COMMUNITY REINVESTMENT
cr forum
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Fourth District Community Affairs Outlook:

Regional Legacy Paves the Way for New Initiatives

The Fourth District faced a number of economic challenges in 2001, including a national economic recession, a downturn in manufacturing, and the aftershocks of September 11. Today, many of our local economies are under pressure to transform their older industrial and agricultural roots with new economic engines.

CONTINUED ON NEXT PAGE

AN EXCHANGE OF COMMUNITY DEVELOPMENT ISSUES AND IDEAS

Editor's Note

This issue of ***CR Forum*** *highlights demographic trends and community economic development initiatives in the Fourth Federal Reserve District, which includes Ohio, western Pennsylvania, eastern Kentucky, and the northern panhandle of West Virginia.*

The Federal Reserve Bank of Cleveland's Community Affairs program covers a broad territory that is notable for the blend of economies and communities that it encompasses, many of which are in a state of transition. These communities include older manufacturing cities and steel towns (Pittsburgh, Cleveland); growing metropolitan areas (Cincinnati, Columbus, Lexington); the coal mining towns of West Virginia; the tobacco farms of Kentucky; Amish country in northeast Ohio; rural areas and small towns in need of revitalization; and Appalachia, whose persistent poverty touches each of our four states.

During this time of economic transition, the Fourth District's strength has been the number of financial institutions, community-based organizations, government agencies, and intermediaries that are committed to working together on a broad array of community development issues. All should be commended for their efforts.

An analysis of recently released census data, focusing on major demographic shifts that have occurred since 1990, sets the stage for understanding some of the regional needs that are emerging in the Fourth District. Several innovative programs and pieces of legislation, created in response to these trends, demonstrate the inventiveness and resourcefulness of partnerships. We hope they also will serve as solutions to enhance community economic development efforts in our District and other Federal Reserve Districts.

Our In My Opinion feature, penned by Mark Sniderman, senior vice president and director of research at the Federal Reserve Bank of Cleveland, discusses his observations about community economic developments throughout the Fourth District and poses tough questions about new directions for our towns and cities. Finally, check Of Interest to learn about some of the conferences and programs the Community Affairs Office will be sponsoring in 2002.

As always, we welcome your comments regarding CR Forum; please e-mail them to ***virginia.l.hopley@clev.frb.org.***

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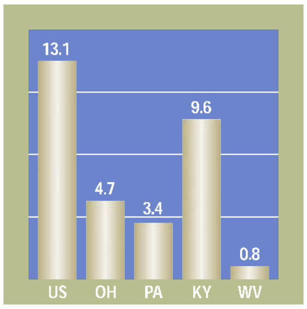
FOURTH DISTRICT DEMOGRAPHICS

Most areas are experiencing slow population growth and the loss of younger cohorts; there is little inmigration to this region to offset these losses, and manufacturing job losses are not frequently enough replaced with technology-based employment prospects that can grow the region's economy and population. The release of data from the 2000 Census highlights some of the trends and transitions taking place in Fourth District states.

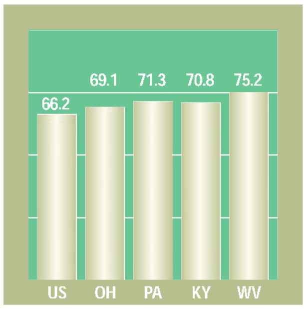
Rates of population growth and decline tend to mirror the economic health of a locality, whether it is a state, city, or neighborhood. Also important are population migrations—within, between, and away from locales. Each Fourth District state's population grew between 1990 and 2000, although at slower rates than previous decades. In general, population moved away from our central cities, contributing to urban decay and suburban sprawl and impinging on rural areas.

Population Growth, 1990–2000 (percent)



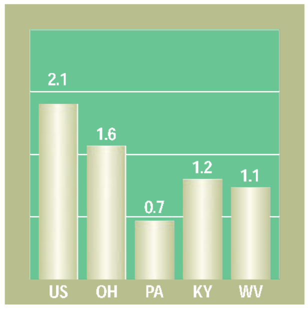
Source: U.S. Bureau of the Census.

Homeownership Rates, 2000 (percent)



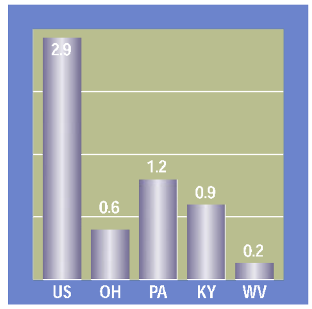
Source: U.S. Bureau of the Census.

Growth in Homeownership Rates, 1990–2000 (percent)



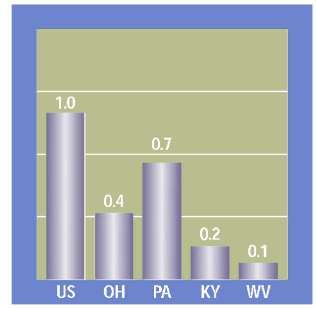
Source: U.S. Bureau of the Census.

