In recent years, there has been growing interest in financing small businesses located in distressed geographies through “developmental equity.” Also referred to as developmental venture capital, it stands apart from other forms of financing in that it represents investment—and not debt—in small companies. Distinct from traditional venture capital, which is driven purely by financial returns, developmental equity is commonly referred to as the “double bottom line.” While behaving like an investment that expects returns, developmental equity also seeks to serve social ends such as alleviating poverty and creating jobs in regions long plagued by economic depression.
Developmental equity, according to Julia Sass Rubin of the Harvard Business School, uses “long-term ‘patient’ capital investments in businesses to produce a positive, social and economic outcome, such as poverty alleviation, economic growth, and wealth creation among disadvantaged populations.”

Locale, focus, deal size, and management differentiate developmental equity and traditional venture capital. Traditional fund investments tend to be concentrated in a few states, are dominated by the technology industry, average $7.7 million in size, and require limited management involvement. Developmental funds, on the other hand, focus on low- and moderate-income geographies, are not dominated by any one industry, average smaller deal size ($50,000 to $1 million), and provide businesses intense technical assistance.

One area where developmental equity is being explored is the Appalachian region of the United States. Encompassing 406 counties in 19 states, Appalachia is 42 percent rural. More than 90 percent of municipalities report unemployment and poverty rates well above the national average as well as lower-than-average per capita market income.

Closing the Equity Capital Gap
Recognizing that new methods were needed to stimulate economic growth in the region, in 1998, the Appalachian Regional Commission (ARC) convened a committee and employed Rubin’s services to study Appalachia’s significant equity gap. Rubin, currently completing a doctoral dissertation in developmental venture capital, has written extensively about the region’s economy. In her paper, “Options for Increasing Access to Equity Capital in Appalachia,” Rubin studies why the region has been so long ignored by traditional venture capitalists, identifies the challenges for developmental equity funds; and delineates opportunities for equity development available to both ARC and to community development financial institutions.

According to Rubin, a number of venture capital funds and small business investment corporations (SBICs) exist in the 13 Appalachian states, though none are located in the ARC region. These funds expect and get rates of return on investments that would be difficult to generate in economically depressed areas like Appalachia. Most venture capital firms and SBICs concentrate their activities where there is the most growth potential; in fact, 75 percent of traditional venture capital is invested in technology-related businesses—an industry that has little representation in Appalachia.

Established venture capital funds are very selective in the deals they will enter, often screening hundreds of deals to identify one or two that seem financially promising. To minimize their risk and cost, traditional venture capitalists focus on later-stage companies with established performance records and larger capital requirements. The average traditional equity investment is now more than $7 million.

Businesses in Appalachia do not fit this profile. The region’s flow of deals is limited; often, businesses are in the opening stages of development, with equity requirements closer to $50,000, not $5 million.

“An important key to the success of small and large businesses is having access to capital and credit. First and foremost, I would emphasize that credit alone is not the answer. Businesses must have equity capital before they are considered viable candidates for debt financing. Equity acts as a buffer against the vagaries of the marketplace and is a sign of the creditworthiness of a business enterprise….the newer the firm, the greater the importance of the equity base.”

Federal Reserve Chairman Alan Greenspan
Remarks from address to the Federal Reserve System Research Conference, Arlington, Virginia, March 9, 1999


**Credit Union Preaches Gospel of Savings**

As a student at John Hay High School and now a student at John Hay High School, I am passionate about the importance of financial literacy and saving money. I have been a member of Faith Community United Credit Union (FCUCU) for over five years, and I appreciate its commitment to providing its members with low-cost loans.

Credit Through Faith

Faith Community United Credit Union (FCUCU) is a faith-based credit union that offers a variety of financial services to its members. The credit union provides loans to members who are in need of financial assistance, such as car loans or home equity loans.

**The Community Reinvestment Act: Where Do We Go From Here?**

By Rita Hayes

Rita Hayes is a member of the Board of Directors of FCUCU and a member of the Board of Directors of FCUCU. She has been a board member for over 20 years and has been involved in the community for many years.

The Community Reinvestment Act (CRA) was enacted in 1977 to promote fair lending and prevent discriminatory practices in the financial services industry. Since its enactment, the CRA has been a major source of funding for low-income communities.

