



Banking and Community **Perspectives**

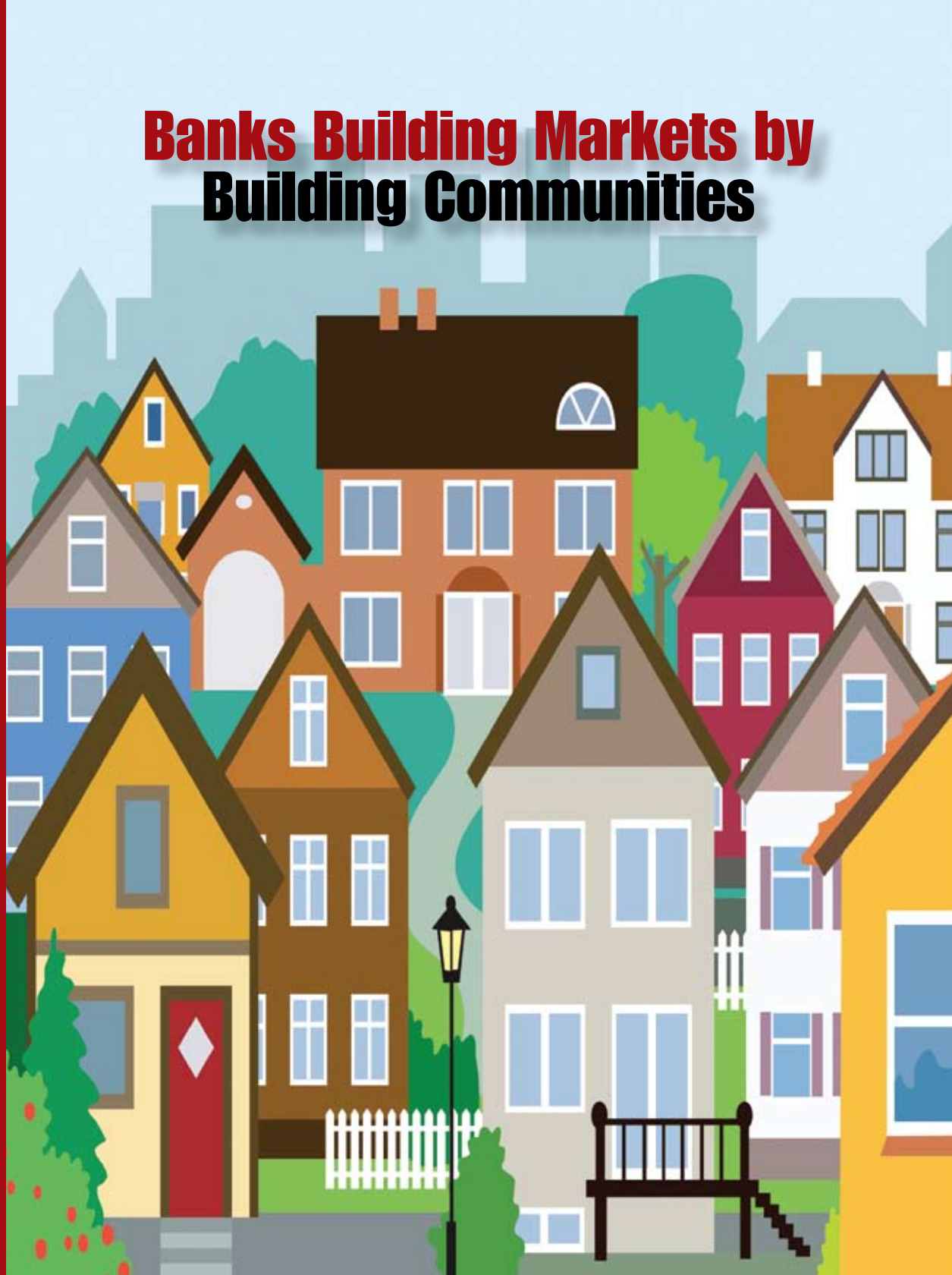
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FEDERAL RESERVE BANK OF DALLAS

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Banks Building Markets by Building Communities





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Banking and Community Perspectives

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Throughout the Federal Reserve's Eleventh District, we're seeing banks advance the vitality of their communities. One way they're doing this is by including low- and moderate-income households and neighborhoods in their strategic plans. The Community Reinvestment Act has played a major role in helping stimulate and leverage more than \$4 trillion in investments and loans in these communities since its passage three decades ago.