Hispanic/Latino Population Growth, 1990–2000 (percent)



Source: U.S. Bureau of the Census.

Asian Population Growth, 1990–2000 (percent)



Source: U.S. Bureau of the Census.

Most of Ohio's major cities lost population; only Columbus gained population, presumably through annexation and not population growth. While Cincinnati is shrinking, its suburbs are growing at a clip. In Pennsylvania, Pittsburgh and Erie declined, and in Kentucky, Lexington grew while Ashland decreased in population.

The availability of housing and home ownership are vital to community economic development. Owner-occupied housing in each Fourth District state increased modestly between 1990 and 2000, while renter-occupied housing decreased. Throughout the District, the number of households has grown since 1990. New and smaller households are the result of more single householders (due to higher divorce rates and later marriages), more single parents, "empty nesters," families with fewer children, and the elderly living alone.

Immigration fueled growth in many American cities during the last decade. Immigrants play a key role in growing economies—as consumers, employees, and entrepreneurs. To the Fourth District's disadvantage, its states do not show the significant increases in ethnic populations that parts of the country are experiencing. In fact, the racial and ethnic composition of Fourth District states changed little during 1990–2000, with minor growth in the Hispanic/Latino and Asian populations.

The nation's minority groups, particularly Hispanics and Asians, are heavily clustered in selected regions and markets. While the vast majority of U.S. counties showed some increase in Hispanic population since 1990, those gains were concentrated in the South and West. Likewise, Asian populations remain small and highly concentrated in the West. Although there has been some dispersion of immigrant populations in the last decade, the trend has been toward continued concentration in U.S. port cities.

COMMUNITY ECONOMIC DEVELOPMENT INITIATIVES

Despite the challenges faced by many Fourth District communities, we look back at 2001 to highlight community development initiatives that are creatively addressing economic needs and disparities throughout the District. We have chosen just a few areas and examples—by no means an exhaustive survey—including business and economic development strategies, affordable housing, community development financing legislation, and brownfields. A common theme among these initiatives is that they involve partnerships—often regional—among a number of players, including government agencies, nonprofit organizations, universities, businesses and foundations, and local residents. Moreover, these initiatives are designed to be long-term solutions to complex issues and problems—there are few short-term fixes for such challenging problems.

Fourth Federal Reserve District

Areas served by main office and branches

Randall B. Maxx

Small businesses are essential to the development of the Fourth District's communities: They bring innovative products and services to marketplace and provide a range of job opportunities.

We hope the progress that has been—and will be—made through these collaborative efforts can serve as a model for organizations and practitioners addressing similar community development issues.

BUSINESS DEVELOPMENT INITIATIVES

Small businesses are essential to the growth and development of the Fourth District's communities: They bring innovative products and services to the marketplace and provide a range of job opportunities. The smallest of the small businesses—microenterprises—have a considerable impact on new job creation and sales revenues despite their size. Several new business development programs in the Fourth District are capitalizing on local amenities and supporting entrepreneurs with financing and technical assistance when they are most at risk.

Upper Ohio Valley Mayor's Consortium

Thirty-seven mayors in Rust Belt cities throughout the Ohio Valley have joined together to market the region as an alternative for businesses located in northern California.[1] The Valley's three largest cities, Wheeling and Weirton, West Virginia, and Steubenville, Ohio, are leading the campaign to lure technology companies from the West Coast. The consortium represents a unified effort to create a new image for this region: from one of depressed steel and old industrial towns to one that offers a better quality of life, including skilled workers, stable and affordable utilities, low crime rates, and lower taxes and business costs.

Although states typically compete for companies, the consortium believes the Ohio Valley is small enough that all of its towns and cities stand to benefit when one attracts a new company. The combined demographics of population loss and a core population of senior citizens in the region necessitate regional cooperation: Without job creation and an influx of a younger population, many of these towns will wither. Companies in northern California are responding well to the area's low business and real estate costs and energy availability.

Microenterprise

The Microenterprise Organization of Ohio, a statewide association for microenterprise programs, provides a support network for practitioners to share best practices and advocates on behalf of Ohio's microenterprise programs. Additionally, the Cleveland-based organization Working for Empowerment through Community Organizing's (WECO) recently established Micro-Enterprise program offers business management skills to entrepreneurs through classroom training and microloan financing of \$500–\$25,000.

The Southern Appalachian Fund, a conditionally approved New Markets Venture Capital Company, is currently in the fundraising stage. Once operational, the \$12.5 million fund will invest in companies in five Appalachian states, including Kentucky. This fund is a partnership between the Technology 20/20 Finance Corporation in Tennessee and the Kentucky Highlands Investment Corporation, a business development firm that provides venture capital to start-up and expanding enterprises in southern and eastern Kentucky.