Credit Union Preaches Gospel of Savings

The credit union also provides a free financial literacy program to its members, which includes workshops on budgeting, saving, and investing.

**In My Opinion**

The views stated in this article are those of the individual author and are not necessarily those of the credit union.

**P turbine WIlson**

Pacific Partners

**Point of View**

At a time when the financial services industry is facing criticism for its role in the financial crisis, it is important to remember the positive contributions that the CRA has made to our communities.

The CRA has been successful in providing financial services to low-income communities, and it has helped to improve the lives of millions of Americans. However, there are still many challenges to be addressed, and the CRA must continue to evolve to meet the needs of our communities.

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Credit Union Preaches Gospel of Savings

We attract people who have difficulty getting to a bank, or who just feel more comfortable doing business with us.
—Bita Haynes

The Community Reinvestment Act: Where Do We Go from Here?

By Bita Haynes

The Community Reinvestment Act (CRA) is a key community development tool that has helped to grow community-based banks, credit unions, and non-bank lenders. It is a key tool in ensuring that banks and other financial institutions are lending to all communities, including low-income communities.

However, the final report on the implementation of the CRA indicates that some banks are not meeting their obligations. The report finds that banks are not providing enough loans to low-income communities, and that some banks are not providing enough loans to areas that are underserved.

This is concerning because the CRA is an important tool for ensuring that banks and other financial institutions are lending to all communities, including low-income communities. It is a key tool in ensuring that banks and other financial institutions are providing the loans that are needed to help communities grow and thrive.

In conclusion, the final report on the implementation of the CRA indicates that some banks are not meeting their obligations. This is concerning because the CRA is an important tool for ensuring that banks and other financial institutions are lending to all communities, including low-income communities. It is a key tool in ensuring that banks and other financial institutions are providing the loans that are needed to help communities grow and thrive.
The Community Reinvestment Act: Where Do We Go From Here?

By Mark Helton

The Community Reinvestment Act (CRA) was passed by Congress in 1977 to promote fair and equal treatment for people in low and moderate-income communities and to encourage community development. The CRA requires banks to assess the financial needs of their communities and to help meet those needs through lending and other activities. The CRA also requires banks to take into account the effects of their lending practices on their communities. The CRA has been in effect for over 40 years, and it has helped to improve access to credit in low-income communities. However, the CRA has also been criticized for not being effective enough in promoting fair and equal treatment for people in low and moderate-income communities. The CRA needs to be reformed to be more effective in promoting fair and equal treatment for people in low and moderate-income communities.
Credit Union Preaches Gospel of Savings

As a student at John Hay High School, Haynes helped identify a need among students and organized a fund raising drive. Because of this advocacy, the school's parent group started a bank, the Sun Bank. Today, Sun Bank is a $20 million community development bank providing financial services to low-income families throughout the city.

As a community development bank, the Sun Bank offers financial services to low-income families through a variety of programs and services. The bank provides a range of financial products, such as savings accounts, checking accounts, and loans for small businesses and homeowners. The bank also offers financial education programs to help low-income families improve their financial literacy and manage their finances effectively.

The bank's mission is to provide financial stability and upward mobility to low-income families. The bank's goal is to help these families achieve financial independence and improve their quality of life.

In the past, banks have been criticized for not providing financial services to low-income families. The Sun Bank is working to change this by providing financial services to these families and helping them achieve financial stability.

The bank's success has been recognized by various organizations. The bank was awarded the 2021 Community Development Financial Institution (CDFI) of the Year Award by the Federal Home Loan Bank of Cleveland. The award is given to banks that have demonstrated excellence in providing financial services to low-income families.

In conclusion, the Sun Bank is an example of a community development bank that is providing financial services to low-income families. The bank's success in providing financial services to these families is a testament to its commitment to providing financial stability and upward mobility.

Credit through Faith

“Tired of the high interest rates and the fees charged by banks, I founded Faith Community United Credit Union,” said Haynes. “We have 20 percent of the amount they have 20 percent of the amount they have 20 percent of the amount they have 20 percent of the amount they have 20 percent of the amount they have 20 percent of the amount they have 20 percent of the amount they have 20 percent of the amount they have 20 percent of the amount they have 20 percent of the amount they have.”