The CRA has helped banks expand the potential of untapped and emerging markets. What some of these banks recognize is that community investments are not just about philanthropy or corporate social responsibility; they are good business.

This issue of Banking and Community Perspectives focuses on three kinds of community investments that have drawn strong bank support. What makes these investments stand out are the creative ways they connect low- and moderate-income people to key building blocks of vibrant communities and economies: education, technology and health care.

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Banks Building Markets by Building Communities

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hen banks evaluate market opportunities, they gather data on the strengths, weaknesses, challenges and trends in housing, small business, employment and other components of the economy. They get a sense of what issues are so critical, they affect a large and growing portion of their market. They see where local businesses, governments and community organizations direct their resources. They learn which community and economic development initiatives generate a significant return on investment and which barely scratch the surface.

As banks conduct this research, they build relationships that extend beyond their natural customer base and fellow bankers and learn about the community's priorities and goals.

By developing this knowledge and network, banks can anticipate customers' future needs and help them improve their financial health—providing financial education classes, for example, or bank-in-school programs. If the majority of these programs' clients are low- and moderate-income, these activities can receive Community Reinvestment Act credit.

Banks, their customers and the local community share the long-term benefits of meaningful community investments. They strengthen the bank's reputation, making it easier to attract new customers and retain existing ones. The more financially secure these investments make customers, the more financially productive they can become. And the more financially successful a bank and its customers, the more they can contribute to the growth and vitality of the local economy. So by integrating community investments into their strategic planning, banks can generate financial, social and economic value for themselves and the larger community.¹ Three of the most important vehicles for accom-



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plishing this are education, technology and health care.

Accessing Quality Education

It's no secret that among the advanced industrial countries, American students and young adults are at or below average in

literacy, math and science. While 30 years ago the U.S. had 30 percent of the world's college students, today it has only 14 percent and that share continues to drop. A 2006 report from the New Commission on the Skills of the American Workforce concludes that if "the number of nations outpacing us in the educa-

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**Studies have shown that children
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.....

tion race continues to grow at its current rate, the American standard of living will steadily fall relative to those nations, rich and poor.”²

Whether America retains its leadership position in the global economy, the report says, “depends on a deep vein of creativity that is constantly renewing itself. . . . Comfort with ideas and abstraction is the passport to a good job, in which creativity and innovation are the key to the good life.”

The challenge is to improve the quality of education and make it accessible to all students, so that as many as possible become fully engaged in the knowledge economy—as artists, entrepreneurs, inventors and in other roles requiring high levels of creative and technical skills. Schools cannot achieve this working alone but in collaboration with community learning centers, libraries, museums, parks and other entities.³

Dallas Arts Learning Initiative

The Dallas Arts Learning Initiative (DALI) embraces this philosophy of nurturing a more creative workforce. The ongoing effort, managed by nonprofit Big Thought, currently operates under a three-year, \$39.8 million budget. Its objective is to improve the accessibility and quality of arts programs for all Dallas children, both in and outside the classroom. DALI’s role is coordinating a partnership between the city, the Dallas Independent School District (DISD) and a range of community resources that includes museums, performing arts groups, and nature

and science institutions.

DALI is the umbrella for three components: Arts Learning in Schools, which provides students with a formal education in the arts; Arts Integration, which uses the arts as a teaching tool for all subjects; and Arts in Communities, which involves student participation in neighborhood art and cultural activities.

