepreneurs.

*How is MBDA organized?*

MBDA is headquartered in Washington, D.C. where all activities are planned, developed, coordinated and evaluated. There are five regional offices – Atlanta, Chicago, Dallas, New York and San Francisco – and four district offices – Miami, Boston, Philadelphia, and Los Angeles. Staff members oversee assistance and services in multistate regions.

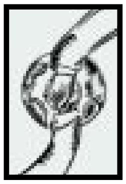
*What are MBDCs, NABDCs, BRCs, and MBOCs?*

The MBDCs, NABDCs, BRCs and MBOCs are centers operated by private firms, state and local government agencies, Native American tribes, and educational institutions. The Centers provide minority entrepreneurs one-on-one assistance in writing business plans, marketing, management and technical assistance and financial planning to assure adequate financing for business ventures. The Centers are staffed by business specialists who have the knowledge and practical experience needed to run successful and profitable businesses.

*How About Financial Aid?*

The MBDA network offers assistance in identifying sources of financing and in the preparation of financial and bonding proposals. The Agency and its network, however, have no authority to make grants, loans or loan guarantees to any individual or organization wishing to purchase, start or expand a business.

# SBA Has Financing Solutions for U.S. Exporters



To support greater numbers of small businesses pursuing overseas ventures, the United States Small Business Administration (SBA) has developed a new loan program called SBA Export Express.

The number of small business exporters tripled in the past decade, and the value of small business exports has increased 300 percent in the past five years. These statistics reflect a largely untapped potential for increasing U.S. exports.

Statistics also show that even the smallest business is involved in export transactions.

"We know that nearly 20 percent of small and medium enterprises that are exporting have no employees beyond the principal owner, reflecting a change in who is exporting and what they export. We also know that two-thirds of all these enterprises sold to just one market," said Jean Z. Smith, acting director, Office of International Trade, SBA.

**Exporting Solutions**

Do you know companies that need funding to support market penetration strategies? Are you wondering how to fund a promising trade mission overseas?

The SBA Export Express program addresses these issues. This new loan guarantee program helps small businesses with exporting potential but without the funds to cover the initial costs of entering an export market, buy or produce goods or provide services for export. This new program allows businesses the flexibility to use loan proceeds for most business purposes, including expansion, equipment purchases, working capital, inventory or real estate acquisitions.

Loan proceeds also can help finance such items as participation in overseas trade shows or trade missions, standard certifications and modifications of a company's Web site to accommodate export transactions.The program is especially suited to companies that have traditionally had difficulty in obtaining adequate export financing. The pilot program runs through September 30, 2005.

**Program Requirements**

SBA Export Express loans are available to persons who meet the normal requirements for an SBA business loan guaranty. Applicants must have been in business operation, though not necessarily in exporting, for at least 12 months, and must demonstrate that the loan proceeds will enable them to enter a new export market or expand an existing export market.

**Where Do I Go To Apply?**

Any lender/bank authorized to participate in the SBA Express loan program may participate in SBA Export Express. A list of authorized lenders may be obtained by contacting the SBA representative at your local U.S. Export Assistance Center.

**SBA Export Express**

Lenders use streamlined and expedited loan review and approval procedures to process SBA-guaranteed loans to ensure that all loan applications are processed smoothly and quickly. To help expedite the process, the SBA allows lenders to use their own loan analyses, procedures and documentation. Quick turnaround is also assured by centralizing processing at SBA's processing center in Sacramento, California. The SBA usually provides a response within 36 hours.

**The SBA Guarantee**

By guaranteeing 85 percent repayment on the loan, the SBA encourages lenders to make loans to small business exporters that they might not ordinarily make. The maximum loan amount is $150,000.

**Technical Assistance**

Because many small business exporters face unique problems and challenges, the SBA Export Express Program also includes technical assistance in the form of marketing, management and planning assistance. It helps business owners structure loan applications, plan their export market penetration strategy or locate a new market for a product overseas.

Technical assistance is provided by United States Export Assistance Centers in cooperation with SBA's network of resource partners, including the United States Department of Commerce Commercial Service, the Export Legal Assistance Network, the Small Business Development Center Network, and the Service Corps of Retired Executives.

