"THE ROLE OF THE REGIONAL FEDERAL RESERVE BANKS IN FOSTERING ECONOMIC RENEWAL"

Remarks by
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I first want to thank all of you for participating in the "Renaissance of Rural America" conference and repeat the warm welcome Bob McTeer gave this morning. Community reinvestment and rural development are complex issues, and it helps when we can look at the problems from many different perspectives, as indeed we will today and tomorrow.

I know at conferences like this, there is a great risk of information overload—so I plan to be brief and focus my remarks on three main points: first, how the Federal Reserve assists bankers in meeting the investment and development needs of their communities; second, what a recent St. Louis Fed study reveals about economic development needs in the Lower Mississippi Delta region; and third, what some twentieth century Renaissance men and women are doing to lead their communities to economic renewal.

I'm proud to say that the Fed has taken a lead in cultivating partnership programs that result in affordable housing and rural economic development. In fact, the Fed's regional structure makes us a natural to carry out this role. By using the local economic and banking information that we compile in the normal course of business, the Reserve Banks help ensure that community needs are identified and that the interests of both lenders and communities are well served.

With the passing of the Community Reinvestment Act in 1977, the Fed began to increase its community affairs role. As a banking regulator, the Fed is required to affirm that state-member banks make loans to all segments of their
communities—including low- to moderate-income areas—provided such loans are consistent with the banks' safe and sound operation.

At the Fed, the charge of enforcing CRA has always been carried out in CRA examinations by banking supervisors. To augment its enforcement role, however, the Fed established Community Affairs Offices at each Reserve Bank to help communities and bankers better understand CRA.

In establishing these regional Community Affairs Offices, the Fed maintained several convictions. First, Reserve Banks have knowledge of local banking and economic conditions useful in establishing programs that will best meet their communities’ unique credit needs. Second, such activities should concentrate on long-term strategies. And, third, no one organization can solve a community’s economic development problems by itself.

Since it was created more than 14 years ago, the St. Louis Fed’s Community Affairs Office has had one mission—to promote CRA’s objectives by linking community credit needs with lending programs to help meet those needs. Ultimately, the goal is to enhance credit access by facilitating partnerships among community groups, local governments and lenders. As such, many of the activities at the St. Louis Fed are grass roots efforts, bringing multiple players together.

The Fed’s community affairs role is quite separate from its regulatory role and is based on the theory that, if CRA is to succeed, both bankers and community groups must benefit
from their alliances, and in turn, such alliances must be based on mutual interest. Our Community Affairs Office works to promote that mutual interest.

How does the Fed’s structure facilitate its community affairs approach? The Fed is a decentralized, independent government agency. At its center is the Board of Governors in Washington, D.C., which focuses primarily on policy issues. The 12 Reserve Banks, on the other hand, while subject to the general supervision of the Board of Governors, are quasi-public institutions patterned after private sector corporations.

The Reserve Banks carry out most of the Fed’s day-to-day activities, as well as participate in certain policymaking functions. They are directly overseen by boards of directors drawn from the various regions.

Reserve Banks and their Branches are integral parts of their communities. The St. Louis Fed, for example, has Branches in Little Rock, Louisville and right here in Memphis. Like the St. Louis Bank, each of our Branches has a board of directors comprised of local business and community leaders, as well as its own Community Affairs specialist to help with local economic development.

I’m pleased that the Fed’s structure allows us to take a leadership role, and I believe that conferences like this one show our continued commitment to economic development. By facilitating the exchange of critical information, conferences are one way we can promote alliances.
So are community profiles we publish from time to time. To develop a profile, Community Affairs staff obtain information about a community's demographics, unique credit needs and area programs available to meet those needs. The source of this information is one-on-one meetings with members of local community organizations, government agencies and others. By publishing the findings, we help banks to better understand their communities.

The St. Louis Fed recently completed a study of the Lower Mississippi Delta, one of the nation's poorest regions. The Delta region encompasses portions of Arkansas, Mississippi, Louisiana, Missouri, Tennessee, Kentucky and Illinois, all of which are in the Eighth Federal Reserve District except for the Louisiana portion.

The objective of the study was to gather information about the credit needs of Delta communities and present examples of economic partnerships to members of the banking community. Our goal was not to prescribe a solution, but rather to identify rural community needs. It is our hope that this information will be used by bankers, and other individuals, to establish successful economic development partnerships throughout rural America.

In conducting the study, members of our Community Affairs staff met with more than 200 people representing local governments, community leaders, housing and small business organizations, lenders, and residents of the Delta region.
According to the study, many Delta communities are lagging behind in economic growth and prosperity. Moreover, many tend to have higher rates of measurable poverty and unemployment when compared to other regions of the country.

These facts mean that the Delta region, and other rural communities, are struggling to create a diverse set of economic development strategies. Their goals are to gain control of their own destinies, produce needed products in order to create jobs, generate and retain local wealth, and keep people from leaving the community.

For this to happen, communities need capital, improved infrastructure, better educational opportunities, wider access to quality health care, affordable housing, and adequate transportation systems. Any one of these challenges is formidable; in combination, they seem insurmountable for many communities.

The study contains statistical data, as well as success stories. In every instance, the key to an effective program was a community-based partnership. Such partnerships typically involve the efforts of financial institutions; city, state or federal agencies; and local community organizations.

The specific programs outlined in the profile illustrate ways in which financial institutions and others can assist in meeting the investment and development needs of their communities. Copies of the Delta report will be mailed to everyone participating in this conference.
I’d now like to introduce to you some of the twentieth century Renaissance men and women of the Mississippi Delta. The word renaissance means a rebirth or revival. And as you’ll see in just a minute, that’s exactly the task at hand for these individuals: stimulating economic rebirth and revival in their rural communities.

In the first video segment, you’ll meet individuals involved with the Delta Housing Development Corporation, a self-help housing program in Indianola, Mississippi. Through this program, first-time home buyers are able to secure low-interest mortgages with no downpayment by doing much of the construction themselves.

In the second segment, you’ll meet individuals participating in the Business Development Center in Clarksdale County, Mississippi. The Center serves as an incubator to create jobs and reduce small business failures by making it easier for businesses and entrepreneurs to survive the early stages of development. This type of business incubator has a proven track record.

[VIDEO]

Because of time, I’ve shared with you only two of the success stories on the video. If you’re interested in seeing more, the complete video will be shown at the Resource Fair later this afternoon. Also, copies will be sent with the Delta study.
As you just saw, for rural development to be successful, a combination of various programs and development partnerships that draw upon public and private sector resources is necessary. In the first video segment it took the leadership of a not-for-profit, financing from a bank and a government agency, and the determination and labor of a homeowner and the homeowner’s family and friends to build a house. In the second, it took a not-for-profit industrial development foundation, a state agency, the local Chamber of Commerce and an individual with a true entrepreneurial spirit to start and expand a business that created dozens of jobs for the community’s willing and eager workers.

The people you’ve just met in the videos have done something very important in their communities. They are special, but they are not unusual. In fact, the most important message we hope you’ll hear from our study, and from the conference, is that your organizations can achieve similar results in your own communities.

I know that’s what you want to do, and I congratulate you on the good things you’ve already accomplished. I assure you the Fed will continue to do its part as well, including pursuing monetary policies that are conducive to long-term saving and investment. Thank you.