

A night-time photograph of the Chicago skyline, featuring several illuminated skyscrapers, including the Willis Tower. The city lights reflect on the water of Lake Michigan in the foreground. A boat is visible on the water in the lower right corner.

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August 2013

Mapping the Recovery:
Sentiment Survey of Small
Business Intermediaries
in Chicago

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August 2013

In our continuing efforts to support and understand the roles of small businesses in our local and regional economy, we polled organizations that provide technical assistance to Chicago businesses. The edition provides detail on perceptions of these groups, which serve businesses across the city, about the small business climate pre- and post-recession.

The Fed's Community Development and Policy Studies division has developed various polling instruments to gauge conditions in the Seventh District, in particular those that impact low- and moderate-income populations. We thank the City of Chicago Department of Housing and Economic Development for their partnership and assistance in distributing our poll for this study.

The Federal Reserve Bank of Chicago

The Federal Reserve Bank of Chicago and its branch in Detroit serve the Seventh Federal Reserve District, which encompasses southern Wisconsin, Iowa, northern Illinois, northern Indiana, and southern Michigan. As a part of the Federal Reserve System, the Bank participates in setting national monetary policy, supervising banks and bank holding companies, and providing check processing and other services to depository institutions.



Mapping the Recovery:

Sentiment Survey of Small Business Intermediaries in Chicago

by Robin Newberger, Susan Longworth, and Daniel DiFranco

Introduction

The Community Development and Policy Studies (CDPS) division of the Federal Reserve Bank of Chicago distributed a poll to small business intermediaries in the fourth quarter of 2012 to ask about their perceptions of small business conditions in their neighborhoods. The purpose of this poll was to get a better understanding of the small business climate in diverse neighborhoods of the city of Chicago. It was designed to capture perspectives at the neighborhood level, perspectives that are not observable in aggregated data. The results show an array of opinions about the small business climate in neighborhoods across the city, and perceptions of relative community resilience and vulnerability.

The poll focused on the pre- and post-recession experiences of businesses in order to understand the impact the recession had on city neighborhoods, and how well they have recovered. Respondents were asked about the business sentiment and factors impacting the business climate in their communities prior to the recession compared to the post-recession period. The respondents comprised nonprofit organizations that provide technical assistance to (general business advice) and links to sources of capital for small businesses, as well as local market oriented business attraction and retention services.

The poll was designed to answer two questions:

- What are the perceptions of business conditions across Chicago neighborhoods and where has the perceived business climate improved, stayed the same, or deteriorated since the recession?
- How do characteristics of the neighborhood, or characteristics of local businesses served by the small business intermediary agency, relate to an agency's sentiment about the business climate?

Polling methodology

CDPS partnered with the City of Chicago Department of Housing and Economic Development (HED) for the distribution of the polling instrument. The poll was sent to 86 business intermediaries in the city of Chicago during September 2012.¹ In Chicago, the city contracts with nonprofit groups to deliver business support services. These business intermediaries provide support services and/or access to credit and capital to businesses in their service areas. They receive financial support, in the form of Community Development Block Grants. The respondent organizations, referred to collectively as delegate agencies, fall into three sub-categories

based on the type of support provided and by type of businesses served (see table 1):²

- Special Service Area Service Providers manage Special Service Areas (SSA). SSAs, known as Business Improvement Districts or BIDs in other cities, are local tax districts that fund expanded services and programs through a local property tax levy. SSA-funded projects typically include: public way maintenance and beautification; district marketing and advertising; business retention/attraction, special events and promotional activities; auto and bike transit; security; façade improvements; and other commercial and economic development initiatives.³
- The Local Industrial Retention Initiative (LIRI) program provides funding to nonprofit organizations that support local industrial corridors with a wide variety of economic development services. Commonly referred to as LIRIs, these organizations work towards job retention/creation, finding solutions for individual business needs, and making linkages between businesses and their communities and coordinate city resources in their service areas.⁴
- Agencies that provide Commercial Support Service (CSS) support local commercial districts and businesses with a variety of economic development services. Delegates contribute to local job retention/creation, address specialized business needs, work to link businesses with their communities, and coordinate city resources needed in their service areas.⁵

The poll was launched on September 5, 2012, and closed on October 5, 2012. Sixty-four organizations responded to the poll—a response rate of 74 percent. The majority of respondents interact with more than 100 businesses per year, giving them deep insight into local conditions faced by their clients and the overall business climates within in their service areas.

