Market failure and community economic development in the US

by James L. Greer and Oscar Gonzales[1]

The community development movement in the United States has stepped into markets where economic and social disadvantage co-exist. One of the primary objectives in our recent monograph, *Community Economic Development in the United States: The CDFI Industry and America's Distressed Communities* (New York: Palgrave, 2017), was to examine the differences between the lending activities of mainstream financial institutions and that of two critical elements in the community development industry in the United States – Community Development Financial Institutions (CDFIs), as well as the array of financial actors in the New Market Tax Credit (NMTC) industry. While in our monograph, we analyzed both tax expenditures and community development versus mainstream financial institution investment activity at a national scale, here we examine these data solely for the Seventh Federal Reserve Bank District, an area comprising the entirety of Iowa, and much of Illinois, Wisconsin, Indiana, and Michigan.

There are numerous reasons why economic development lags, sometimes severely, in some of the nation's communities. America's inner city neighborhoods, much of the rural landscape, and not an insignificant proportion of the inner ring of suburbs in the nation's metropolitan areas suffer from diminished economic development and investment due to numerous causes that (often) amplify one another. We identify four such sources of what economists refer to as "market failures."

First is the uneven development and obsolescence of much of the "built environment" – the totality of the basic infrastructural system (the streets, utility systems, rail lines, etc.), also comprising offices, manufacturing plants, warehousing facilities, and most importantly, housing. The decay of the built environment in some areas is especially relevant to their distress, but also to growth elsewhere in their regions. As the needs of the economy and housing tastes change, the tendency has been to build new housing and facilities on the fringes of cities and, increasingly, the edges of metropolitan areas. Over time, especially since the end of World War II, the cores of inner cities were largely abandoned by companies, families, and financial institutions, and economic and population growth moved to outlying suburbs. Since most elements of the nation's built environment are fixed in place, obsolescence takes root in places where reinvestment, redevelopment, or repurposing does not. This trend has served to isolate, socially and economically, many urban areas, and led to abandonment by businesses and families from increasingly blighted communities.[2]

Second, federal housing policy, especially policies adopted in response to the economic crisis of the Great Depression, dramatically undermined the housing markets of America's cities and rural communities. The Federal Housing Act of 1934 (Act) created government-funded mortgage insurance and a new agency – the Federal Housing Administration (FHA) – to administer this new and untested tool. The goal was to stabilize the American housing market, which had been in decline since the mid-1920s and in free-fall after the stock market crash in October 1929. Under the Act, only long-term, low interest rate, fully amortizing[3] mortgages were eligible for federally sponsored mortgage insurance. The FHA developed and promulgated its underwriting manuals (1935, 1936, and 1938) that dictated the standards in extraordinary detail, which were required for a home to qualify for mortgage insurance. For instance, an eligible house had to have not less than three bedrooms, a separate kitchen and living room, windows for each room, full indoor plumbing, and a heating system, and sleeping quarters could not be in cellars or attics. Minimum construction standards had to be meticulously

followed and inspected by FHA personnel. A large proportion of the standing housing in the mid-1930s could not meet these standards and were consequently not eligible for mortgage insurance. Perhaps two-thirds to three-quarters of all housing at that time were disqualified from the new mortgage insurance program. Furthermore, these FHA underwriting manuals were dictatorial regarding the social and racial/ethnic characteristics of neighborhoods where mortgage insurance could be issued.

With the implementation of mortgage insurance, especially during the 1950s and 1960s when housing development was explosive (and largely confined to new suburban subdivisions), the FHA was both successful in facilitating the massive expansion and upgrading of the nation's housing stock, albeit for white homeowners exclusively.[4] It was also a contributing factor – given the prohibition on insuring mortgages for older housing – to inner city and rural disinvestment.[5]

Third, public investment strategies (and concentrations of tax expenditures) exacerbate and reinforce patterns of uneven economic development. American metropolitan areas are highly fragmented into literally hundreds of municipalities that vary notably in terms of social class, housing price, and commerce; policymakers and scholars have recognized that many individual localities have neither the ability nor the will to provide adequate public goods and services.[6] Predictably, wealthy suburban localities have the capacity to provide very high quality schools, parks, and public services while low- and moderate-income suburban municipalities have a significantly lower tax base and thereby less ability to provide similar quality public goods and services. Even within large central cities, geographers have documented unequal provision of public goods across neighborhoods, the effect of which is to provide the underpinnings for development in wealthier neighborhoods and undermining those impacted by long-term disinvestment in public goods and services.[7]

Finally, a shortage of data impedes credit flow to some communities. Mortgage lending volume, we have noted, has historically (and largely continues to be) skewed towards newer or re-developing housing markets, supporting the economic health of high- and middle-income areas. For consumer financial services and small business lending, banks are guided by both regulatory parameters and profit opportunities. However, banks and other financial institutions make lending decisions increasingly on the basis of credit scores and an array of data about individuals and businesses. More established communities once again enjoy an advantage; the data for wealthier places tends to be more detailed and more readily available. In less wealthy communities, that have historically experienced less lending, there is little information upon which banks or other financial institutions can make lending decisions. There might be significant demand and need for loans in poorer communities, but with limited credit histories and other pertinent financial data, depository institutions tend to avoid such areas.