Two other new venture capital funds that support community economic development in our District, the Heartland Labor Capital Network and Adena Ventures, are highlighted in this issue's 4th District Profile.

COMMUNITY ECONOMIC DEVELOPMENT STRATEGIES

Community economic development is the mission of the Federal Reserve Bank of Cleveland's Community Affairs function. Broadly speaking, this encompasses community reinvestment, fair lending, and economic development activities. According to Cleveland Bank president Jerry L. Jordan, "At the most fundamental level, the goal of the Federal Reserve Bank of Cleveland's community affairs activities is the same as that of its monetary policy, payments system, and bank regulation activities: to help provide a fair and efficient market environment where people can prosper through their own efforts." This is the foundation for promoting sustainable economic growth.

Kentucky's New Economy

After a decade of successful economic development growth, the Kentucky Innovation Commission began work in 2001 on a strategic plan for the New Economy.[2] *Kentucky Innovation: A Strategic Plan for the New Economy*, approved in January 2002, is the result of a statewide collaboration among more than 300 individuals. Six regional areas (Eastern, Western, South Central, Northern Kentucky, Lexington, and Louisville) identified by the Office for the New Economy will have individual plans tailored to their economies.

The plan identifies several special opportunity areas: safety and security technology; an investment and recruitment partnership between the state and private sector, called Kentucky First; a center for natural products; a rural business building initiative; a state-of-the-art visualization center for new products; and an energy and environmental consortium. New Economy partners will include government, the private sector, nonprofit organizations, and universities. A legislative package will be proposed during the 2002 General Assembly session that includes incentive programs and packages designed to attract New Economy businesses to the state.

Combating Urban Sprawl

In Northern Kentucky and Greater Cincinnati, the loss of farmland, forests, wetlands, and open space to urban sprawl has raised concerns among community groups and land conservationists as growth pushes further into outlying communities and rural areas.[3] Recent land development in Greater Cincinnati has outpaced population growth by a 5:1 ratio. Alarmed by these trends, Kentucky's land conservation movement has grown significantly: The number of protected areas increased from 343 acres in 1990 to more than 4,000 in 2000. In 2001, the National Land Trust Alliance created a new Southeast Program to assist 115 nonprofit land trusts in Kentucky and seven other states.

One of the most common methods of protecting land from development is conservation easement, a legal agreement between a landowner and a nonprofit group that permanently limits the land's development. The landowner continues to live on the land and may sell it or pass it on to heirs; future owners, however, must adhere to the development restrictions set out in the agreement.

One of the most common methods of protecting land from development is conservation easement, a legal agreement between a landowner and a nonprofit group that permanently limits the land's development.

The Fourth District Economy in 2001

Source: Board of Governors of the Federal Reserve System, *Beige Book*, various issues.

Randall B. Marx

In Kentucky, Governor Paul Patton has allocated $25 million to fund programs that preserve farmland. The state pays farmers a small fee for property development rights, guaranteeing the land will never be used for commercial development.

Brownfields

Brownfields are abandoned, idled, or underutilized industrial and commercial sites in urban areas where redevelopment is complicated by environmental contamination. Brownfields are emerging as a significant economic development and environmental issue in Fourth District states because of the historical prevalence of heavy manufacturing and industrial activities in this region.

Many efforts are under way to return brownfield areas to productive use and to create jobs in urban areas.[4] In July 2001, Ohio governor Bob Taft signed the Brownfield Bill (H.B. 3), establishing the $400 million Clean Ohio Fund. The fund will revitalize Ohio cities and preserve farmland, green space, and clean water, and increase outdoor recreational activities. Over the next four years, the Clean Ohio Council will award competitive grants to clean up abandoned industrial sites and put contaminated properties to productive use.

Randall B. Marx

The Urban Living Loan Fund, launched in 2001, is an unprecedented partnership focused on urban core development. Most of the funding comes from the banking community and Federal Home Loan Bank member banks, which together have pledged $17.5 million at below-market interest rates.

creating valued job and housing opportunities.

The EPA has selected Wheeling, West Virginia—one of the most economically distressed states in the country—to administer a Brownfields Cleanup Revolving Loan Fund of up to $1 million over five years. For over a century, West Virginia's economy has centered around the chemical products, mining, primary metals, and glass products manufacturing industries. As the economic importance of these industries waned, many businesses closed, jobs were lost, and properties were left abandoned.

The state's overall objectives are to provide incentives to clean up and redevelop contaminated sites, direct new development away from pristine "greenfield" sites, and generate public benefits for West Virginia's communities. The fund will be available for redevelopment projects throughout the state: The West Virginia Development Office has identified 162 local public and private organizations as potential loan recipients.

There are many other Fourth District brownfields initiatives. Financial Resources for the Environment in Pennsylvania provides financing for the remediation, preconstruction development and redevelopment of brownfields and other contaminated properties. Sustainable Communities Coalition in Ohio is a collaboration of organizations dedicated to minimizing harm to the natural environment while promoting business development and improving the quality of life for residents.