Map 1 shows respondent coverage by census tract. More than 75 percent of census tracts (601 of 796 tracts) fell within the service area of at least one reporting delegate agency. Most city delegate agencies define their service areas in terms of a community area or neighborhood, and the 64 responding organizations covered 62

Map 1: Respondent coverage by census tract

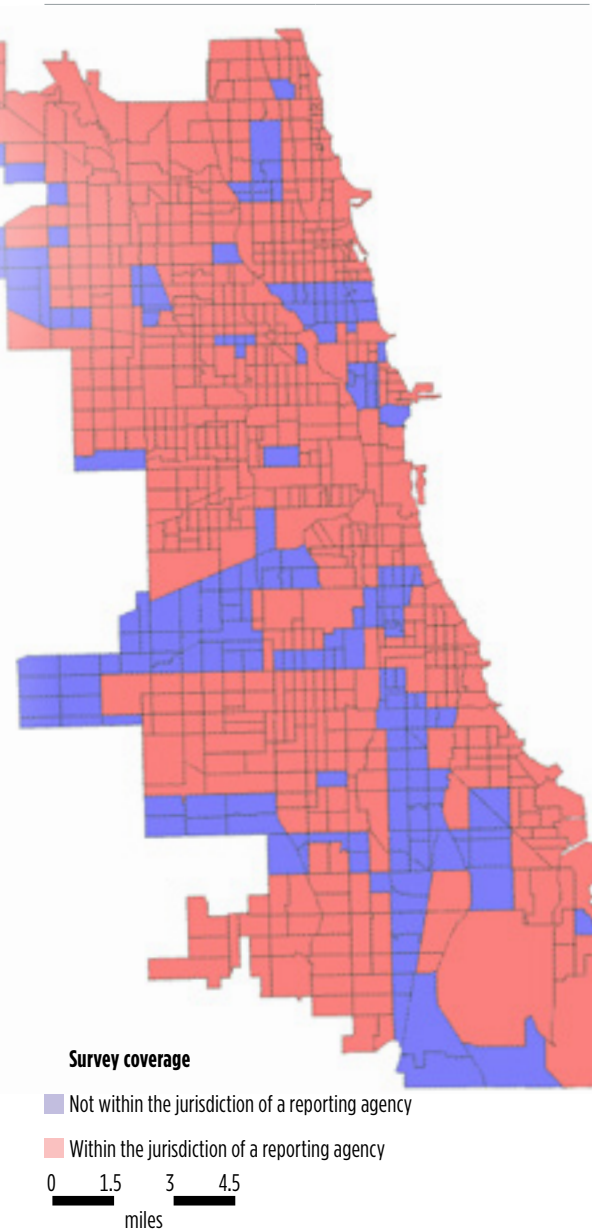
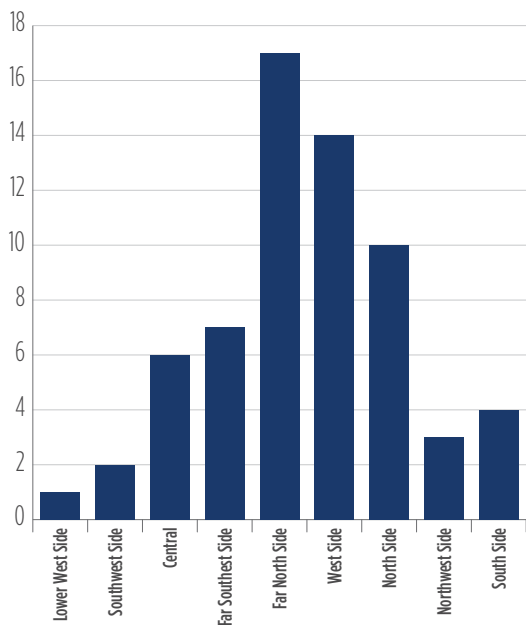


Table 1: Percent respondents by type of organization

Type of organization	Percent of respondents
SSA	38%
LIRI	18%
CSS	88%

Chart 1: Respondent representation by city region



percent of the community areas in the city (48 of the 77 community areas).⁶ Most respondents answered from the Far North, North and West Sides (see chart 1).

Some regions were served by multiple, partially overlapping organizations.

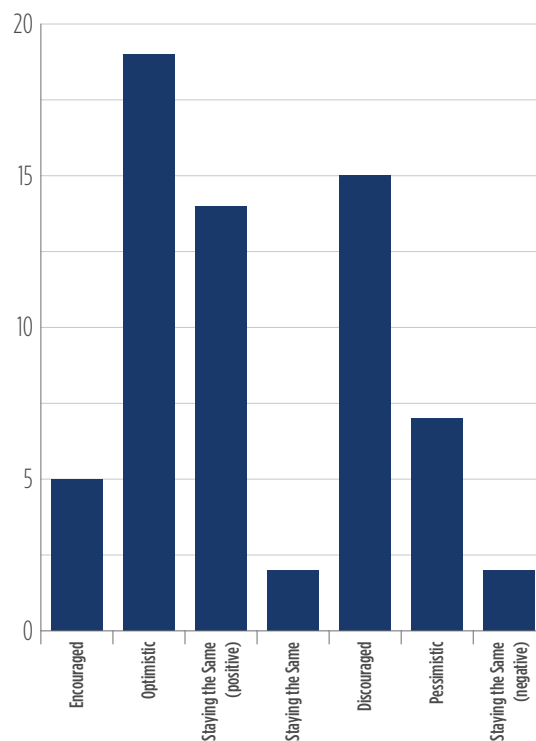
What are the perceptions of business conditions across Chicago neighborhoods and where has the perceived business climate improved, stayed the same or deteriorated since the recession?