The activities of the community development industry in the Seventh Federal Reserve District

In central city low-income (and frequently minority) communities, as well as in many rural areas, the CDFI industry provides financial services and makes many loans and investments in communities that have been for decades in the backwaters of economic and social development across the country. CDFIs and Community Development Entities (CDEs using tax credits in the NMTC Program) foster economic and housing development in some of the most challenging areas of the US communities.

While here we only provide an abbreviated version of a more systematic and detailed investigation of the portfolios of the many CDFIs and CDEs, the main outlines of our findings provided in chapters 4 and 5 of our monograph can be quickly summarized, noting once again these observations relate solely to the Chicago Fed District. Our findings are quite striking: the community development industry has, over the past several years, successfully made extensive investments in some of the most distressed communities: very low- and low-income areas, impoverished communities, and places that are largely occupied by minorities, including Native Americans. Indeed, compared to the investments of mainstream financial institutions, CDFIs and CDEs have focused their investments into highly troubled communities – across the country and in the Midwest communities of the Seventh District.

Table 1: Community development and mainstream investments, by income of census tract, Federal Reserve Seventh District, 2006-2010

	Population	CDFI Investments ($)	NMTC Investments ($)	HMDA Originations (in $1,000s)
Very Low	1,869,473	708,189,680	1,729,196,024	38,316,992
Low	7,177,905	1,290,667,564	1,344,516,350	175,586,457
Moderate	9,877,036	841,415,945	509,608,335	645,127,395
Middle	11,883,735	602,415,641	82,086,664	312,097,292
High	2,091,136	159,339,306	274,702,075	347,386,948
Totals	32,899,285	3,602,028,136	3,940,109,448	1,518,515,084
Percentage				
Very Low	5.7	17.8	43.9	1.7
Low	21.8	32.6	34.1	10.1
Moderate	30.0	29.2	12.9	43.0
Middle	36.1	13.7	2.1	21.5
High	6.4	6.7	7.0	23.6

Sources: CDFI Fund, CIIS Data at CDFI.GOV,FFIEC.GOV.

Table 1 provides a summary of both the magnitude and differences between the investments made by mainstream financial institutions and the CDFI and NMTC industry in Midwest communities served by the Federal Reserve Bank of Chicago. In this table, we aggregate investments by the median family income of census tracts providing the total population (in 2000) of tracts by income and then sequentially the total dollars in home mortgages, home improvements, and refinancing by mainstream financial institutions using the Home Mortgage Disclosure Act (HMDA) data, as well as transaction information on CDFIs and CDEs (under the NMTC Program) derived from CIIS data collected and annually published by the CDFI Fund.

As would be expected, given the mandate of the CDFI Fund, CDFIs and CDEs have invested primarily in very low- and low-income tracts in both urban and rural areas. In contrast, mainstream financial institutions have consistently concentrated their investments in middle- and upper- income communities. The contrasts are marked: whereas banks, mortgage companies, and other mainstream financial institutions have invested barely 12 percent in very low- and low-income communities, CDFIs have in contrast made over 50 percent of their overall investments in these communities and CDEs under the NMTC Program nearly 80 percent of their investments in very low- and low-income neighborhoods. Nearly one-quarter of all HMDA investments were concentrated in these highest income tracts (where median family income was 200 percent or more of area median income) while a very small proportion of CDFI and NMTC investments (6.7 percent and 7.0 percent respectively) were located in these affluent areas.

The data presented on this first table also highlights another fact: the total amount of loans and investments made by mainstream financial institutions dwarfs that of the community development industry. Namely, the total dollar amount of home mortgages, home improvement, and refinancing loans over the five-year period reported here (2006-2010) sums to over $1.5 trillion while CDFI investments total $3.6 billion and the NMTC Program over $3.9 billion. While over $7.5 billion in community development is a substantial amount, it pales in comparison to the investments made by mainstream financial institutions. As a result, community development lending can only be expected to provide a modest engine of economic and housing development to the nation's economically distressed communities. Policies that could even modestly divert the resources of banks and other regulated financial