When an SBA Export Express loan is approved, a U.S. Export Assistance Center representative contacts the borrower to offer appropriate assistance. This assistance may include training, such as the Export Technical Assistance Program (ETAP) offered through SBA or one of its partners. The ETAP program takes a new-to-export company from start to finish in exporting, including finding an overseas trade show or mission appropriate for the company's products or services.

**Other Financing Programs**

The SBA also offers a range of other long- and short-term financing options for small business exporters. Through the Export Working Capital Program (EWCP), the SBA provides lenders with a repayment guaranty of up to $1,000,000 or 90 percent of the loan amount, whichever is less, on short-term working capital loans. This loan program is transaction-backed financing, can be a single or revolving line of credit, and usually has a term of 12 months or less.

The SBA's International Trade Loan Program was designed to assist small business exporters that require both working capital and fixed-asset financing. Under this program, the SBA can guarantee as much as $1.25 million in combined working capital and facilities-and-equipment loans. The working capital portion of the loan may be made according to the provisions of the EWCP. ■

*For more information about SBA Export Express or other SBA export assistance programs, contact the SBA representatives throughout the country in the U.S. Export Assistance Center nearest you. In Chicago area, call 312/353-8065 and in the Detroit area call 313/226-3670.*

*Editor's note: A special thank you to Jean Z. Smith, acting director, Office of International Trade, U.S. Small Business Administration, for her assistance in preparing this article.*

# *Building Capacity: The Illinois CDFI Coalition*

A recent survey conducted by the Illinois Facilities Fund revealed that federally certified Community Development Financial Institution (CDFI) in Illinois are a significant force in the state's low-income communities.

Eleven federally certified CDFIs and their investors have helped to create or maintain more than 13,000 jobs, 38,689 units of housing and 1,480 businesses in Illinois.

Since the United States Department of the Treasury launched the Community Development Financial Institution Fund in 1994, many states have created complementary, state-based CDFI programs. Now, Illinois is joining this trend with the establishment of an Illinois CDFI Coalition.

**Illinois CDFI Coalition**

Convened by the Illinois Facilities Fund, the Coalition includes many of the 31 federally certified CDFIs located in Illinois and is dedicated to strengthening and expanding the Illinois CDFI industry.

Many state communities have limited access to affordable personal financial services or financing for small businesses, community facilities and affordable housing. The Coalition is working to bring affordable financing to all corners of the state by providing opportunities for members to share best practices, developing new financing strategies and taking steps to maximize risk-sharing partnerships with traditional financial institutions.

Since inception last year the Coalition has focused its efforts on raising awareness about the work that CDFIs do and moving to establish a state program to support that work. The Coalition worked with Governor George Ryan and members of the Illinois General Assembly on proposals to establish an Illinois CDFI Fund during the recently concluded Illinois legislative session. Members of the Coalition gave testimony before legislative committees, worked with officials in the executive branch and met with numerous elected officials to discuss the impact of the CDFI industry in Illinois and the potential for industry growth. The Governor and members of the General Assembly were supportive of the concept of an Illinois CDFI Fund and plan to continue working with the Coalition to establish a program.

The Coalition envisions a state-funded program to provide financial support for capital, internal capacity building and technical assistance for borrowers and potential borrowers. A state program would allow coordination of a wide range of organizations engaged in some form of investment activity in low-income, under-served communities, including:

- Banks and other traditional, regulated financial services organizations
- The 31 entities currently certified as federal CDFIs in Illinois
- Revolving loan funds and municipal economic development lending programs
- Credit unions
- Rural finance and development organizations
- Micro-enterprise and small business financing entities, including venture capital funds

The Illinois CDFI Coalition will meet on Thursday, September 13, 2001, to discuss the current policy and economic environment for CDFIs, hear details about programs in other states, share successful practices and build new relationships within the CDFI industry. The Federal Reserve Bank of Chicago will host the meeting. Interested individuals engaged in community development financing in Illinois are invited to attend. ■

*For more information: Contact Elizabeth Evans, Director of Public Policy and Communications at the Illinois Facilities Fund, 312/629-0060.*

# *Brownfields Conference Should Be Biggest Yet*

More than 3000 Brownfields redevelopment stakeholders are expected to attend Brownfields 2001, September 24-26, 2001 at Chicago's McCormick Place Convention Center. The conference is free to attendees and co-sponsored by 17 organizations including the Council for Urban Economic Development, the United States Environmental Protection Agency (EPA), the National Association of Industrial & Office Properties, the United States Conference of Mayors and the Mortgage Bankers Association.