Respondents were asked in 2012 about the business climate in their service areas before versus after the financial crisis. Across all respondents, perhaps not surprisingly, sentiment about business climate tended to be more positive before the financial crisis than three years after the crisis. In answer to the question about perception of the economic situation

in their community, 67 percent (43/64) responded that the situation was getting better before the recession compared to 45 percent (29/64) who responded that the situation was getting better after the recession. Similarly, 22 percent (14/64) answered that the business climate was getting worse before the recession, compared to 34 percent (22/64) who answered that the situation was getting worse after the recession.

The categories “optimistic,” “encouraged,” “discouraged,” and “pessimistic” connect respondents’ sentiments across the two periods. “Optimists” saw conditions getting better both before the recession as well as three years after the recession. The “encouraged” respondents saw the business climate getting worse in the pre-recession period but improving in the post-recession period. The “discouraged” respondents had seen neighborhood business conditions improving before the recession but saw the climate getting worse in the post-recession

Chart 2: Sentiment count



period. And the “pessimistic” respondents saw the business climate getting worse in both periods. Most respondents were either optimistic (improving in both periods) or discouraged (improvement pre-but not post-recession), although a large contingent also responded that conditions stayed the same after having reported that conditions were getting better before the recession, reflecting a sentiment of resilience (see chart 2).

Further, the respondents who had a positive perception of the business climate before the recession tended to maintain a positive perspective after the recession. Of the 43 respondents who reported having a positive view before recession, 44 percent (19) had a positive view after the recession, 21 percent (9) said climate was unchanged (which was interpreted as positive), and 35 percent (16) said climate had worsened in their service areas.

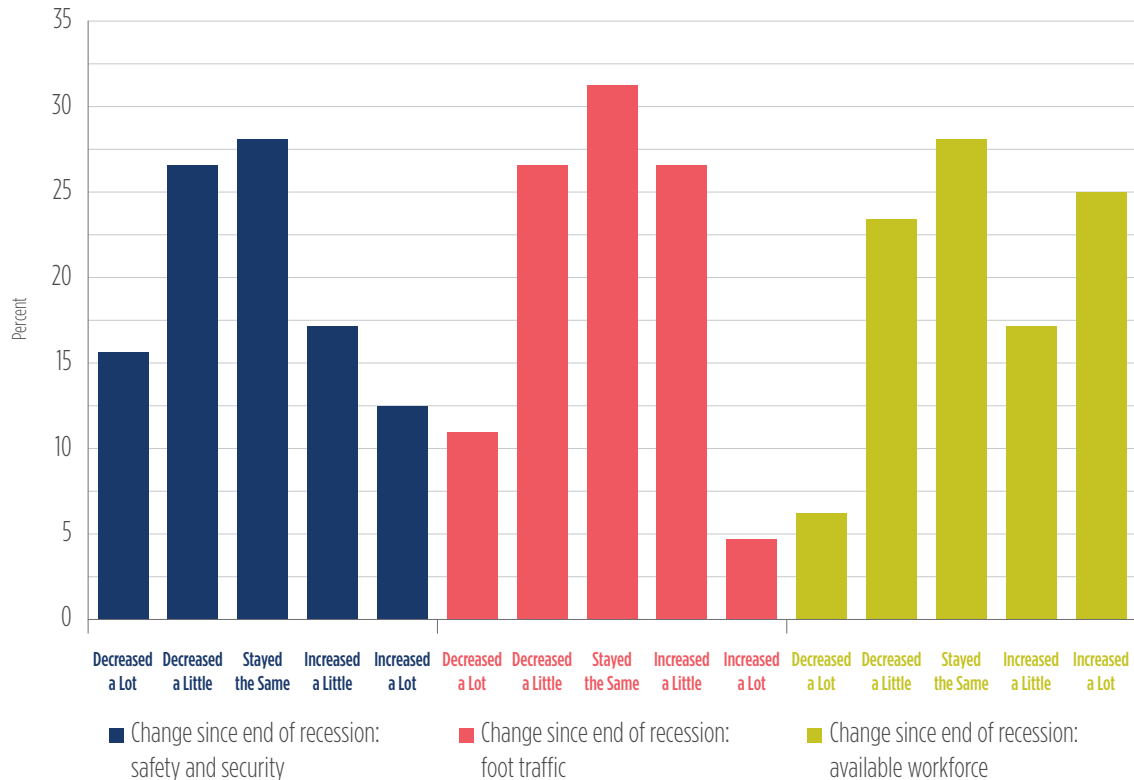
Similarly, the respondents who had a negative view before recession tended to maintain a negative view.