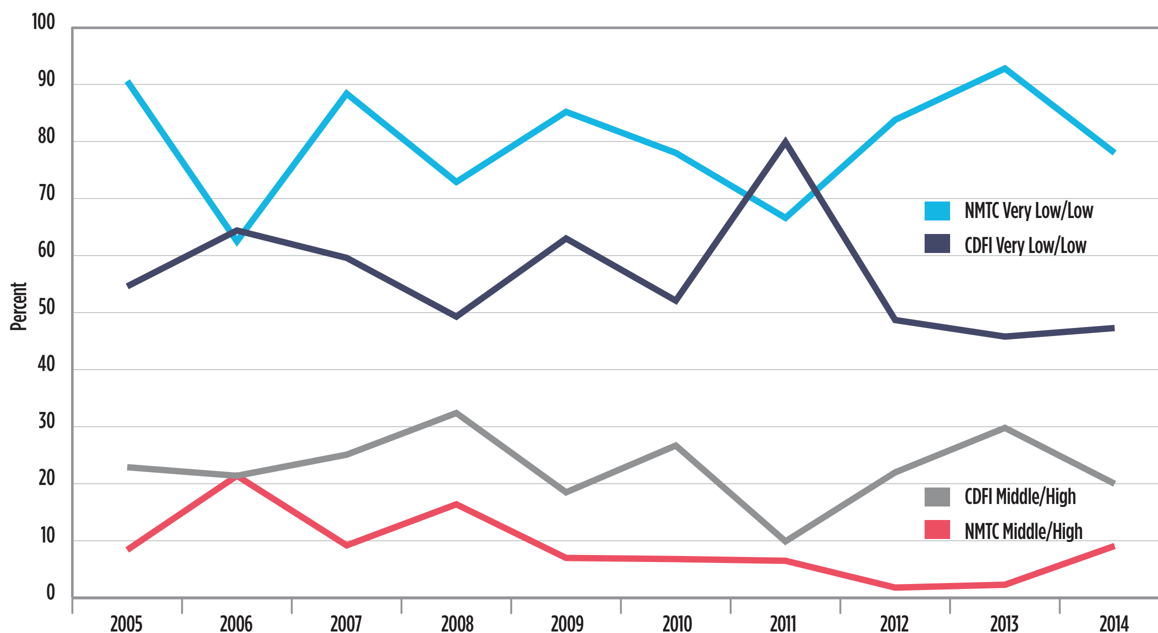
institutions to distressed regions would likely spur economic growth in those communities.

A brief examination of the lending behavior of the community development industry in contrast to that of mainstream financial institutions over the decade from 2005 through 2014 shown in figures 1 and 2 again highlight the differences in table 1. In both figures, we show, not the total dollar amount of investment, but rather the percentage of the total dollar investment for respectively, CDFIs, CDEs, and finally mainstream financial institutions in very low- and low-income tracts, as well as the percentage of total investments in high- and very high-income tracts. Figure 1 displays community development investment over this decade and demonstrates that both CDFI and especially NMTC lending was consistently concentrated in very low- and low-income communities in the Federal Reserve's Seventh District: for CDFIs, loans and investments were generally concentrated in poor areas, and NMTC investments were consistently higher in distressed communities. Additionally, throughout this decade, both CDFIs and CDEs made a consistently low proportion of their investments in more affluent communities in the Seventh Federal Reserve District. Finally, there is little discernible effect of the Great Recession on community development lending via the CDFI Fund.

The home lending activities (using HMDA data) of mainstream financial institutions (figure 2) over this same period differ starkly as we would expect given the findings presented in table 1. Not only, as expected, is the total amount of HMDA-reported home lending by banks, credit unions, and other regulated financial institutions consistently concentrated in more affluent areas, the effects of the Great Recession are quite prominent. Namely, as the crisis unfolded, mainstream financial institutions simultaneously increased their home mortgage investments into middle- and upper-income tracts while diminishing housing investments in low-income communities.

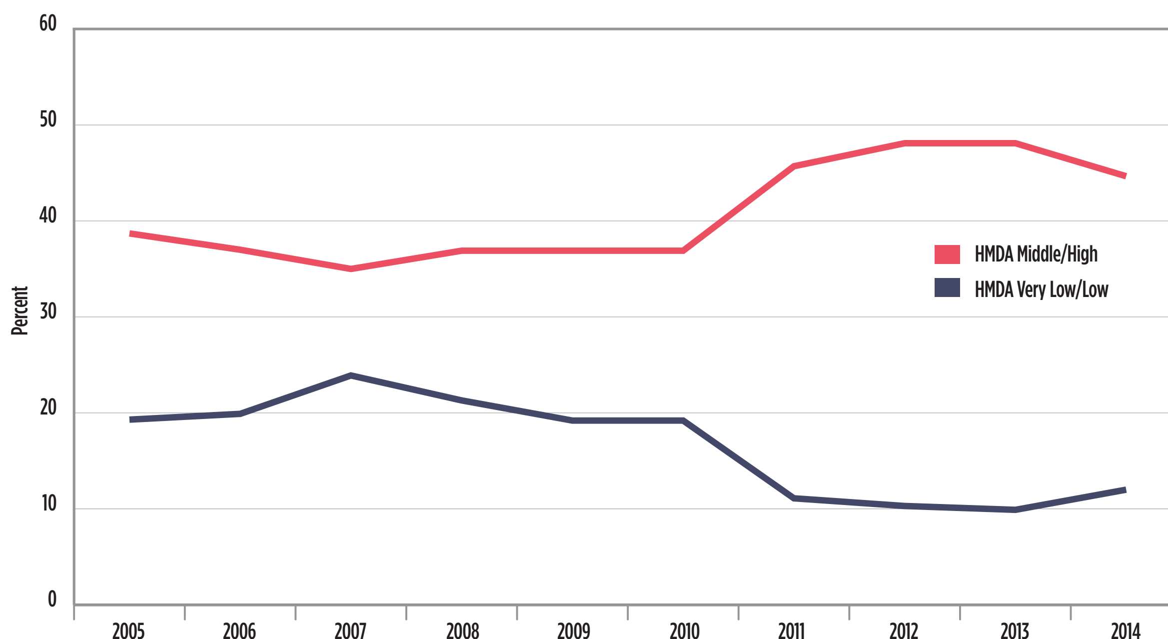
A last area we want to highlight, and this was the topic we examined at length in chapter 4 of our monograph, is tax expenditures. Tax expenditures or tax credits are as old as the American tax code. Beginning with the creation of an income tax system, homeowners were

Figure 1: Percentage of community development lending in very low- and low-, and middle- and high-income tracts, Seventh Federal Reserve District, 2005-2014



Source: Federal Financial Institutions Examination Council.