From an economic standpoint, DALI is important because it helps prepare students to be part of the highly skilled creative workforce—in research, development, design, marketing, sales and global supply-chain management.

From an academic standpoint, the program is significant because it represents the first time since the 1970s that all DISD elementary school students have received regularly scheduled education in music and visual art. Currently, the 100,000 students get 45 minutes of music and 45 minutes of art instruction per week, laying the foundation for a program that will build over time.⁴

The Dallas Arts Learning Initiative is part of a larger effort, Dallas Achieves, whose goal is making DISD the best urban school district in the country by 2010.⁵ According to Big Thought, DALI is part of the “national conversation about the kinds of bold civic partnership it would take to close the achievement gap in the United States, particularly in urban communities.”

How effective are the arts in improving students’ academic performance? Studies show that a sustained arts education helps youth—particularly those at risk—lower their dropout rates and recidivism, increase their self-esteem, and strengthen their communication, creative thinking and problem-solving skills.

ArtsPartners, a DALI predecessor that’s now a part of its Arts Integration component, tracked a sample of students for four years and found that those who received arts instruction became more active learners, expressed themselves better, were more well-rounded, and increased their reading comprehension and writing scores.

In fact, in year one of the study, the focus grade answered 78 percent of read-

ing questions correctly, compared with the control grade’s 72 percent. By the third year of the study, the focus grade performed 14 percentage points higher. One year after the program’s end, 74 percent of the focus grade answered the reading questions correctly, 4 points higher than the control grade’s 70 percent—indicating that the program’s benefits are sustainable.

ArtsPartners also found that its program boosted minority students’ academic performance. Students were more interested and invested in their schoolwork, more actively engaged in learning and their scores on the Texas Assessment of Knowledge and Skills were significantly higher than the control grade’s. These results have drawn national attention. Harvard University’s Graduate School of Education, Brown University’s Annenberg Institute for School Reform and RAND Corp.’s RAND Education division have recognized DALI as a best practice.

A larger body of research ties arts in-

Tackling Inequities

A 1997 report commissioned by the Dallas Cultural Affairs Commission found “serious inequities” in how available and accessible the city’s arts and cultural institutions were to DISD schools. Approximately three-quarters of the schools received virtually none of their services. Because 82 percent of DISD students were low income, it was thought unlikely they would be exposed to professional arts programs outside of school.

To address this situation, the commission advocated a citywide partnership, and in 1998, DALI predecessor ArtsPartners was founded. The program was based on two principles: equal access to arts education and infusion of the arts “throughout the curriculum [to] help children . . . understand the role of invention and imagination in learning.”

Supported by the city of Dallas, DISD, local businesses and foundations, ArtsPartners enabled participating elementary schools to tap the resources of more than 50 cultural institutions.

By the third year of the program, participating schools had better pass rates on standardized reading and math tests than others in the district. Today, ArtsPartners is part of DALI’s Arts Integration component.

“More Than Measuring: Program Evaluation as an Opportunity to Build the Capacity of Communities,” by Dennis Palmer Wolf, Jennifer Bransom and Katy Denson, Big Thought, 2007.

struction to higher academic performance.

For example, the Dana Foundation, a private philanthropy that focuses on brain science, immunology and arts education, reports that “specific links exist between high levels of music training and the ability to manipulate information in both working and long-term memory; these links extend beyond the domain of music training,” and “one of the central predictors of early literacy. . . is correlated with. . . music training.”⁶

Other studies have shown that children in nonschool arts programs are at least four times more likely to participate in a math and science fair, win an award for their writing or be recognized for academic achievement. They are also at least three times more likely to win a school attendance award or be elected to class office.⁷

The National Assembly of State Arts Agencies and the Arts Education Partnership cite a study in which 162 children ages 9 and 10 were trained to examine and apply reasoning to works of art. This training helped them both improve these skills and apply them to science. Furthermore, students likely to drop out of high school say their participation in arts is a reason to stay in school because the supportive environment “promotes constructive acceptance of criticism” and provides a “safe [place] to take risks.”⁸

Building on the positive impact of arts education, the DALI partnership is focusing on fostering a system that offers children many opportunities to engage in the arts—via teachers, artists and cultural organizations. It also observes in- and out-of-school programs to identify quality teaching and determine how to invest in professional development opportunities for teachers and artists so they can more effectively share best practices.