AFFORDABLE HOUSING AND COMMUNITY DEVELOPMENT FINANCING

Affordable housing is a growing challenge for many working families and low- and moderate-income communities in our District. New and rehabilitated housing for renters and home buyers of all income levels is a key strategy in retaining population and attracting businesses into viable neighborhoods. Creative financing tools support such efforts.

Urban Living Loan Fund

The Cincinnati Development Fund, Downtown Cincinnati Inc., Cincinnati Business Committee, Federal Home Loan Bank of Cincinnati, and the City of Cincinnati have banded together to create a $40 million loan pool to make housing development easier and more fiscally attractive in the neighborhoods of Over-the-Rhine, West End, and downtown Cincinnati.[5]

The Urban Living Loan Fund, launched in 2001, is an unprecedented partnership focused on urban core development. Most of the funding comes from the banking community and Federal Home Loan Bank member banks, which together have pledged $17.5 million at below-market interest rates. The city will contribute parking revenues and leveraged parking garage dollars, and the balance will be provided through program-related investments from community and corporate foundations, the Greater Cincinnati Foundation, and Western Southern Life Insurance.

The fund, administered by the Cincinnati Development Fund, will provide loans for rental projects, condominiums, and new home construction. It is targeted to reach $38.4 million; to date, 75 percent of that amount has been raised.

Tax Increment Financing

In late 2001, Ohio governor Bob Taft signed House Bill 405, which will significantly change the way distressed communities approach community, economic, and residential development. The bill allows communities to create tax increment financing districts and use the tax increment from new developments to fund qualified public improvements.[6] (Current legislation limits the use of tax increment financing to public improvements that support a single, nonresidential project.) The ability to pool increased revenue from a designated blighted area to aid revitalization is a tool that has been used successfully around the country.

Neighborhood Assistance Program

The Neighborhood Assistance Program (NAP) was heard in the Ohio Senate's Ways and Means Committee in the spring of 2001. The bill (S.B. 88) would establish the Ohio NAP, which would offer tax breaks to businesses that make donations to nonprofit organizations supporting community development activities.

The program would provide an easy avenue for attracting private-sector funding to support both rural and urban economic development. Similar programs have been established in 15 other states, and the program would complement the CDFI Fund's New Markets Tax Credit program.

> By understanding regional demographic and economic shifts and examining successful responses to those changes, community development practitioners are in a better position to proactively build new communities and revitalize old ones.

PREDATORY LENDING

It is encouraging that our District demonstrates higher-than-average owner-occupied housing rates, but abusive lending practices have become a major concern in many of our low- and moderate-income neighborhoods. Known as predatory lending, it includes practices such as asset-based lending, loan flipping, exorbitant fees, and the sale of unnecessary products to those who can least afford them. One result of predatory lending is the aggressive erosion many of the home ownership gains made in these communities over the last decade. Legislation is currently being proposed to tackle this issue, and financial and economic literacy programs can better prepare consumers to identify fraudulent lenders.

Randall B. Marx

Legislation

In 2001, the Ohio General Assembly passed Senate Bill 76, drafted to safeguard consumers from deceptive and illegal mortgage activities. The bill requires licensing and continuing education for loan officers employed by brokers and increases the criminal penalties for violating the Ohio Mortgage Loan Act. The legislation also prohibits mortgage brokers and loan officers from making, proposing, or soliciting false or misleading statements in mortgage-related activities, and it prevents those convicted of specific crimes from holding licenses. The legislation becomes effective in May 2002 and will be enforced by the Ohio Department of Commerce.

In December, the Ohio House of Representatives approved House Bill 386, which grants the state sole responsibility for regulating the origination, servicing, and collection of loans and other forms of credit in lieu of local regulations. The bill also creates a Predatory Lending Study Committee to report to the General Assembly in 2003. The bill was introduced to the Ohio Senate in fall 2001 and passed in February 2002.

In addition to this state-level legislation, the Federal Reserve Board amended Regulation Z (which implements the Home Ownership and Equity Protection Act) and Regulation C (which implements the Home Mortgage Disclosure Act) to crack down on predatory lending practices nationally. Both proposals solicited public comment in 2001, and new regulations for both have been announced.

Financial Literacy

Financial literacy combats predatory lending by educating and empowering consumers. One successful program in the Fourth District, Cleveland Saves—the pilot of the national project America Saves—encourages low- and moderate-income individuals to build wealth and work toward a savings goal. Financial education for "savers" is a key component of the program. More than 100 Cleveland-area institutions support the program, including nonprofit organizations, financial institutions, government, religious groups, and employer and employee groups. In the next year, Community Affairs programs across the country will undertake a national initiative to promote financial literacy and economic education. The Cleveland Fed's Community Affairs Office is now undertaking a survey of financial literacy providers to determine the range and impact of program offerings in the District.