Figure 2: Percentage of mainstream financial institution's home mortgage originations, by very low- and low-income, and middle- and high-income tracts, Seventh Federal Reserve District, 2005-2014



Source: CDFI Fund, Community Investment Information System.

permitted to deduct the interest on their mortgage payments. Initially this was a small portion of the federal budget, but over the past century, the use of such incentives has become an ever larger and permanent feature of American fiscal policy. Tax incentives are now used to reduce the cost of local property taxes, to provide child care, to enhance the production of low-income rental housing, to encourage education, to underwrite the use of alternative and sustainable forms of energy, to provide an income floor for low-income workers, and to enhance the development and expansion of businesses and encourage commercial developments in low-income areas under the NMTC Program.

Table 2 provides an abbreviated summary of tax expenditures that we discuss in chapter 4 of *Community Economic Development in the United States.* Again, we focus on the distribution of these resources for a single year (2012) by the income of areas, here zip codes, the only aggregation of tax expenditures publicly available.

What is most evident from the data provided in table 2 is the striking inequality of tax expenditures in the United States, a trend that has persisted for decades. Overall, based on this one year of information, total tax expenditures are noticeably biased towards the highest income areas of these Midwest areas: zip codes where incomes are the very highest absorb over one-third of the total dollar amount of these credits with another third in high-income areas. This occurs because the very large components of tax expenditures in the IRS code – the interest deduction for home mortgages, as well as deductions tax payers make for local property and sub-federal income taxes – all consistently benefit high- and very high-income areas.

In contrast, the NMTC, a program administered by the CDFI Fund, concentrated the use of these tax expenditures to very low- and low-income communities in both urban and rural areas across the country, as per the intent of the legislation that created the program. The NMTC Program channels most (85 percent) of the investments leveraged by this program into very low-, low-, and moderate-income neighborhoods.

Table 2: Tax expenditures (in $1,000s) 2012, by income of zip codes, Federal Reserve Seventh District

	Total Tax Expenditures	Mortgage Interest Deduction	Child Care	Energy	Earned Income Tax Credit	Sales Tax	New Markets Tax Credit*
Very Low	1,302,594	330,440	102,829	4,193	825,758	17,659	1,729,196
Low	3,451,197	729,343	298,911	11,894	1,059,968	47,318	1,344,516
Moderate	7,522,812	1,376,493	595,738	25,524	1,462,179	80,080	509,608
Middle	16,859,979	2,442,060	1,074,301	42,238	1,732,168	169,837	82,087
High	17,818,866	4,640,319	1,192,554	55,436	1,051,155	325,815	274,702
Totals	46,955,448	9,518,655	3,264,333	139,285	6,131,228	640,709	3,940,109
Percentage							
Very Low	2.8	3.5	3.2	3.0	13.5	2.8	43.9
Low	7.3	7.7	9.2	8.5	17.3	7.4	34.1
Moderate	16.0	14.5	18.2	18.3	23.8	12.5	12.9
Middle	35.9	25.7	32.9	30.3	28.3	26.5	2.1
High	37.9	48.7	36.5	39.8	17.1	50.9	7.0

Source: www.irs.gov/uac/SOI-Tax-Individual-Income-Tax-Statistics-2012-ZIP-Code-Data(SOI); CDFI Fund
* Data reported for the NMTC Program is cumulative 2005-2014.

For over 60 years, the community development movement, initially community development corporations, and later CDFIs, have consistently sought to bring economic opportunity and social progress to America's distressed communities in both urban and rural settings. CDFIs (and CDEs in the NMTC Program) have been successful in providing much needed financial literacy and training to residents and businesses, to complement investments to create and retain businesses, rehab homes, and create critically needed community facilities. While the total resources available to the community development movement in the United States are modest, CDFIs and those community-level investors using the NMTC Program have provided an alternative, and sometimes the only alternative, to mainstream financial institutions for America's many economically forgotten communities.