The Wallace Foundation has provided DALI with a three-year, \$8 million grant, making it the largest private contributor to this resource-intensive initiative.

Several banks have also gotten behind the effort. Bank of America made a \$1 million unrestricted donation, Citi contributed \$25,000 to DALI’s Arts in Communities program, and Wachovia gave \$10,000 to ArtsPartners.



Bank of America Senior Vice President Aleta Stampley says the company’s grant will help DISD produce a better educated workforce. “Critical thinkers improve our workforce, which strengthens our economy and makes Dallas a more attractive place to do business. So when we talk about the impact of arts education on our community, we are talking about a more vibrant city for our associates and customers. . . .”

Accessing Technology

In less than two decades, the Internet has transformed the economic, social and political landscape. Today, it connects more than 1 billion people worldwide, 21 percent of the population, to vast stores of information—and each other.

According to the Pew Internet & American Life Project, 72 percent of adults in the U.S. are Internet users. Fifty-four percent of adults have a broadband connection at home; 12 per-

cent make do with slower dial-up service. The remaining 6 percent have access elsewhere. Research shows a strong relationship between high-speed Internet access and the richness and intensity of the online experience.⁹

“Holding income and all other variables constant, a broadband user will do a wider range of online activities than a dial-up user, spend more time online and log on to the Internet more frequently,” says John Horrigan, the project’s associate research director.

Although the U.S. has a high number of broadband users, it lags many other advanced industrialized nations in market penetration. The Organization for Economic Cooperation and Development reports that as of December 2007, the U.S. had 69.9 million broadband subscribers, the largest number in the OECD. But with only 23.3 subscribers per 100 people, the U.S. ranked 15th in broadband penetration, trailing such countries as Denmark (No. 1), South Korea (7) and the U.K. (11).¹⁰



The Buzz on the “Beehive”

From the website’s inception in 2000 through September 2007:

- 7,000-plus users filed their 2007 income taxes through the Beehive
- 20,000-plus business plans were saved in the Beehive’s Entrepreneur’s Center
- 112,000-plus users found information on getting a GED
- 472,000 users found and evaluated child care providers
- 477,000 users found information about Medicaid
- 550,000 users found information on creating a household budget

SOURCE: One Economy.

One Economy Corp.

One Economy’s focus is on digital inclusion to improve people’s ability to make more-informed decisions and become more civically engaged. The nonprofit organization makes computers and broadband Internet available to low-income households and publicizes consumer information on its website, the Beehive. One Economy also trains youth to be ambassadors of technology in their communities and creates interactive web portals that encourage civic participation by all households.

One Economy was started in July 2000. Since then, the nonprofit’s work has brought the Internet into 300,000 homes, and it is building on that number through three main partnerships. One, with the National Equity Fund, is supplying computers, training and five years of Internet access for new affordable housing developments. Another is providing Internet access to 50,000 affordable housing units through AT&T’s AccessAll program. The third partnership, with the California Emerging Technology Fund, is connecting more than 30,000 California residents to the Internet.

In 2006, One Economy completed a two-year campaign called Bring IT Home. Forty-two states, three cities and one county adopted policies supporting high-speed Internet connections, affordable Internet service or both in new and substantially rehabilitated affordable housing. In the Eleventh District, the Texas Department of Housing and Community Affairs’ housing tax credit program requires developers to install the infrastructure needed for high-speed Internet service to each housing unit. The New Mexico Mortgage Finance Authority encourages developers to provide the capacity for low-cost service.