NEW DIRECTIONS IN 2002

During 2002, the Federal Reserve Bank of Cleveland will continue to address these critical community development issues and will play a role in strengthening and (re)building low- and moderate-income communities throughout the Fourth District. Some of our services include offering public programs and education, convening a diversity of stakeholders, providing technical assistance, facilitating community development, and catalyzing change in a neutral manner.

With recent additions to our staff, we will focus on expanding our program this year. New initiatives include enhancing our research and analysis capacity, informing public policy through increased communication with elected officials, and convening a Community Development Advisory Council to advise the Bank on emerging community development issues and trends. We expect these new directions will broaden and strengthen the program's impact and enhance our Bank's Community Affairs mission.

By understanding regional demographic and economic shifts and examining successful responses to those changes, community development practitioners are in a better position to proactively build new communities and revitalize old ones. We believe there are opportunities for all areas to become socially viable and economically productive, including low- and moderate-income communities; urban, rural, and suburban locales; and New Economies, Old Economies, or some blend of the two. Partnerships can stimulate social and economic progress in this region, and the Federal Reserve Bank is committed to acting as an integral partner in this process.

NOTES

1. See Milan Simonich, "37 Towns Join Fight to Create More Jobs: Ohio Valley Targets Silicon Valley Firms," *Pittsburgh Post-Gazette*, October 14, 2001.

2. See Kentucky Cabinet for Economic Development, "Strategic Plan for the New Economy Unveiled," press release, January 8, 2002.

3. See Michael Collins, "Land Trusts Trying to Slow Sprawl," *Cincinnati Post*, November 6, 2001.

4. See Ohio Department of Development, "Connect Ohio," www.connectohio.com; and U.S. Environmental Protection Agency, "OSPS Brownfields Homepage," www.epa.gov/brownfields.

5. Bob Driehaus, "New Loan Pool Launched for Downtown Housing," *Cincinnati Post*, October 31, 2001.

6. Tax increment financing allows a political jurisdiction to issue bonds to finance "public improvements" within an area determined to be blighted. The increased tax value derived from other taxable improvements spurred through these public improvements is used to pay the bond debt.

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Creative Venture Capital Funds Serving Fourth District Businesses

Heartland Labor Capital Project

Adena Ventures

The availability of capital for growth and expansion is a critical ingredient in the success of any business. Because investing in an enterprise is also risky, often there is not enough investment capital for entrepreneurs, particularly in impoverished communities and older-stage industries, which need capital infusion most. Fortunately, two new creative venture capital funds—the Heartland Labor Capital Network and Adena Ventures, LP—are serving businesses in the Fourth District.

The Heartland Labor Capital Network comprises labor, pension, and economic development organizations in nine economic regions in the United States and Canada that are collectively capitalizing the Heartland Funds, a pool of labor capital and allied investments in manufacturing businesses. Many of these businesses are older and in need of modernization; however, with capital and technology investments, these manufacturers would again be in a position to compete. The funds will also invest in growth industries.

The Heartland Funds are unique in their financing: They are labor-sponsored investment funds financed by multiemployer pension funds, selected union affiliates, and other financial entities. Direct investments are made in smaller, unionized manufacturing establishments and related enterprises that demonstrate a potential for long-term, quality returns on investment and high-performance work practices. The Funds' goal is to promote quality job creation and retention, thereby building sustainable regional economies.

The Fourth District is home to two Heartland Labor Capital Network initiatives. Pittsburgh's Regional Heartland Fund provides patient and flexible debt capital to small and mid-size manufacturing companies in distressed communities in 20 western Pennsylvania counties. The fund builds on the track record of the Steel Valley Authority, a labor-affiliated economic development group that has created and retained more than 8,500 jobs in the region's industrial valleys and coal patch communities. The Pittsburgh fund has obtained $100,000 in capital commitments in addition to operating grants; eventually, it will raise $2 million to $3 million dollars once it is certified as a community development financial institution.

The Ohio Employee Ownership Network, another Heartland partner, has launched an initiative with the AFL-CIO to create a labor capital fund. Although it is still in the formative stages, representatives from the labor, academic, and economic development communities will convene to develop a labor capital venture fund like that in Pittsburgh.

Tom Croft
Project Director
Heartland Labor Capital Network

Lynn Gellermann
President and Chief Operating Officer
Adena Ventures, LP

According to Tom Croft, project director for the Heartland Labor Capital Network, "In Canada, where working people have pooled their capital through progressive new investment programs, they have accumulated one-half of all venture capital. Where workers have directed their assets toward good businesses that are worker-friendly, and when they can participate in high performance workplaces, and benefit from productivity gains, their companies have performed, on average, very well."[1]

Another initiative taking shape is the for-profit venture capital enterprise Adena Ventures. Based in Athens, Ohio, the firm is in the final stages of being designated the first New Markets Venture Capital Company in the nation by the U.S. Small Business Administration.[2] Adena will provide equity capital and operational assistance to central Appalachian small businesses that demonstrate high growth potential. Investments of $200,000 to $2 million per company will cover an array of industries and multiple stages in the business life cycle. Strategic partners will provide operational assistance (such as business planning) to investment prospects at no cost.