Of the 14 respondents who reported a negative view before the recession, 50 percent (7) responded that conditions had worsened, 14 percent (2) said the climate was the same as before the recession (which we consider as a negative response about business conditions), and 36 percent (5) said the climate was getting better.⁷

Perceptions about specific aspects of communities

Respondents were also asked about some of the specific aspects of their community that have the potential to impact commercial activity and how these aspects had changed since the recession. Specifically, they were asked to comment about (1) safety and security; (2) foot traffic; and (3) the availability of a qualified workforce. Charts 3-5 show these responses. Respondents perceived a slight decrease in safety post-recession. Most respondents did not report much of a shift in foot traffic, except for a few who indicated a large decrease. Overall,

Charts 3-5: Change in neighborhood characteristics



agencies reported that the qualified workforce decreased by a little or not all.

Respondents were also asked to rank the importance of the following five business needs:

- Access to capital
- Access to customers
- Credit repair
- Reliable employees
- Relief from fees/licenses

Nearly all respondents (87.5 percent) indicated that either access to capital or access to customers was the most important business need in their communities. Both these needs were consistently ranked as important, but access to capital was especially important. Reliable employees and credit repair were consistently reported as less important (see table 2).

Business condition sentiment by city region

The poll was designed to explore perceptions about the business climate in different areas of the city. As maps 2 and 3 (see page 8) show, optimistic and pessimistic respondents were dispersed across the city. Perceptions of the business climate were consistently positive both before and after the recession within the Central and Near South sides of the city (along the lakefront), as well as within an isolated pocket in the Far North, suggesting a certain resiliency within these communities.

Five organizations reported an improvement in the business climate after the recession and a decline before the recession. These “encouraged” intermediaries work with businesses on the North, West, and South sides.

The 15 respondents who answered that the business climate in their service areas had been positive but turned negative after the recession were located across the city. The North and Northwest sides reported declining sentiment in 2012 relative to the pre-recession period, as did the far southwest side (areas that changed from blue to red). These areas of apparent vulnerability extend both northwest and southwest from the city center.⁸

Sentiment on the Far South Side was consistently negative in both periods (areas in red in both maps).

Can characteristics of the neighborhood or characteristics of local businesses be associated with positive or negative sentiment about the business climate?

Another purpose of the poll was to explore relationships between agency sentiment and place-based indicators of business vitality. To examine this question, we first reconciled economic, demographic, and lending data – typically provided at the census tract and zip code levels – with the geographies served by various delegate agencies.⁹ Our analysis also examined sentiment responses with information on the types of businesses served by intermediary, in an attempt to consider other place-specific factors that may affect perspectives on the small business climate in a given community.

Tables 3 and 4 show average service area characteristics among respondents who indicated that the post-recession climate was either getting worse “negative” (24), staying the same “neutral” (2), or getting better “positive” (38).¹⁰ To match sentiment figures from delegate agencies with census tract data, tract information reflects the unweighted averages of data in the census tracts across the respondents who include those tracts in their service area. In several cases, there was considerable overlap between service areas with respect to the census tracts they cover, and in five instances, two respondents had more than half of their service area census tracts in common.

Overall, differences in sentiment corresponded to differences in certain neighborhood characteristics. Among other things, the table links a more positive perception about business climate with fewer low- and moderate-income (LMI) census tracts in respondents’ service areas while a more negative perception of the business climate corresponds with somewhat higher percentages of LMI census tracts. Further, poverty rates were somewhat higher in the jurisdictions with more negative sentiment compared to jurisdictions with more positive sentiment (although they were highest in the two jurisdictions where the business climate was reportedly the same both before and after the recession).

Table 2: Ranking of business needs (n=64)

	Most Important	Least Important
Access to capital	48.4% (31)	1.6% (1)
Access to customers	39.1% (25)	9.4% (6)
Relief from fees/licenses	10.9% (7)	10.9% (7)
Reliable employees	2% (1)	32.8% (21)
Credit Repair	0	45.3% (29)

Table 3: Post-recession sentiment by neighborhood characteristics (n=64)

Characteristic	Negative (24/64; 38%)	Neutral (2/64; 3%)	Positive (38/64; 59%)
Percent low- and moderate-income (2011) ¹¹	62.50%	100%	50%
Percent families below poverty level (2011)	17.50%	23.20%	16.10%
Percent foreign born (2011)	21.30%	13%	20.10%
Percent vacant units (2011)	10.80%	12.30%	12.90%
Percent change home prices (2007-2012)	-48%	-38%	-37%
Percent residences in foreclosure (2012)	8%	8.70%	7.90%
Incidents violent crime per 100,000 (2012)	911	788	974
Incidents property crime per 100,000 (2012)	3418	3812	4286
Percent owner-occupied units (2011)	45.80%	34.50%	35.30%