The EPA defines Brownfields as abandoned, idled or underused industrial and commercial properties where expansion or redevelopment is complicated by real or perceived contamination. A Brownfields National Partnership was formed in 1997 to bring together resources from more than 15 Federal agencies to address local issues of cleanup and re-use in a more coordinated manner. Chicago is one of 16 "Brownfields Showcase Communities", demonstrating the effects of collaborative activity on brownfields.

The 2001 conference is free of charge, and offers participants opportunities to learn from more than 150 presentations on topics such as the "nuts and bolts" of brownfields clean-up and re-development, financing strategies and the experiences of other cities. Attendees are also encouraged to share their own experiences and ideas. ■

*Advanced registration is required. Register on-line at http://www.brownfields2001.org or call toll-free: 877/343-5374, or if you have questions, call Ms. Ginny Narsete, Brownfields Project Manager, in Chicago: 312/886-4359.*

**www.chicagofed.org**

CHICAGOFED
**on the web**

chicagofed.org

The Federal Reserve Bank of Chicago's web site offers a wide variety of timely and unique information

- Economic Data and Research
- Banking Data
- Educational Resources
- Publications
- Community and Economic Development Initiatives
- Economic Development News & Views
- Community Reinvestment Act Information
- Consumer & Community Information

# 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.

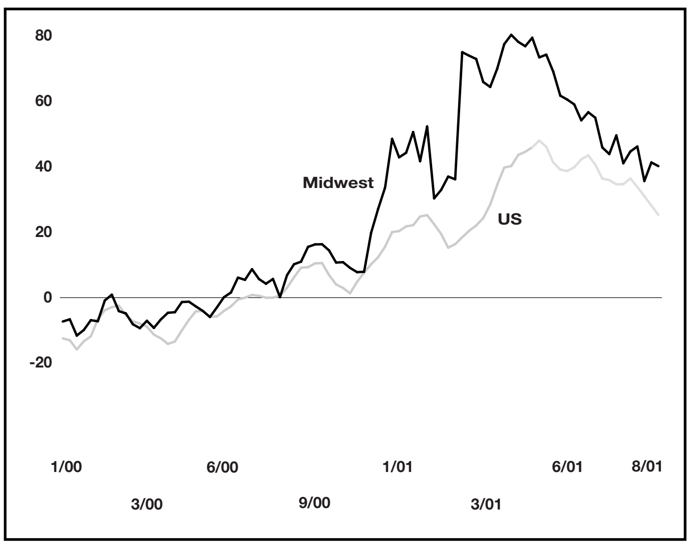
Unemployment rates for Seventh District MSAs are derived from data provided by the United States Department of Labor (USDL). Using definitions and guidelines established by the USDL to ensure consistency across state lines, state agencies calculate MSA unemployment rates on the basis of a monthly payroll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

Through the better part of this record economic expansion, labor markets in the Seventh District were tighter than the nation as a whole. In contrast to the 1980s, the Midwest's unemployment rate had been running below the national average since 1992. While good news for the region's workers, whose wages and salaries grew faster than the national average, the very low levels of unemployment made it difficult for employers to find quality help. Broad-based labor shortages, across both industry and occupational categories, had contributed greatly to the District's slowing employment growth in the last few years. Earlier in this expansion, 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 a generally slower economy and relatively unfavorable migration patterns, the trend toward slower job growth should continue in the near term.

## Labor Market Highlights

Labor markets in the Midwest continued to develop slack through July, as evidenced by significant year-over-year increases in initial claims for unemployment insurance benefits (see chart). Much of the softness is still concentrated in the manufacturing sectors, where layoff announcements remain prevalent. The Midwest, of course, continues to be the most heavily industrialized region in the nation.

*Change in initial unemployment claims*




In Illinois, the seasonally adjusted unemployment rate rose to 5.3 percent in July, well above last year's rate of 4.3 percent. Lucent Technologies, which has a significant presence in the western suburbs of Chicago, recently announced that 15 to 20,000 jobs would be trimmed from the company's payrolls. It is not known how many, if any, of these jobs are in the Chicago area.