Currently capitalized at $34 million, Adena's major investors include the West Virginia Enterprise Capital Fund, Ohio University, Fifth Third Bancorp, National City Bank, KeyBank, BB&T, WesBanco, Huntington Bancshares, American Electric Power, the F.B. Heron Foundation, the Ohio Bureau of Workers Compensation, and the Huntington Area Development Council. In addition, Ohio University, the University of Charleston, and the Mountain Maryland Entrepreneurial Development Center have signed on as strategic partners. Adena is housed at Ohio University and plans to open a second office at the University of Charleston in West Virginia.

New Markets is a federal government program that helps venture capital companies serve low- to moderate-income areas. The Small Business Administration provides venture capital funds with additional financial leverage—as much as 150 percent of the private funds raised—as well as technical assistance grants for portfolio companies.

Adena Ventures intends to accomplish its mission—promoting shared and sustainable growth in central Appalachia—through several goals: starting and growing companies, commercializing innovative technologies in the region, creating new jobs with growth opportunities, helping companies and individuals build and maintain wealth in Appalachia, and transitioning to an economy based on knowledge, capital, and technology.

This region has been underserved historically by the venture capital industry. By transforming the economy and demonstrating that a supportive entrepreneurial environment exists in Appalachia, Adena and its partners hope to attract and retain entrepreneurs, professionals, and younger populations. According to Lynn Gellermann, Adena's president and chief operating officer, "What we have created is a strong financial vehicle for this region that will generate profits for our investors. This provides us with a real opportunity to help position this region for the future and to show the rest of the nation that this is a great place in which to do business and invest."

With the presence of innovative venture funds in the Fourth District, more companies that previously had little or no access to venture capital are now in a position to benefit from new capital sources, grow, and become the building blocks of our economy.

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[1] More about these approaches is available in Archon Fung, Tessa Hebb, and Joel Rogers, eds., *Working Capital: The Power of Labor's Pensions* (Cornell University Press, 2001), which provides a new framework for investing in longer-term, more sustainable industries.

[2] A designation is expected in April 2002.

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How Will the Fourth District Reinvent Itself for the New Economy?

Mark Sniderman
Senior Vice President
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Federal Reserve
Bank of Cleveland

> *It is not the literal past that rules us, save, possibly, in a biological sense. It is images of the past....Each new historical era mirrors itself in the picture and active mythology of its past or of a past borrowed from other cultures. It tests its sense of identity, of regress or new achievement against that past.*
>
> —George Steiner, "Bluebeard's Castle"

At a time when the United States is coming together to reassert its national identity, large portions of the country are experiencing their own local identity crises. We all recognize and support the values that propelled the United States to a position of international pre-eminence, but we appear to be uncertain about how to sustain growth in our own communities. Wherever I travel, I hear civic leaders passionately debating the economic development choices they face.

The Fourth Federal Reserve District exemplifies the difficult situations that people throughout the country face as they consider their future. Long a bastion of high-wage steel, transportation equipment, and mining employment, our region has seen two powerful trends slow employment growth in these sectors and elevate other industries, especially in the service sector. These trends—which have been forces throughout world economic history—are trade and productivity.

Regions (and countries) trade with one another to take advantage of inherent comparative advantages. These comparative advantages can be stable for long periods, but then shift suddenly for several reasons. Sometimes, discoveries of natural resources favor one region over another; at other times, new inventions or production techniques favor places that accumulate the requisite knowledge or capital. Finally, periodic changes in trading boundaries expand or limit competition.

Over time, different parts of the United States benefited from successive waves of innovation, capital formation, trade, migration, and population growth. As some regions prospered, others lost vigor. Some of the towns that fell behind stagnated while others reinvented themselves. Accounting for the difference has not always been easy, even after the fact.

During the 1970s, 1980s, and 1990s, many regions in the northern United States saw their populations stabilize as growth surged in the South and West. Scientific discoveries powered whole new industries outside the old manufacturing centers, which some observers believe were not receptive to entrepreneurs or flexible business requirements. During the same period, the United States dramatically enlarged its scope of international trade. Firms and industries that adapted to the global marketplace prospered, while those no longer able to compete foundered. In the industrial heartnion

The cities most likely to attract newcomers are the cities that provide attractive options for their current residents.

land, during a decade of exceptionally strong national economic growth, many venerable firms in traditional industries simply fell by the wayside.

Compounding the pace of change are factors that transformed cities from being *the center* of economic growth to merely being *in the center of growth* as people and businesses spread to the suburbs. Across America, hundreds of cities—large and small—have finally overcome denial and accepted a tough reality: Their communities cannot count on traditional sources of economic growth to return them to their former glory. Civic leaders understand that once their comparative advantages disappear, they must find new ones.