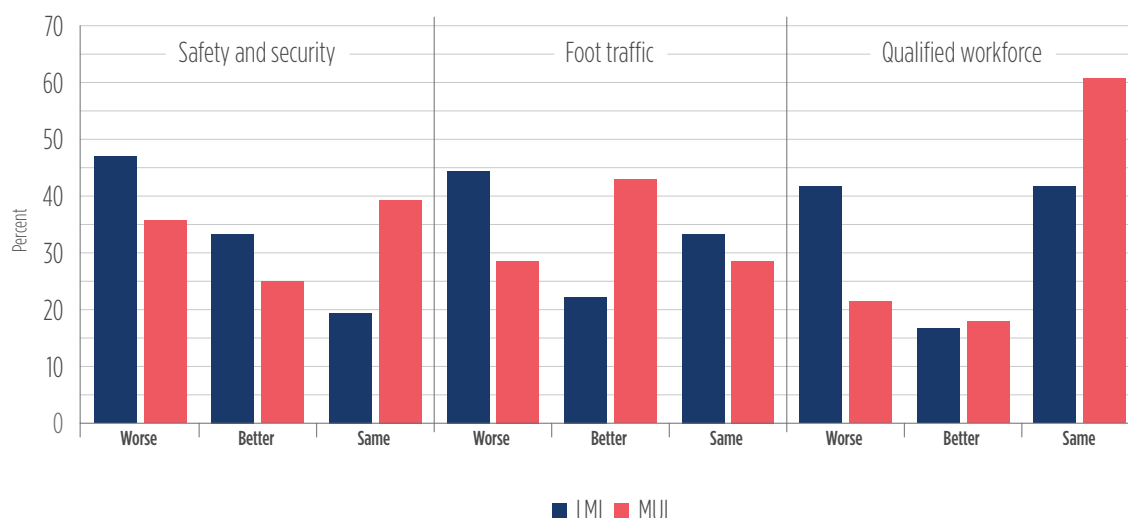
Sources: FFIEC Census Reports; 2000 and 2010 Decennial Census, 2006-2010 ACS, and Federal Reserve Bank of Chicago Calculations; Institute for Housing Studies, Housing Price Index (<http://www.housingstudies.org/data/ihp-price-index>); Loan Processing Services; Chicago Police Department.

Table 4: Post-recession sentiment by neighborhood business and lending characteristic (n=64)

Characteristic	Negative (24/64; 38%)	Neutral (2/64; 3%)	Positive (38/64; 59%)
Percent in labor force (2011)	66.40%	67.80%	69.70%
Percent employed persons (2011)	87.60%	84.30%	89.50%
Business establishment counts (edited): Total, per 10,000 people (2011) ¹²	68.1	41.1	123.3
Tax basis: Total, per capita (2011) (\$)	\$106,080	\$215,086	\$167,144
Number of full-service bank branches: Total, per 10,000 people (2012) ¹³	1.89	1.51	3.27
Deposits: Total, per capita (2011) (Thousands of Nominal \$)	\$14.16	\$16.89	\$50.20
HMDA home purchase originations: Total, per capita (2011) (\$)	\$942	\$1,290	\$1,920
HMDA refinance originations: Total, per capita (2011) (\$)	\$3,106	\$1,387	\$5,415
SB loan amount: Annual rev <= 1M, per capita (2011) (\$)	\$122	\$207	\$244
Number of SB loan originations annual rev <= 1M, per 10,000 people	38	29.4	62.9

Sources: 2000 Decennial Census, 2006-2010 ACS, and Federal Reserve Bank of Chicago Calculations; Dun and Bradstreet; Illinois Department of Revenue; FDIC Summary of Deposits; Federal Financial Institutions Examination Council (FFIEC), "Home Mortgage Disclosure Act (HMDA): Loan Application Register (LAR)"; Federal Financial Institutions Examination Council (FFIEC), "Community Reinvestment Act (CRA): Disclosure Data."

Chart 6: Sentiment on community characteristics by neighborhood income



Some findings did not follow anticipated patterns: service areas with more positive sentiment about their business climates actually had proportionately fewer home owners and higher incidence of property crime and violent crime.¹⁴

With respect to other neighborhood characteristics, positive sentiment from respondents was associated with service areas that had higher levels of overall business activity. The service areas of respondents who reported an improving climate in 2012 were associated with higher labor force participation rates, more establishments on a per capita basis, and greater (taxable) sales revenues (see table 4). In addition, sentiment was more positive in service areas with greater banking activity, as measured by bank branch presence, HMDA originations and refinances, as well as small business loan activity. The places served by respondents with a positive sentiment had a greater number of bank branches per capita, more small business lending and more residential lending.

The findings remained similar when removing responses from the downtown service areas (Near North, Loop or Near South), which have relatively more banks and more establishments than other neighborhoods in the city.

With respect to views on specific community attributes, groups that serve largely LMI areas responded more often that safety and security had worsened compared to those who serve largely middle- and upper-income areas (MUI) (see chart 6). The intermediaries who served largely LMI areas also reported more declines in foot traffic. Respondents with mostly MUI service areas reported little change in safety and security since the end of the recession, that foot traffic had improved since the recession, and that there had been no change in the qualified workforce.