One Economy couples access to technology with access to practical and meaningful consumer information. Its website (www.thebeehive.org) provides information in English and Spanish on employment, savings, investment, insurance, homeownership, health care and other topics that can help users improve their standard of living. (See box on this page.) The Beehive has had more than 14 million unique visitors, and its monthly traffic averages several hundred thousand users, 70 percent of whom reside in low-income census tracts.

To increase the scale and sustainability of its activities, One Economy offers 14- to 21-year-olds training in technology, leadership development and workplace skills. To date, more than 1,200 young people have provided computer and Internet support to approximately 10,000 families in 19 cities.

Merging access to technology with civic participation, One Economy created www.247townhall.org,

which encourages debate and advocacy across economic levels. The website serves as a community bulletin board, alerting users to upcoming events and giving them a platform for posting messages, videos and voice clips. Another One Economy website, www.ziproad.org, encourages educational engagement with information about affordable and reputable tutors, learning programs, schools and other resources, then posting users’ feedback about these resources.

In addition to directly providing technology products, services, training and support to communities, One Economy is working in over 50 cities—including Dallas, Houston and San Antonio—with nonprofits and local governments to help build or strengthen digital inclusion programs. Among recent supporters and donors are Affinity Bank, Bank of America, Citi Foundation, Comerica, Fifth



Third Bank, JP Morgan Chase Foundation and Washington Mutual.¹¹

Citi Foundation has provided a three-year \$375,000 grant to help One Economy produce the “About Savings and Investing” piece of the money section on the Beehive website. The feature offers information on such subjects as buying a home, saving for college and preparing for retirement.

Citi has been involved with One Economy for three years. “We have supported it because of its innovative approach to providing financial education to low- and moderate-income people . . . 24/7, in the privacy of their own homes,” says Lisa Joyner, Citi vice president and relationship manager.

Accessing Health Care

In *The Global Competitiveness Report 2006–2007*, the World Economic Forum points to health as a weakness in America’s competitiveness potential. Comparing the country’s life expectancy and infant mortality rates to its peers’, the report concludes that “Americans receive worse health care than do the citizens of many countries that spend less, eroding the country’s overall competitiveness.”

When it comes to health insurance, households in Texas, Louisiana and New Mexico do not fare well compared with those in the rest of the U.S. According to Washington, D.C.-based nonprofit CFED (Corporation for Enterprise Development), among the 50 states and District of Columbia, Texas ranks 49th in employer-sponsored insurance and 51st in both uninsured low-income children and parents. Louisiana ranks 47th in employer-sponsored insurance and 49th in low-income parents without insurance. New Mexico ranks 44th in uninsured low-income children, 50th in uninsured low-income parents and 51st in employer-sponsored insurance.¹² (For more information on state health data, go to www.statehealthfacts.org.)

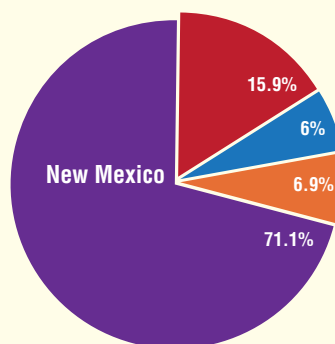
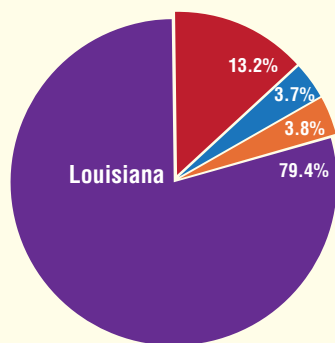
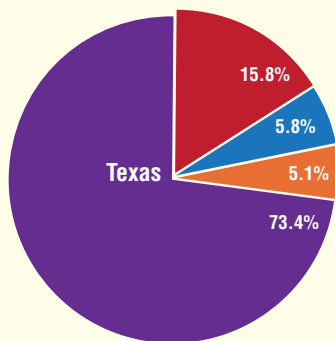
Community Health Centers

Community health centers (CHCs) primarily serve uninsured people and medically underserved communities. Most centers are

Community Health Centers Serve the Poorest of the Poor

Clients, by Annual Income

- \$16,242 and below
- \$16,243–\$24,363
- \$24,364–\$32,484
- Over \$32,484



NOTES: The 2006 federal poverty level for a family of three was \$16,242. For the purposes of these charts, a family consists of one adult and two children. For other poverty thresholds, go to www.census.gov/hhes/www/poverty/threshld/thresh06.html. Percentages do not add up due to rounding.