Unfortunately, all too often this quest has become a quest for a new catchphrase. It seems as if every city and town in America now wants to be known as a center for high-tech this, or biomedical that (last year it was dot.com this and broadband that). Some communities have been so preoccupied with fiber-optic cable and business incubators that they have not really thought about what makes a city viable in the first place. Sure, jobs matter, but where do jobs come from?

Great cities, large or small, are places that people want to live in because they are life affirming. They provide opportunities for people to work, play, and express their humanity. And, both because people like variety and differ from one another, great places offer a range of choices in all of these dimensions. The famous urban scholar Jane Jacobs concluded, "the point of cities is multiplicity of choice."[1] The cities most likely to attract newcomers are the cities that provide attractive options for their current residents. Most jobs are created, not when new firms come to an area, but through the expansion of existing businesses. Because some firms will inevitably leave or go out of business, nurturing new ones must be a constant and manifest priority.

Of course, not every community can be a major transportation hub, vacation retreat, or financial center—but not everyone wants to live in such a location in the first place. Congestion, pollution, and land prices generally increase with city size. The challenge is not how to be all things to all people, but how to be the best that you can be, starting with what advantages you already have, and building on from there.

I am frustrated when communities think they must choose between revitalizing their old industries and attracting new ones. Governments are not especially good at picking winners. Governments can make their cities safe, clean, and attractive. Governments can provide excellent education. Governments can establish tax, land use, and regulatory policies that encourage economic development. And governments can partner with other communities in their region to the benefit of the whole. But we do not rely on government directly to create large numbers of jobs.

The Fourth Federal Reserve District became the industrial heartland of the United States in the first half of the twentieth century, propelled by raw materials, new technologies, capital investment, and westward population migration. Our region has not experienced that kind of population and economic growth since then, and it may never again. Our challenge lies not so much in returning to rapid growth, but in raising the quality of life for those people who are already here.

Looking at our nation's history, we see that economic growth flourishes when people have the opportunity to turn creative ideas into successful businesses. Historically, we have tolerated the failures of once-flourishing firms and industries in the confidence that new, more vibrant ones would take their places. Over time, this approach has indeed raised our national standard of living. People are mobile, and they vote with their feet. As we consider this question of identity, let's do all we can to ensure the footsteps we hear are getting louder, not fading away.

[1] Jane Jacobs, *The Death and Life of Great American Cities*, ch. 18 (1961).

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CRA at Twenty-Five

This year marks the twenty-fifth anniversary of the Community Reinvestment Act (CRA), and, in the years since it was enacted, the banking industry has seen dramatic changes take place in the financial landscape. The following essay, excerpted from Federal Reserve Board Governor Edward M. Gramlich's remarks to the Consumer Bankers Association on April 8, 2002, discusses CRA in the context of those changes. The full text of Governor Gramlich's speech can be found at *www.federalreserve.gov/boarddocs/speeches/2002/20020408/default.htm.*

The financial services landscape has altered dramatically over the past twenty-five years. Within the banking industry, a great deal of structural change has occurred since CRA was passed and, indeed, since the regulations were amended in 1995. Since 1977, consolidations and mergers have decreased the number of banks and thrifts subject to CRA by nearly 9,200, or 49 percent, with a loss of more than 2,300 institutions since 1995. However, even with all these consolidations, the banking industry remains diverse and robust, without an overwhelming dominance of large institutions. The number of large banking and thrift institutions has also decreased by more than 200 since 1995. These large institutions now represent only one-quarter of all banks and thrifts in the marketplace. The industry continues to have room for new participants—approximately 1,000 banking institutions have entered the market since 1995.

Market forces and deregulation have been behind these changes. As banks have significantly expanded their role in the broader financial services industry, overall competition in the marketplace has increased, and the lines between banks and nonbanks have blurred. Banks and other financial institutions may now engage in interstate banking and nontraditional lines of business and thus provide consumers with a wide variety of sources from which to obtain a myriad of financial services. Nonbanks offer traditional banking services, such as check-cashing and credit services, while banks have become sources for securities and insurance products. Further, mortgage banking has evolved into an industry in which a large number of the lenders operate independently from banking organizations.

Simultaneously, advances in technology have redefined nearly every aspect of the industry—from loan underwriting to product delivery—with computers revising the role of staff and facilities in ways that were unimaginable two decades ago. Credit-scoring models have provided a mechanism for realizing loan-processing and production efficiencies as well as for engaging in systematic risk-based pricing. The Internet has enabled the collection of deposits and the disbursement of loans without brick-and-mortar premises.

These changes have significantly affected community reinvestment, presenting both opportunities and challenges. The process of addressing these opportunities and challenges has contributed to many innovative approaches in mortgage and community lending.