Sentiment and types of businesses served by the intermediary

In addition to relating differences in sentiment to neighborhood characteristics, we also sought to explore whether or not intermediaries' outlook differed by the types of businesses they served. The high proportion (56 percent) of respondents who indicated serving "a mix" of businesses limited this inquiry, however. Still, we were able to identify two subgroups of agencies whose business focus correlated predictably with their responses. A group of 12 (19 percent) respondents identified themselves as Local Industrial Retention Initiative programs

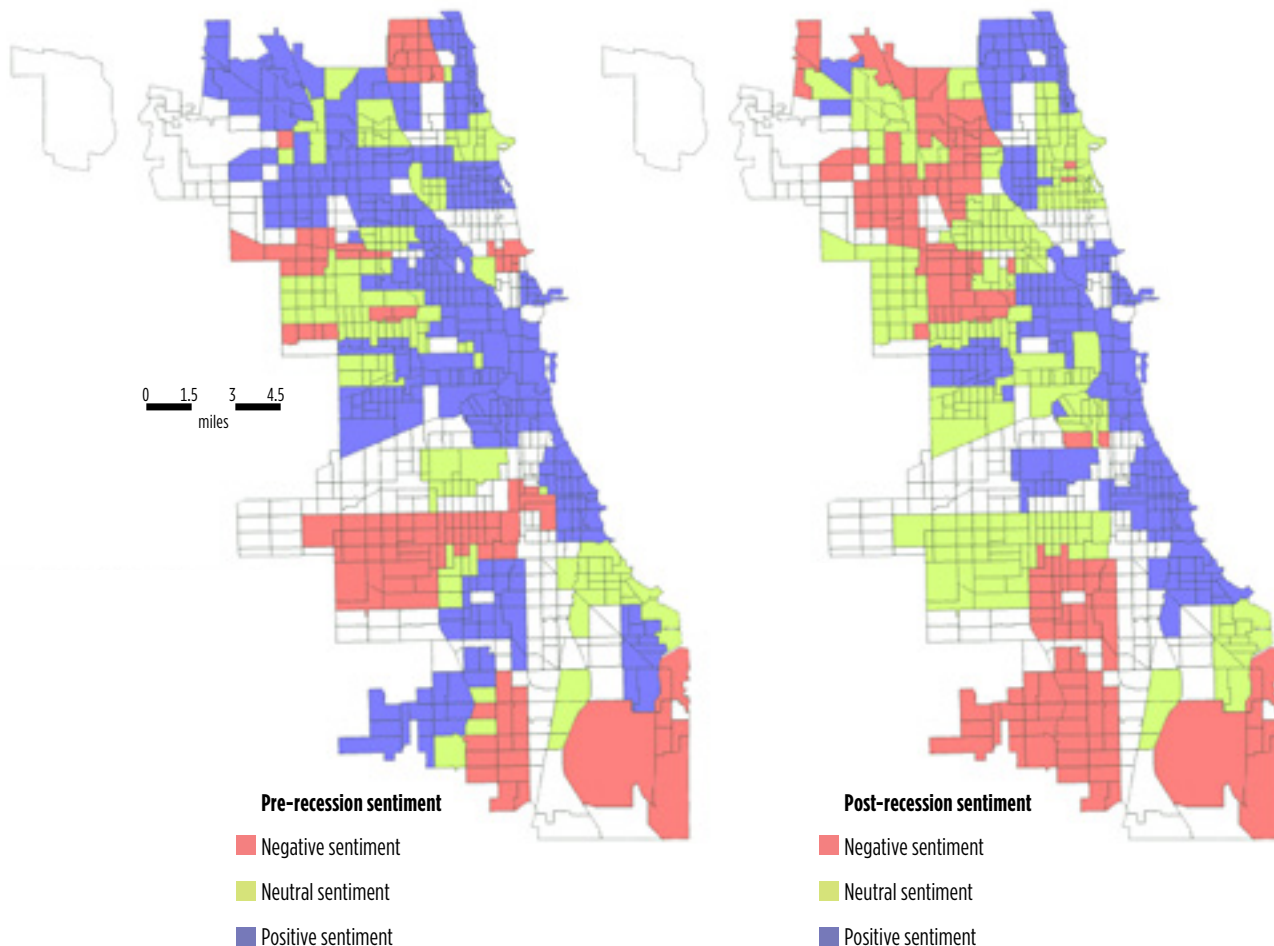
(LIRIs) working with manufacturing companies within designated industrial (non-residential) corridors. And 19 (30 percent) reported that they work primarily with retail businesses.

The 12 LIRIs generally reported positive sentiment about the business climate, even though nine of the 12 LIRIs operated in areas with relatively lower-income populations. Since the end of the recession, LIRI agencies also tended to hold a more positive view of neighborhood safety and security and foot traffic than non-LIRI agencies (see chart 7, page 9).

In contrast, the 19 intermediaries who worked primarily with retail businesses were less optimistic

than those intermediaries that did not have a retail focus. Almost 60 percent of the intermediaries that worked with retail businesses reported a decline in safety and security during the economic recovery, a little under half reported a decline in foot traffic, and over a third reported a decline in the qualified workforce.