Indiana, the nation's most heavily industrialized state by some measures, also saw an increase in unemployment versus one year ago, at 3.9 percent. Demand for workers remains sluggish, and there were reports that businesses were curtailing fall recruiting activities at universities in the state.

Iowa's labor markets remain the tightest in the District, with the seasonally adjusted unemployment rate coming in at 3.1 percent, slightly above last July's rate. The state's manufacturing sector was not immune from layoffs, however, as producers of durable goods continued to trim payrolls through July.

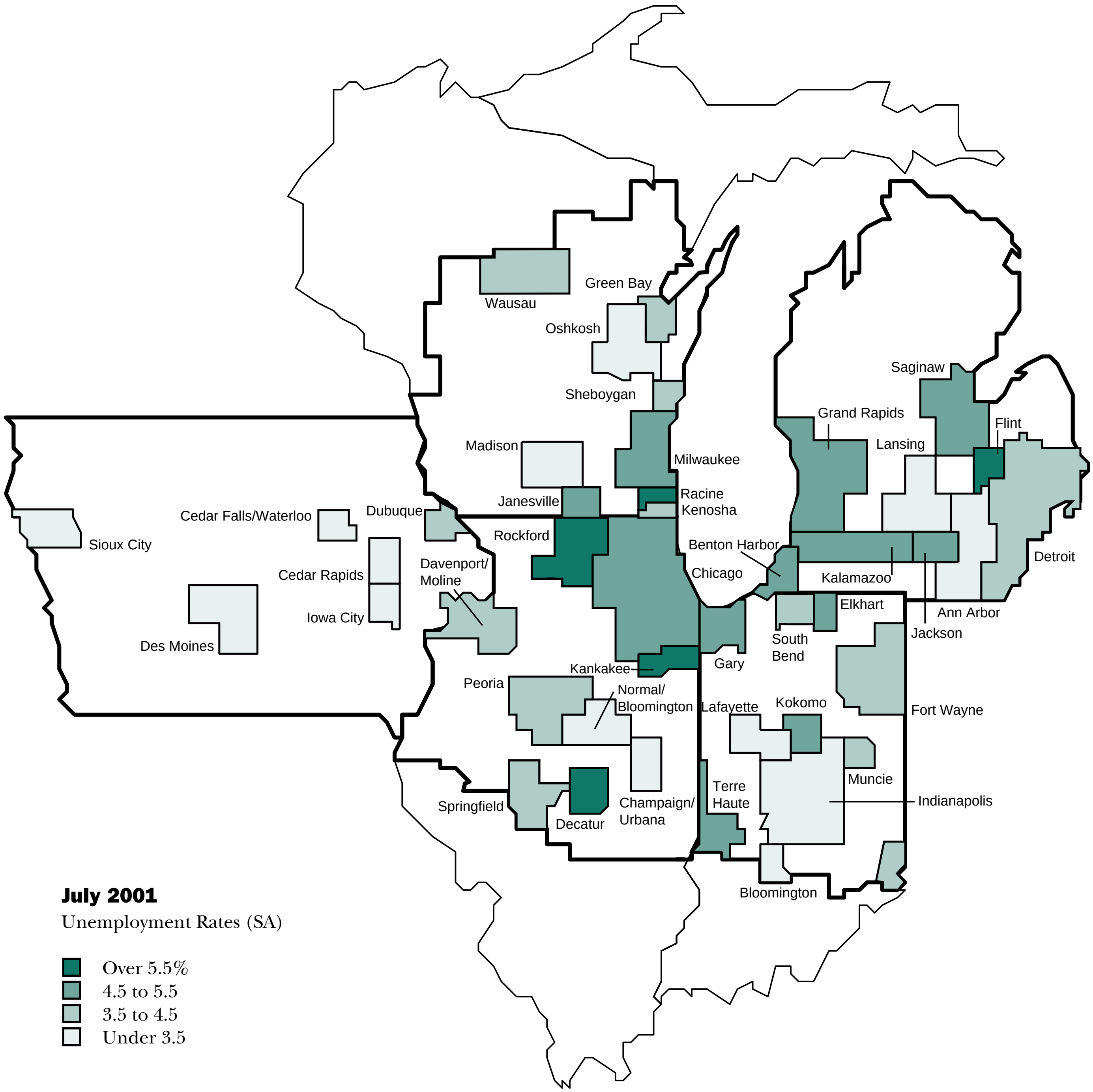
Michigan's unemployment rate dropped slightly in July to 4.9 percent, but remains 1.0 percent higher than last year. This represents the most substantial increase of the five District sates. Most of the softness was concentrated in auto-related manufacturing, but recent reports suggest that the worst may be over for the industry.