COMMUNITY DEVELOPMENT SUCCESSES

Clearly, community reinvestment is complex, and success is difficult to quantify. Significant progress seems to have been made in the revitalization of distressed communities, often through mutually beneficial collaborations between financial institutions, community development organizations, and public agencies. These affiliations are supported by the advent of new and innovative organizational structures, such as community development corporations, loan consortiums, and venture capital funds, which provide vehicles for leveraging economic investment in undercapitalized communities while managing risk for lenders and investors. Additional tools have been provided by the federal government, with tax credits offered for the development of low-income housing and, more recently, for the support of new small business development. In these situations, the original intent of CRA—to identify and exploit viable lending opportunities in low- and moderate-income areas and among lower-income populations—seems to have been realized.

Edward M. Gramlich

Member, Board of Governors of the Federal Reserve System

One of my ex officio duties at the Federal Reserve Board is to serve on the board of directors of the Neighborhood Reinvestment Corporation. In this capacity, I have visited successful projects and seen first-hand the effect of meaningful community development partnerships. I have talked to community leaders whose strong working relationships with financial institutions have helped create new opportunities for residents in their communities, improving the economic prospects of families and neighborhoods. Another responsibility of mine is oversight of the Federal Reserve's Consumer and Community Affairs function. In this capacity, I have seen the important role played by our Reserve Banks in facilitating partnerships that promote increased opportunities for financial institutions and community groups to encourage the development of underserved neighborhoods and areas. By serving as a neutral information broker, the Federal Reserve has helped to foster relationships among market participants and has promoted the development of new and innovative funding arrangements.

At the same time, while many of us believe that CRA has made a real difference in revitalizing neighborhoods, there is still a pressing need for more rigorous evaluative information. With the new Census data that are coming available, we should be able to compare and contrast census tract property values in neighborhoods with and without CRA investments. The Harvard Joint Center for Housing Studies has done important work on the influence of CRA on financial flows, but much more analysis of the real effects on neighborhoods is needed.

…I want to congratulate all of those who have worked so hard to make CRA a success. Lenders and community developers have made great strides in revitalizing economically disadvantaged communities and improving the financial well-being of lower-income households. Since the ways of meeting CRA challenges have expanded so much over the past twenty-five years, the prospects for continued innovation and future success are very promising.

CR FORUM
ACKNOWLEDGMENTS

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Visit us on the World Wide Web
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We welcome your comments and suggestions.

# of interest

Upcoming Conferences

The Community Affairs Office will sponsor several conferences in 2002. Watch your mailbox and our Web site for registration information as it becomes available.

Watch for the Financial Literacy Survey, designed by Community Affairs, which will be coming your way later this spring!

National Preservation Conference

October 8–13, 2002
Cleveland, Ohio
Sponsored by the National Trust for Historic Preservation, in partnership with the Cleveland Restoration Society

Tools for Building Sustainable Rural Communities

April 25–26, 2002
Wilkes-Barre, Pennsylvania
Sponsored by the Federal Reserve Bank of Cleveland, Federal Reserve Bank of New York, Federal Reserve Bank of Philadelphia, and Rural LISC

National Community Development Lending School

July 21–25, 2002
Los Angeles, California
Sponsored by the Federal Reserve Bank of San Francisco in partnership with the University of Southern California

Legislative and Regulatory Roundtables

Summer and Fall 2002
Locations to be determined
Sponsored by the Federal Reserve Bank of Cleveland

Big Ideas for Small Business

May 17, 2002
Cleveland, Ohio
Sponsored by the Federal Reserve Bank of Cleveland and the office of Rep. Stephanie Tubbs Jones with support from the Cuyahoga County Department of Development, the Ohio Small Business Development Center at Cuyahoga Community College, and the City of Cleveland

Livable Communities: Linking Community Development and Smart Growth

November 6–7, 2002
Cincinnati, Ohio
Sponsored by the Federal Reserve Bank of Cleveland and the Greater Cincinnati/Northern Kentucky LISC, with support from the Federal Reserve Banks of St. Louis and Chicago and regional LISC offices

Cleveland Office Welcomes New Advisor

The Cleveland Fed's Community Affairs Office is pleased to welcome **Mark Batson** as the most recent addition to its staff. Batson, a community affairs advisor based in the Cleveland Office, will support research initiatives, provide technical assistance, and develop educational and public programs in northeast Ohio. Prior to joining the Federal Reserve Bank of Cleveland, he worked as a consultant for Landmark Management, Ltd. He also has experience with Huntington National Bank as a small business specialist, and with the City of Cleveland's Office of Equal Opportunity, where he was a project director for the Minority Business Development Center.

CRA 2002 Comments Available Online

In the fall of 2001, the Federal Reserve Bank of Cleveland's Community Affairs and Consumer Affairs staff hosted a series of roundtables to discuss proposed changes to Community Reinvestment Act regulations. A summary of comments received from Fourth District banks and community groups can be found on our Web site at **www.clev.frb.org/CommAffairs/index.htm.**