Maps 2 and 3: Pre- and post-recession sentiment



Summary and analysis of results

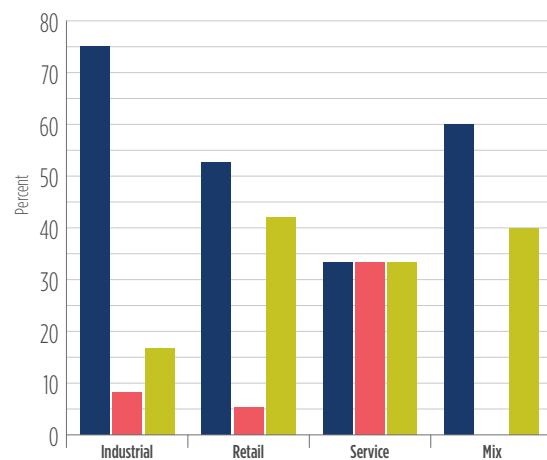
The responses from delegate agencies in Chicago indicate that the broader economic recovery did not improve (or was not perceived to improve) the business climate in all neighborhoods across the city. Some neighborhoods appeared to have recovered from the recession while others did not. In many areas of the city that had been doing well prior to the recession, respondents tended to have a positive perception of the business climate after the recession as well. This general perception suggests a degree of resilience. In contrast, many of the respondents who had negative views before the recession tended to maintain negative views, suggesting that they were neither buoyed by the lead up to the recession nor advanced by the recovery. A third strand in the responses included intermediaries who flipped their sentiment before and after the recession. Most of these were “discouraged” respondents who had positive views of the business climate before the recession but negative views a few years after the recession had officially ended. A subsequent focus group held with delegate agencies on the Northwest Side of the city revealed that many of the businesses in these communities, which largely comprise small businesses in the retail, medical, and service sectors, face shifting consumption patterns with the growth of new groups of immigrants in these neighborhoods and the increasing importance of Internet sales. As long-established business owners accordingly reassess their markets, and newer business owners familiarize themselves with financial tools and the process of bank lending, the recession exacerbated ongoing trends and existing vulnerabilities within these neighborhoods, according to discussion participants.

Another finding from the poll relates to the distinction between sentiment and data in terms of evaluating the neighborhood business climate. The analysis here brings together both personal perspectives from delegate agencies, as well as data on income, housing, and bank activity, among other neighborhood characteristics. The results show some but not all instances of agreement between them. More favorable income and employment measures were associated with more positive sentiment, whereas more favorable housing and crime data were not associated with more positive sentiment.

One interpretation of this may be that the local business community is not necessarily sensitive to these neighborhood characteristics. Another may be that the poll did not capture all of the most important characteristics of neighborhoods that affect the business climate (for example, one focus group participant suggested examining educational attainment or evaluating place-making initiatives). And, another may be that no neighborhood variable in isolation – crime, housing, demography, or other aspect of neighborhood life – has a singular effect on the community. Rather it is the shifting combination of these characteristics that influence perceptions about the business climate.

Perhaps of note for a future study by the Community Development and Policy Studies division is the association between negative sentiment and lower bank activity in neighborhoods. Many of the places that reported a negative sentiment about the business climate were associated with less banking and lending activity (the number of banks, credit unions, non-bank lenders, etc.). Focus group participants voiced additional frustration over the erosion of relationships between banks in their neighborhoods and local small businesses. Participants reported that many of the large banks with a physical presence in their communities appear to maintain no formal

Chart 7: Post-recession sentiment by type of business served

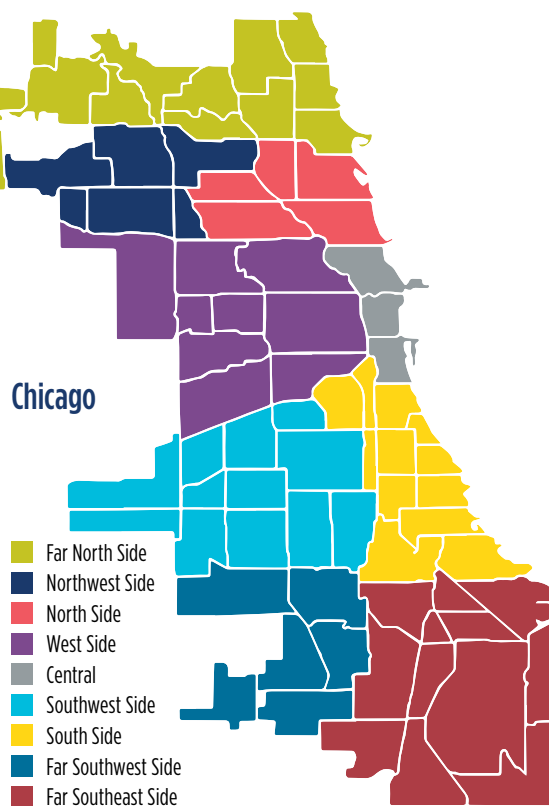


relationships with local chambers of commerce. At the same time, community banks have also decided that many of the small businesses in these areas are too high-risk and too small to offer the potential of a meaningful depository relationship. Where participants have seen bank interest in supporting small business activity, the motivation appears to be obligations related to the Community Reinvestment Act. Focus group participants acknowledged the challenge of identifying the right capital sources for these businesses given low levels of financial literacy, the abundance of “fringe” – i.e., high-cost – sources, and the sensitivity of these businesses to interest rates charged by microlenders. The poll results and the impressions of focus group participants suggest that further analysis of local-level bank activity might be useful to understand perspectives on the neighborhood business climate.