Notes

1. The authors stress that the opinions and views expressed here are theirs and theirs alone, and do not reflect the position of the Department of the Treasury or the federal government.
2. Rae, Douglas W., 2003, *Urbanism and Its End*, New Haven, CT: Yale University Press, chap. 4; Gordon, Colin, 2008, *Mapping Decline*, Philadelphia, PA, University of Pennsylvania Press, pp. 13-22.
3. Where interest and principal were (for the first time) paid simultaneously, and the loan was repaid in full with the final payment.
4. The FHA persisted, even after the landmark Shelley v. Kraemer Supreme Court decision that rendered racially restrictive covenants legally unenforceable, and continued to refuse to insure mortgages for properties that would be occupied by non-whites until at least the passage of the Fair Housing Act in 1968. See Immergluck, Dan, 2004, *Credit to the Community*, Armonk, NY: M.E. Sharpe, p. 96; Gordon, Adam, 2005, "The Creation of Homeownership: How New Deal Changes in Banking Regulation Simultaneously Made Homeownership Accessible to Whites and Out of Reach for Blacks," *Yale Law Journal*, Vol 115, No. 1, October, pp. 204-207.
5. Jackson, Kenneth T., 1985, *Crabgrass Frontier*, New York, NY: Oxford University Press, pp. 128-137, 172-189; Gotham, Kevin Fox, 2002, *Race, Real Estate, and Uneven Development*, Albany, NY: SUNY Press, pp. 11-13.
6. Olson, Mancur, 1965, *The Logic of Collective Action*, Cambridge, MA: Harvard University Press, pp. 13-15; Hirsch, Werner Z., 1968, "The Supply of Urban Public Services," in Harvey Perloff and Lowdon Wingo (eds.) *Issues in Urban Economics*, Baltimore, MD: Johns Hopkins Press, pp. 477, 503, 519.
7. Harvey, David, 1973, *Social Justice and the City*, Baltimore, MD: Johns Hopkins, chapter 2; Clark, Gordon L., "Democracy and the Capitalist State: Towards a Critque of the Tiebout Hypothesis," in Alan D. Burnett and Peter J. Taylor (eds.) *Political Studies from Spatial Perspectives*, 1981, New York: John Wiley, pp. 91-92.

Biographies

James L. Greer is an independent scholar with a PhD in in political science from the University of Chicago. His research interests include, in addition to American community economic development, early New Deal housing and banking policies, home mortgage redlining, and the patterning of economic growth in American metropolitan areas. He is employed as a senior researcher at the Community Development Financial Institutions (CDFI) Fund at the United States Treasury.

Oscar Gonzales is a PhD candidate at the University of Maryland. He holds a BA and MA from Yale University. His research focuses on economic and community development in low-income communities. He is an associate program manager at the CDFI Fund at the United States Treasury. Previously, he held positions at the Federal Deposit Insurance Corporation and the Congressional Research Service.

Health care is community reinvestment: Examples from the mental health field

by Marva Williams and Desiree Hatcher

Places with thriving local economies, decent schools, quality public amenities, lower crime rates, and high civic engagement and employment levels tend to have healthier, longer-lived populations, and less incidence of mental illness. In fact, many comprehensive community development programs now include facilities for general medical as well as mental health service providers, in addition to more traditional components such as affordable housing, job training, and small business development.

Financial institutions are a critical source of support for community development. They provide financing for small businesses that create employment opportunities, finance the home purchases of lower-income families, and make investments in a variety of community projects and organizations.

This article explores how financial institutions have financed mental health clinics that serve lower-income adults and children. The first section highlights examples of correlations between poverty, stress, and incidence of mental illness and the shortage of affordable mental health services for lower-income adults and children.

The second section profiles three mental health clinics: two in Chicago and one in Des Moines, Iowa. Cathedral Counseling Center, Trilogy Behavioral Healthcare, and Children and Families of Iowa, which provide mental health services to lower-income people, have established essential relationships with financial institutions. These partnerships have helped the organizations acquire new office space, maintain buildings, and increase working capital in order to expand services and better meet the needs of their target populations.

The third and last section describes how these partnerships can benefit financial institutions. It explains that not only are these relationships good for the institution's bottom line, but that they may also help banks meet their Community Reinvestment Act (CRA) requirements, which encourages banks to provide financial services, loans, and investments across their entire assessment area, including lower-income communities.

Linkages between poverty and mental illness

It is clear that there is a correlation between people living in poverty and incidence of mental illness. Lower-income adults and children are about two to three times more likely to have mental disorders than higher income people. Research has linked this higher incidence of illness to sociological, environmental, and other sources of stress that people in more affluent areas do not experience.[1]

An examination of stress documents this pattern. A 2014 study found that 36 percent of those with incomes below $20,000 reported experiencing high levels of stress and 53 percent believed that financial problems contributed to their stress. Further, 74 percent of those experiencing 'a great deal of stress' believe that their physical and emotional health had suffered as a result.[2] Another source of stress is living in disadvantaged communities. Some studies have found that a community's economic profile has a higher level of association with mental illnesses than individual socioeconomic indicators.[3] Experiencing or witnessing repeated violence and/or criminal activity can trigger stress. In more extreme cases, individuals may also suffer from post-traumatic stress disorder (PTSD), a serious mental disorder.

There also exists a significant shortage of mental health services for lower-income people. Accordingly, many people living in poverty go untreated. Therapy, when and where available, is also expensive. A 2010 study of adults, found the most frequent reason people gave for not receiving mental health services was cost.[4] Further, people who receive prescriptions for medication may not have health insurance or other means to purchase the medicine. Finally, the inability for teachers, parents, and others to recognize mental health issues as well as distrust of mental health professionals further undermines access to services.[5]

Partnerships between mental health providers and financial institutions

Following are three profiles of partnerships between nonprofit mental health service providers to lower-income people and financial institutions. Cathedral Counseling Center and Trilogy Behavioral Healthcare, located in Chicago, and Children and Families of Iowa, in Des Moines, have each developed relationships with financial institutions that have enabled them to reach important organizational goals.