While Wisconsin's unemployment rate, at 4.4 percent, was 0.7 percentage points higher than last June, it was lower than the national average. In February of this year, the state's unemployment rate rose above the national average for the first, and only, time in well over a decade.

*Richard E. Kaglic*
*Economist*

# *Seventh District Labor Markets*

**Unemployment conditions for July 2001**




NOTE: All rates are subject to revision.

# U.S. Economy Better in July, Though Still Weak

The Chicago Fed National Activity Index (CFNAI) increased to –0.50 in July from a downward revised value of –1.10 in June. Smaller reductions in industrial production and manufacturing employment led the way in improving the monthly index from its recent low in June. The three-month moving average index, CFNAI-MA3, was –0.82 in July, showing a slight improvement from the upward revised –1.02 in June. July marked the thirteenth consecutive month that the CFNAI-MA3 was below zero, an indication that the national economy has been growing below trend for over a year. Index values below zero signal reduced inflationary pressures over the next year.

**Interpreting the CFNAI-MA3**

| | |
|---|---|
| If CFNAI-MA3 < –0.70 following a period of economic expansion… | Increasing likelihood that a recession has begun. |
| If CFNAI-MA3 > +0.20 following a period of economic contraction… | Significant likelihood that a recession has ended. |
| If CFNAI-MA3 > +0.70 more than two years into an economic expansion… | Increasing likelihood that a period of sustained accelerating inflation has begun. |
| If CFNAI-MA3 > +1.00 more than two years into an economic expansion… | Substantial likelihood that a period of sustained accelerating inflation has begun. |

The July data underlying the CFNAI were generally better than the second-quarter data, although they show that the U.S. economy began the third quarter slowly. In the manufacturing sector, the July data were more mixed than the previous months' almost uniformly negative reports. Notably, although the National Association of Purchasing Managers' indexes continued to portray a contracting manufacturing sector, manufacturing industrial production was unchanged in July after falling in June, and manufacturing employment posted a smaller decline. Overall nonfarm payroll employment fell by 42,000 jobs in July, a smaller decline than in June, and the unemployment rate was unchanged. Housing starts and permits remained at high levels, and consumption expenditures rose slightly in July.

Of the five broad categories of data included in the CFNAI, the "personal consumption and housing" category continued to provide the largest positive contribution to the index in July. Overall, 60 of the 85 individual indicators displayed below-average growth in July; and while 56 series improved relative to June, 38 of these still indicated below-average growth. As of August 30, July data for 58 of 85 indicators had been published. For all missing data series, estimates were used in constructing the index. Furthermore, because the Census Bureau's conversion of key source data to the North American Industry Classification System basis has been delayed, 17 data series used in constructing the index over the April–July period are still being estimated. These data relate to manufacturing and trade shipments/sales, orders, and inventories.

**The following are the official release dates for 2001:**

| Date of Release | Monthly Data for |
|---|---|
| September 4, 2001 | July 2001 |
| October 3, 2001 | August 2001 |
| November 5, 2001 | September 2001 |
| December 5, 2001 | October 2001 |

The negative July reading is continuing evidence that national economic growth is substantially below trend. The CFNAI-MA3 has been at or below –0.70 since January 2001. Still, the likelihood that the U.S. economy was in a recession appears to have decreased noticeably from June to July. In the sample period over which the CFNAI is constructed (1967–2001), there were five economic recessions. In each of these recessions, the CFNAI-MA3 fell below –1.50. The July CFNAI-MA3 reading of –0.82 continues to be above those previous recessionary levels. Relative to these earlier periods of economic weakness, the personal consumption and housing component of the index has been stronger during the current slowing.