The credit union also works with community residents and congregates of the church. According to Haynes, “We let them know at payday—he needs it right now. We price check-cashing outlets for quick cash, but we call it a Development Account.”

The CDFI (Community Development Financial Institution) Act mandates that banks and thrifts provide an “affordable” line of credit to community residents and congregates of the church, particularly in communities of color, where there are no other financial services. While the act has had some success in providing financial services to community residents, there are still many communities that are not receiving the financial services they need.

The Community Reinvestment Act Where Do We Go From Here?

By Dick Faller

The Community Reinvestment Act (CRA) is a nationwide law that requires banks and thrifts to provide financial services to community residents and congregates of the church. The act was passed in 1977 to ensure that banks and thrifts provide financial services to low-income families and communities of color. The act has been amended several times since its passage, and it is currently under debate.

The act requires banks and thrifts to provide financial services to community residents and congregates of the church, particularly in communities of color, where there are no other financial services. The act also requires banks and thrifts to provide financial services to low-income families and communities of color, particularly in communities of color, where there are no other financial services.

The act has been criticized by some for not providing financial services to low-income families and communities of color. However, the act has also been praised for providing financial services to low-income families and communities of color.

In conclusion, the Community Reinvestment Act is a nationwide law that requires banks and thrifts to provide financial services to community residents and congregates of the church. The act has been debated several times since its passage, and it is currently under debate. The act has been criticized by some for not providing financial services to low-income families and communities of color, but it has also been praised for providing financial services to these groups. The act is an important tool in ensuring that low-income families and communities of color have access to financial services.
They may require extensive technical assistance in the form of management help to expand. Traditional funds are unlikely to engage in such handholding. But these are issues that beg the attention of any organization proposing to enter into a developmental equity program.

Development finance organizations considering moving into developmental equity must recognize the challenges of offering equity to such businesses. Developmental venture capital does not offer the same level of financial return as traditional venture capital, making fundraising slow and difficult. The need for extensive technical assistance and the small size of the deals makes overseeing such investments costly. Not only that, equity investments require a unique skill set that is very different from that of lending; finding qualified individuals with both the necessary business skills and an understanding of economic development can be difficult.

**GROWING DEVELOPMENTAL VENTURE CAPITAL FUNDS**

Rubin has found that there are options for ARC to increase the number of successful developmental venture capital funds in the region, and she makes several recommendations for raising capital and developing fund management capacity. Not surprisingly, banks and foundations have played key roles in backing the 30-plus funds that exist in the United States today. Banks can, in some cases, receive CRA credit for investing, and many have made commitments to equity funds ranging from $50,000 to over one million dollars. Foundations that focus on economic development make good sources for capital pools, including the Ford, Heron, and MacArthur foundations.

Government sources such as the U.S. Small Business Administration (through its SBIC program) and the Community Development Finance Institution Fund of the U.S. Treasury, utility companies, individual social investors, and revolving loan funds may provide additional funding. Some states have tax credit programs that encourage investment in equity funds. Organizations must attend to the legal corporate structure of their funds in order to appropriately approach funding sources. Rubin’s study reveals that “a freestanding DVC (developmental venture capital) fund should be capitalized at a minimum level of $10 million.”

Vital to the success and longevity of any developmental equity fund are the people who manage it. Since developmental funds cannot afford to hire traditional venture capitalists, it is incumbent upon them to train staff. The Community Development Venture Capital Alliance, for instance, is a national trade association for developmental equity funds that offers core training at its annual conference. In addition, it is proposing a fellowship program to enable fund staff and other qualified individuals to apprentice with existing developmental venture capital funds for two years.

The Appalachian Regional Commission has formed a committee comprising ARC, developmental fund staff, banks, and nonprofit development finance agencies to fine-tune the equity capital initiative for all of Appalachia. ARC hopes this committee’s efforts will create more developmental equity pools and the means to develop staff capability to manage such funds to expand economic opportunity throughout the Appalachian states.