Cathedral Counseling Center

Formed in 1974, Cathedral Counseling Center (CCC) is a nonprofit organization that provides a comprehensive range of mental health services for low- and moderate-income adults and children. CCC offers individual therapy and psychiatric services for clients challenged with alcohol and other substance abuse; anger and conflict management; mental illnesses; and emotional trauma, among other issues. It also provides group counseling, as well as premarital and couple counseling. Last, CCC has professional therapy education for clergy and mental health clinicians, and supervision for mental health professionals.

CCC was founded by an Episcopal minister and funded by Episcopal Charities and Community Services, a Chicago-based funder of programs in the diocese. Since its founding, CCC has grown into a major center, with offices in downtown Chicago, as well as Hyde Park and Evanston, to the south and north of the city center. In 2014, more than 1,000 clients were served by CCC. CCC clients must be able to pay at least a portion of their bills; however, most of their patients are low income. In 2014, almost 40 percent of its clients had income below $10,000 and an additional 32 percent had incomes between $10,000 and $29,999. The agency receives 75 percent of its income from client fees and insurance, and 25 percent through fundraising.

Relationship with a financial institution

By 2005, CCC had outgrown its space in a Chicago Episcopal church, which limited its ability to expand therapeutic services. A board director of CCC referred the staff to IFF (formerly Illinois Facilities Fund) to conduct an analysis of their space needs and available options. IFF is a community development financial institution (CDFI) that provides loans for community facilities, such as charter schools, housing, grocery stores, primary care clinics, and recreation centers. Headquartered in Chicago, IFF has a 12-state service region, including all five Seventh District states: Illinois, Wisconsin, Iowa, Michigan, and Indiana. IFF also offers real estate development and facility consulting, a critical need for many service organizations, which may not have expertise on staff to determine overall facility feasibility, or even optimal use of space for service delivery and administrative functions. IFF receives funding from a variety of sources, including investments and grants from regulated financial institutions, which may be eligible to receive CRA credit for IFF projects that benefit lower-income communities.

IFF completed a feasibility study for CCC on the purchase of office space, which was preferred by the CCC board of directors to renting space. The feasibility study resulted in a $1.8 million purchase of office condominium space in downtown Chicago in 2006. The project was financed by an $840,000 capital campaign and a $1 million loan from IFF. As CCC continued to grow, the board decided to expand to the entire floor of the building in 2013, resulting in a $1.4 million acquisition and construction project. The same development team was used for the 2013 project, with IFF serving as consultant. The expansion was financed by a capital campaign that netted over $175,000 and an additional IFF loan for approximately $1.2 million. The space allowed the organization to expand its counseling services and improve the office's accessibility for people with disabilities.

The role of IFF for these projects was essential. CCC staff had no experience with real estate development or financing, and needed the expertise of IFF to execute the expansion. IFF provided assistance in purchase negotiation, design, contractor selection, and construction oversight to manage the project budget and development. In addition, CCC needed a trusted partner that could advocate for its interests with the development team. Further, IFF carefully balanced the financial capacity of CCC in order to repay the loans that financed the purchase and rehabilitation.

Trilogy Behavioral Healthcare

Trilogy Behavioral Healthcare's (Trilogy) mission is to promote recovery from serious mental illness. Founded in 1971, the agency provides counseling for people with mental health diagnoses. Trilogy's services include individual and group therapy, case management, and medication management. It also has a linguistically and culturally competent therapy program for Latinos and a drop-in center that is open every day. Trilogy also provides supportive services, such as housing, housing advocacy, employment counseling, and occupational therapy, to help get people back to work. Their residential program offers a range of services from supportive housing to 24-hour residential assistance at three sites.

Trilogy partners with the state of Illinois to provide independent living opportunities for people who reside at nursing homes. A 2007 lawsuit alleged that the state of Illinois was not complying with the American with Disabilities Act (ADA) by limiting the housing options for people with mental disabilities to nursing homes. In 2011, the US District Court found that people with mental illnesses have the right to choose to live in community-based settings. As a result, the state entered a consent decree that requires it to provide funding to Trilogy to pay for supportive services that enable people with mental illnesses to live more independently. The funding enabled Trilogy to create a team of eight new staff positions, which has since expanded to ten teams of eight staff, to support alternative housing for people with a mental health diagnosis. Support includes a client's first month rent, security deposit, and furniture. Trilogy staff train clients in independent living skills at 'practice apartments' and after the clients obtain their own apartments, a trained peer provides coaching and support through a home support program.

Trilogy also provides a range of other services. It works with police, and parole and probation staff to provide mental health services to formerly incarcerated people with acute psychiatric symptoms. Trilogy also partners with several area hospitals and homeless shelters in Chicago and Evanston (a Chicago suburb) to provide homeless individuals with mental health services. The organization also promotes integrated mental and physical health care. It partners with the Heartland Alliance, an anti-poverty organization, on a health clinic in one of Chicago's most diverse neighborhoods that serves approximately 1,500 adults annually.

Over 90 percent of clients of Trilogy are low income and eligible for Medicaid. The organization also provides services to the working poor without health insurance at low or no cost.

The agency has grown significantly. Trilogy has 300 employees, up from 75 ten years ago. In addition, the agency budget increased by $5 million to nearly $12 million from 2006 to 2014, and the organization now has four locations aside from its main facility in Rogers Park, across socioeconomically diverse neighborhoods in Chicago and a nearby suburb. Trilogy raises funds through various private sources to assist its clients in meeting basic needs, including groceries, medicine, and housing.