Finally, the poll responses point to a variety of possible places where policymakers could focus their support for local businesses. One set of places includes areas that may have missed both pre-recession growth as well as the post-recession recovery. Alternatively, areas in which business sentiment was positive prior to the recession but negative after the recovery may be the places on which to concentrate interventions. A third possibility is to focus resources on the core areas of resilience that exist in the central business district and along the lakefront in Chicago, and build from this position of relative strength. The policy implications depend largely on the perspective and mandate of the interpreting organization. Regardless of place, focus group participants suggested that interventions include financing and policy tools to support the sustainability of very small businesses (those with fewer than 10 employees), including community lending incentives, financial education for small business owners, and the provision of other information to these businesses. Given the association between sentiment and (some) indicators of neighborhood well-being, there is also likely to be some interplay between the interventions that focus specifically on small businesses and those that support other quality of life factors that help create a strong community. As Federal Reserve Governor Elizabeth Duke wrote in her forward to *Investing in What Works for America’s Communities*, “Sustainable communities – those that can weather economic downturns – not only provide decent

housing, but also have the resources to support individuals and families and to create a dynamic business environment.” Initiatives to support small businesses need not be separate from other community-wide interventions.

Appendix A



Source: City of Chicago

Biographies

Robin Newberger is a senior business economist in the Community Development and Policy Studies division at the Federal Reserve Bank of Chicago.

Susan Longworth is a business economist in the Community Development and Policy Studies division at the Federal Reserve Bank of Chicago.

Daniel DiFranco is a senior research analyst in the Community Development and Policy Studies division at the Federal Reserve Bank of Chicago.

Notes

1. An initial invitation letter was sent from the City of Chicago's Deputy Commission of the Department of Housing and Economic Development. All follow-up with the exception of personal contacts was conducted by the Deputy Commissioner or her staff.
2. Some of the respondents provided multiple services, for example acting as the SSA service provider in addition to being the CSS delegate. Some respondents were also their neighborhood's chamber of commerce. The City also contracts with delegate agencies that work citywide, serving a particular industry (e.g., the Apparel Board) or a specific population (e.g., the Lithuanian Human Services Council). Given the place-based focus of the poll, these organizations were excluded from the sample.
3. See https://www.cityofchicago.org/city/en/depts/dcd/supp_info/special_service_areassaprogram.html.
4. City of Chicago, Department of Housing and Economic Development Agency Directory (page 13).
5. *Ibid*, page 6.
6. See Appendix A for community areas. Community areas were defined in the 1920s and reflect unofficial divisions within the city. While community areas today only roughly correspond to neighborhoods, they continue to be used to make consistent and long-term comparisons between areas of the city.
7. Among the seven who reported that conditions were "staying the same" before the recession, five reported conditions improving since the recession and two reported that conditions continued to be the same.
8. Areas in green on the maps indicate places where sentiment stayed the same. On these maps it is not distinguished whether this reflects a negative sentiment in both periods, or a positive sentiment in both periods.
9. To relate respondent characteristics and tract characteristics in tables 3 and 4, the tract characteristics were calculated as unweighted averages for the census tracts corresponding to the respondents who include those tracts in their jurisdictions. For example, "the percent in labor force" in table 4 was calculated three times, as (1) the unweighted average of census tracts corresponding to respondents who were categorized in the "negative" post-recession category; (2) the unweighted average of census tracts corresponding to respondents who were categorized in the neutral category; and (3) the unweighted average of census tracts corresponding to respondents who were categorized in the "positive" post-recession category.
10. Column categories are based on two questions pertaining to the direction of business climate. Respondents were assigned to the "positive" category if they indicated that the business climate was improving in either period, except if they indicated that the climate was deteriorating in the post-recession period, in which case they are assigned to the "negative" category. Likewise, they were assigned to the "negative" category if they indicated that the business climate was deteriorating in either period, except if they indicated that the climate was improving in the post-recession period, in which case they were assigned to the "positive" category. Respondents were assigned to the neutral category only if they indicated that the climate was staying the same in both periods.
11. A respondent is deemed to be LMI if at least 50 percent of the 2010 population within its jurisdiction resided in an LMI tract; otherwise it is deemed to be non-LMI.
12. D&B establishment counts are limited to businesses with revenues between \$250K and \$1M.
13. Without including respondents from downtown service areas, there were 2.7 bank branches per 10,000 people in places with positive perceptions of business climate and 1.9 branches per 10,000 people in places with negative perception. Without including respondents from the downtown service areas, average per capita deposits were about \$17,000 in the service areas of respondents with positive perceptions of the business climate, and \$15,000 in areas with negative perception.
14. Annual figures between May 2012 and May 2013.

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