Revisions to the June index can be attributed to two main factors: revisions in previously published data and differences between the estimates of previously unavailable data and subsequently published data. The revised June CFNAI is 0.08 lower than the initially reported –1.02, almost entirely due to revisions to previously published data. ■

*The Chicago Fed National Activity Index is published monthly and can be accessed on our Web site at www.chicagofed.org.*

# Operation HOPE Comes to Chicago

Thanks to a $100,000 grant from Oprah Winfrey's Angel Network, Los Angeles-based Operation HOPE, Inc., (OHI) is bringing its "four corners of hope" to Chicago in September 2001.

OHI is a nonprofit organization that seeks to bring economic self-sufficiency and a sustained spirit of revitalization to America's inner-city communities. It plans to inaugurate and initiate an ambitious plan for providing economic literacy training to Chicago's youth through a new "Banking on our Future" program office located in Chicago. This program has been successful in several other cities and targets youths in the 6th through the 12th grades.

The four corners of hope at OHI are economic literacy for children, economic education for adults, economic and digital empowerment and literacy.

The nonprofit organization started on May 5th, 1992, with a total annual operating budget of $61,000, a $200,000 loan from Bryant Group Companies, Inc., (owned by John Bryant, OPI's founder and chief executive officer) one half of one employee and a vision to eradicate poverty and to "change the world."

Today, it operates chapter offices in a dozen American cities. OHI has five "brick and mortar" full-service empowerment facilities in Los Angeles; a regional program office in San Francisco; a regional program office in New York City; and a regional program office in Washington, D.C.

OHI also has a "family" of companies and sponsors built over 10 years and comprising more than 120 banks and corporations that partner with and support OHI's vision, mission and purpose. Banking partners include Wells Fargo, Union Bank of California, Bank of America, Washington Mutual, Deutsche Bank of the Americas, and a number of strong and active community banks.

In addition, OHI owns and operates three Operation HOPE Banking Centers & Inner-City Cyber Cafes. Working with and through its partners, OHI has made more than $72 million in loan commitments for inner-city homeownership and small business ownership. The Greenlining Institute reports that in 1998 and 1999, OHI made more loans to low- to moderate-income borrowers (those making $35,000 per year or less) in inner-city Los Angeles than the top eight banks in California combined.

As of December 31, 2000, OHI had served more than 223,000 clients, customers and borrowers, at an average cost of $40.33 per person. Seventy-three thousand inner-city youths have been educated in the basics of keeping a checking account and a savings account, and understanding the importance of credit and investment. Close to 1,000 volunteer banker-teachers, in more than 300 schools that serve children from low- to moderate-income families, provided this training.

"To make things work on a local level, there has to be local buy-in and local partnerships," Bryant explained.

These partnerships have been a key to OHI's previous success. As OHI launches its program in Chicago, the organization's leadership has started to build a partnership and a network of government, community and private sector leaders.

Economic Development News & Views looks forward to reporting on Operation Hope's efforts in Chicago. ■

*You can access additional information on Operation HOPE either on its website at www.operationhope.org or by contacting Mary Hagerty, Senior Vice President and Chief of National Initiatives for Operation HOPE at 213-891-2900.*

## Operation HOPE Performance: 1992-2001

- *Secured more than $75 million in lending commitments to 457 low and moderate-income borrowers, using the capital of their partner banks.*
- *Trained more than 73,000 inner-city youth, utilizing a growing network of more than 600 volunteer banker-teachers, in the basics of a check account, savings account, the importance of credit and investment in their young lives, through the Banking on Our Future program.*
- *Educated, counseled, and helped more than 223,000 clients, customers and economic education recipients through Operation HOPE to date, at a delivery cost of $40.33 per served individual.*
- *Enrolled and trained 263 students through their UCLA Extension Computer Training program.*
- *Educated more than 15,000 adults through their Economic Education programs.*
- *Provided Credit and Debt financial counseling to more than 4,000 individuals by establishing their credit and lowering debt for the purpose of qualifying them for Home and Small Business loans.*

FEDERAL RESERVE BANK
OF CHICAGO

Economic Development

News & Views

**Volume 7 Number 2**
**Fall 2001**

*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

PRESORTED
STANDARD MAIL
U.S. POSTAGE PAID
CHICAGO, IL
PERMIT NO. 1942

RETURN SERVICE REQUESTED