Relationships with a financial institution

Trilogy has been a customer of a large national bank with headquarters in a Chicago suburb since 2012. The bank provides all the financial service accounts for the organization as well as a $3 million line of credit. This line of credit allows Trilogy to manage slow payments from the state of Illinois. The bank also made a loan to Trilogy to conduct maintenance and repairs to its Rogers Park headquarters. Further, a senior vice president at their bank serves on the Trilogy board of directors.

The financial institution initially began its involvement with Trilogy based on its ability to repay its loans—it was a purely business relationship. However, it has expanded to opportunities to provide its advice on financial matters related to Trilogy.

Children and Families of Iowa

Established over 125 years ago, Children and Families of Iowa (CFI) was founded to promote adoptions of

homeless children. Since that time the agency has grown to a staff of 300 with an annual budget of $16 million. CFI provides services to families throughout Iowa, helping them tackle challenges such as domestic violence and lack of health care, as well as providing teen programs, support to adults like guidance for foster and adoptive parents, early education centers for preschool children, and home health care services.

A substantial component of CFI's work includes mental health therapy, with over 80 percent of its clients having low or moderate incomes. Offered in Des Moines, and three other cities in Iowa, CFI's mental health therapy focuses on improving the relationship between parents and their children. The goal of their work with parents is to improve their parenting skills and to overcome family conflicts. CFI also offers individual and group therapy for people with mental health disorders and for children who have experienced trauma or are overcoming other difficulties. In addition, CFI has several programs that offer group therapy to complement its individualized treatment, including substance abuse counseling and domestic violence treatment programs. The agency supplied mental health services to 1,169 children and adults in 2016.

CFI retains 20 licensed counselors. Services are paid by Medicaid and private insurance, or individuals pay on a sliding fee scale based on their income. The organization does not reject anyone due to an inability to pay for counseling.

Relationships with a financial institution

A large state chartered bank headquartered in Des Moines has been a long-term partner of CFI. This relationship started when the agency's executive director was contacted by the bank's president to discuss challenges at CFI, as well as new programmatic plans.

Although it has not provided loans to the agency and the agency does not hold its transaction accounts there, the bank remains involved in CFI in multiple ways. A senior bank officer serves as the president of the CFI foundation's board of directors, which engages in fundraising for CFI. This officer is an advocate for CFI in meetings with potential donors, state agencies, and the organization's accreditation agency.

The bank provides several reasons for its involvement in CFI. The senior bank officer is personally interested in supporting kids and families in need. In addition, volunteerism is a major platform for bank staff and volunteer activities are a component of all annual personnel goals. In fact, the bank has provided multiple volunteers for CFI events. Last, bank leadership views community involvement as good for business because it improves market recognition for the institution. These efforts are reflected in the bank's outstanding CRA ratings since 2004.

Partnerships are a win/win for mental health agencies and financial institutions

Financial institutions establish relationships with agencies that provide mental health services to lower-income adults and children for several reasons, including the potential to increase revenue, marketing of the bank, and compliance with the Community Reinvestment Act (CRA).

Bank services such as loans and financial services are sources of revenue for the bank. Agencies that provide needed health services, and can support debt through a combination of subsidy, philanthropy, and user fees, represent one promising area for bank lending and investment, whether banks invest alone or in partnership with nonprofit financial organizations. Encouraging volunteer and other services to nonprofit agencies reinforces the community involvement of bank staff, and increases their knowledge of the bank's assessment area. Banks can also benefit from the good will and marketing by providing support to nonprofit organizations.

Financial institutions can receive CRA credit for these partnerships.

CRA is a federal law that encourages regulated financial institutions to make loans, services, and investments across their geographic markets (which follow political boundaries and for compliance purposes are termed "assessment areas"), including lower-income communities. Regulators must take into account the bank's record of helping to meet the community credit needs when considering applications for certain actions including branching, mergers, acquisitions, and consolidations.[6]

Financial institutions are evaluated under different CRA examination procedures based upon their asset-size classification. The evaluation of intermediate, small, and large size institutions includes a review of community development loan, investment, and service activity.[7] The regulation defines community development as having a primary purpose of affordable housing; community services targeted to low- and moderate-income individuals; activities that promote economic development; and activities that revitalize or stabilize areas designated as low- and moderate-income, disaster, or distressed or underserved nonmetropolitan middle-income.[8] Investments in community development financial institutions (CDFIs) like IFF, which provide services in lower-income communities, may also be recognized as a CRA activity.[9]

The Federal Financial Institutions Examination Council, comprised of the Board of Governors of the Federal Reserve System (Board), Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC), adopted the Community Reinvestment Act Interagency Questions and Answers (Q&A) to offer guidance on the interpretation and application of the CRA regulations. Though not exhaustive, the guidance also provides examples of CRA qualified activities. The Q&A identifies loans to and qualified investments in health care facilities that serve low- and moderate-income individuals as examples of activities for which institutions may receive credit under CRA. Further, examples of community development services include providing technical assistance on financial matters to nonprofits. Technical assistance activities that are related to the provision of financial services and that might be provided to community development organizations include serving on the board of directors.[10]

Though the Q&A provides examples of CRA qualified activities, the amount of weight given to each activity may vary for each institution. No two banks are exactly alike; each bank is evaluated based on performance context. The performance context is a broad range of economic, demographic, and institution- and community-specific information that an examiner reviews to understand the context in which an institution's record of performance should be evaluated.[11] Institutions are therefore advised to consult their regulatory agency regarding how specific activities will be evaluated.