Julia Sass Rubin is completing a Ph.D. in Organizational Behavior at Harvard Business School and Harvard University. Her dissertation examines the developmental venture capital industry. Ms. Rubin is also a member of a research team studying rural and state sponsored venture capital funds. Prior to beginning her doctoral studies, Ms. Rubin was a consultant for McKinsey & Company, worked in brand management for Procter & Gamble and the Eastman Kodak Company, and taught strategic management and marketing at Assumption University in Bangkok, Thailand, as a Henry Luce Scholar. Ms. Rubin received her MBA with distinction from Harvard Business School, and her MA and AB, with honors, from Harvard University and Harvard-Radcliffe College.
Fed Governor Addresses Fourth District Concerns

The Honorable Edward M. Gramlich, member of the Board of Governors of the Federal Reserve System and Chairman of the Committee on Community Affairs, visited the Fourth District on two occasions this year. In June, he spent time in Pittsburgh meeting with public officials and community leaders at a private reception, touring Pittsburgh neighborhoods, and serving as the keynote speaker for the “Making Cities Work” luncheon.

In September, Governor Gramlich traveled to Cleveland. Typically, when Federal Reserve Governors travel, a large portion of their time is spent talking to people. During his trip to Cleveland, the Community Affairs staff provided Governor Gramlich opportunities to also hear from people. Gramlich toured two Cleveland neighborhoods, Fairfax and Tremont, highlighting projects where the Community Reinvestment Act played a role in involving the banking community. Gramlich noted the extent to which the CRA has been able to stimulate housing activity, although it has not been able to do the same for small business.

Representatives of the banking community, community development organizations, and municipal government met with Gramlich in a roundtable discussion, “Key Elements of Community and Economic Development.” Panel members addressed a broad range of topics including the difficulty of complying with new CRA requirements of large institutions, the importance of public-private partnerships, and the continuing need for the CRA and similar legislation to provide the proper incentives for community development. Participants admitted that although CRA deals are profitable for financial institutions, they are not as profitable as other deals and often require a lot more work.

Governor Gramlich concluded his visit by delivering the keynote address at the 11th Congressional District Small Business Conference, sponsored by Rep. Stephanie Tubbs-Jones. In his address, the Governor remarked on Cleveland’s impressive development activity; based on his observations during his visit and the comments of local community development professionals, he concluded that Cleveland’s rejuvenated housing market is ready for the addition of renewed commercial activity.

“Making Cities Work” in Cleveland

Building on the success of the Pittsburgh office’s “Making Cities Work” program, the Cleveland Fed’s main office launched the first of its programs in November. International real estate development consultant Donovan Rypkema delivered the luncheon address, “Preservation for Profit,” sponsored in partnership with the Cleveland Restoration Society.

In his sold-out address, Rypkema discussed the seven economic benefits of historic preservation: jobs, heritage tourism, small-business incubation, downtown revitalization, small-town revitalization, neighborhood stability, and neighborhood diversity. The economic of impact of rehabilitation, he posited, is greater than that of manufacturing activities because rehabilitation generates more jobs and more household income due to its labor intensity. Because more labor is required for rehabilitation, it promises greater economic benefits.

Historic buildings are ideal for small businesses. While newly constructed commercial buildings may be too large for the needs of a small business, historic buildings are the ideal size and are more affordable. High-tech companies around the country are locating in old industrial and retail buildings in areas such as Seattle, Portland, Boston and Cambridge, and “Silicon Alley” in Manhattan. Preservation of our older structures provides communities with space for emerging businesses.

Rypkema stressed that for historic preservation to be successful, it must be part of an overall economic development strategy. Common denominators of success include effective partnerships, sufficient time to complete the project(s), and an available package of both regulations and incentives.

During his visit, Rypkema also conducted an informal technical assistance session with representatives from local community development companies and toured three of Cleveland’s historic neighborhoods—Shaker Square, Ohio City, and Slavic Village—remarking on the work that Cleveland has done to maintain its historic neighborhoods. The Cleveland Fed extends special thanks to Reid Robbins, John Wilbur, and Marlene Wesian for hosting the tour of their neighborhoods.

To receive a copy of Rypkema’s remarks, “Preservation for Profit,” contact Laura Kyzour at the Federal Reserve Bank of Cleveland at 216/579-2846.