Notes

1. Office of the Surgeon General, Center for Mental Health Services, National Institute of Mental Health, Substance Abuse and Mental Health Services Administration, 2001, "Mental Health: Culture, Race and Ethnicity, A Supplement to Mental Health," Washington DC, Office of the Surgeon General.
2. NPR, Robert Wood Johnson Foundation, Harvard School of Public Health, 2014, "The Burden of Stress in America," available at http://www.rwjf.org/content/dam/farm/reports/surveys_and_polls/2014/rwjf414295.
3. Roberts, Stephanie A., 1998, "Community-Level Socioeconomic Status Effects on Adult Health," *Journal of Health and Social Behavior*, March, Vol. 39, pp. 18-37, available at http://www.jstor.org/stable/2676387?seq=1#page_scan_tab_contents.
4. Substance Abuse and Mental Health Services Administration, 2012, *Results from the 2010 National Survey on Drug Use and Health: Mental Health Findings*, Rockville, MD, Substance Abuse and Mental Health Services Administration.
5. Margarita, Alegria, G. C., et al., 2002, "Mental Health Care for Latinos: Inequalities in Use of Specialty Mental Health Services Among Latinos, African-Americans and Non-Latino Whites," December 1, *PsychiatryOnline*, Psychiatric Services, available at http://ps.psychiatryonline.org/doi/full/10.1176/appi.ps.53.12.1547.
6. Regulation BB, Community Reinvestment Act, §228.11(a)(3), nd, available at http://www.ecfr.gov/cgi-bin/text-idx?c=ecfr&sid=635f26c4af3e2fe4327fd25ef4cb5638&tpl=/ecfrbrowse/Title12/12cfr228_main_02.tpl.
7. Regulation BB, Community Reinvestment Act, §228.21(a)(1), nd, available at http://www.ecfr.gov/cgi-bin/text-idx?c=ecfr&sid=635f26c4af3e2fe4327fd25ef4cb5638&tpl=/ecfrbrowse/Title12/12cfr228_main_02.tpl.
8. Regulation BB, Community Reinvestment Act: §228.12 (g), nd, available at http://www.ecfr.gov/cgi-bin/text-idx?c=ecfr&sid=635f26c4af3e2fe4327fd25ef4cb5638&tpl=/ecfrbrowse/Title12/12cfr228_main_02.tpl.
9. Interagency Questions & Answers Regarding Community Reinvestment, §__.12 (t)-4. Federal Register, Vol. 81, nd, available at https://www.gpo.gov/fdsys/pkg/FR-2016-07-25/pdf/2016-16693.pdf.
10. Interagency Questions & Answers Regarding Community Reinvestment, §__.12 (t)-4, §__.12 (h)-1 and §__.12 (i)-3, Federal Register, Vol. 81, nd, available at https://www.gpo.gov/fdsys/pkg/FR-2016-07-25/pdf/2016-16693.pdf.
11. Interagency Questions & Answers Regarding Community Reinvestment, §__.21 (b)-1, Federal Register, Vol. 81, nd, available at https://www.gpo.gov/fdsys/pkg/FR-2016-07-25/pdf/2016-16693.pdf.

Biographies

Marva Williams is the economic development and Iowa state director in the Community Development and Policy Studies Division of the Federal Reserve Bank of Chicago.

Desiree Hatcher is the community development and Michigan state director in the Community Development and Policy Studies Division of the Federal Reserve Bank of Chicago.

ProfitWise news and views

ProfitWise News and Views welcomes article proposals and comments from bankers, community organizations, and other readers. It is available digitally on the Internet, as well as at www.chicagofed.org/publications/profitwise-news-and-views/index.

You may submit comments or proposals, or request a subscription by writing to:

ProfitWise News and Views
Community Development and Policy Studies
Federal Reserve Bank of Chicago
230 South LaSalle Street
Chicago, IL 60604-1413

or request at CDPS-PUBS@chi.frb.org

The material in *ProfitWise News and Views* is not necessarily endorsed by and does not necessarily represent views of the Board of Governors of the Federal Reserve System or the Federal Reserve Bank of Chicago.

©2017 Federal Reserve Bank of Chicago

ProfitWise News and Views articles may be reproduced in whole or in part, provided the articles are not reproduced or distributed for commercial gain and provided the source is appropriately credited. Prior written permission must be obtained for any other reproduction, distribution, republication, or creation of derivative works of *ProfitWise News and Views* articles. To request permission, please email or write to the address indicated above.

Advisor
Alicia Williams

Managing Editor
Michael V. Berry

Assistant Editor
Mary Jo Cannistra

Contributing Editors
Jeremiah Boyle
Emily Engel
Steven W. Kuehl
Susan Longworth
Robin Newberger

Designer
Jeff Youngberg

Web Content Specialist
Britt Oliver