SOURCES: Texas, Louisiana and New Mexico 2006 reports, U.S. Department of Health and Human Services, Health Resources and Services Administration, Bureau of Primary Health Care, <http://bphc.hrsa.gov/uds/2006data/state/default.htm>.

When it comes to health insurance, households in Texas, Louisiana and New Mexico do not fare well compared with those in the rest of the U.S.

one-stop shops, offering primary care and dental, behavioral health, lab, radiological and pharmaceutical services, with transportation and translation provided when needed. This setup is important for CHC clients because they tend to not have the time or ability to seek all these services at different locations.

The federal Bureau of Primary Health Care (BPHC) funds CHCs. The 49 CHC grantees in Texas run 248 sites that served approximately 703,500 clients in 2006. The 20 Louisiana grantees manage 56 sites that served about 128,500 clients that year. New Mexico’s 14 grantees run 105 sites that saw more than 231,000 clients.¹³ In all three states, the CHCs serve the poorest of the poor.¹⁴ (See box on this page.)

CHCs typically generate small profit margins. In 2005, the median margin in Texas was 1.6 percent. Daniel Diaz, community development director for the Texas Association of Community Health Centers (TACHC), says that 15 or 20 years ago the centers were run like traditional nonprofit organizations: They were mission-driven and used all their grant dollars. Federal grant sources did not require them to focus on building assets and reducing liabilities. Today, the BPHC expects the centers to operate more like for-profit businesses; 33 percent is a typical level for the share of total revenues coming from federal funding. Centers face corrective action if they do not operate with positive margins over extended periods or have serious short-term financial issues.

This has led community health centers to focus on moving beyond a dependence on grants to maximizing revenues so they can offer more services.

CHCs have three main revenue sources:

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CHCs face stiff and growing competition for grants. So an increasing number are using debt to expand, renovate or purchase new buildings and acquire equipment.
.....

an annual U.S. Department of Health and Human Services' grant, Medicaid payments, and payments from other third-party payers like Medicare, the Children's Health Insurance Program, private insurers and patient revenues.

Attracting capital from banks can be difficult, says Diaz, because most centers' revenue comes from public sources, which means it can change with policy changes. Because of the resulting real or perceived risk, when banks do lend to centers, the interest rate can be high.

CHCs also face stiff and growing competition for grants. So an increasing number are using debt to expand, renovate or purchase new buildings and acquire equipment. In response to this trend, in 2001 TACHC created the Corporation for the Development of Community Health Centers (CDCHC). This nonprofit organization administers a revolving loan fund for community health centers in Texas. Certified as a community development financial institution (CDFI), it receives grants from private foundations, the U.S. Agriculture Department and the Treasury Department's CDFI Fund. In 2004, the CDFI received \$12 million in New Markets Tax Credits and in 2005 closed its first NMTC deal, with First National Bank in Laredo, Texas.

The bank and CDCHC formed a limited partnership. First National invested \$11 million in the partnership in 2005 and \$1 million in 2006. In return, the bank receives a tax credit equal to 5 percent of its investment for three years and 6 percent for the following four years. At the end of this period, the bank will have received approximately \$5 million

in tax credits, or 39 percent of its investment. First National can also receive Community Reinvestment Act credit because NMTC investments are CRA creditworthy.

First National, which entered the Laredo market in 2002, used the tax credits primarily to invest in Gateway Community Health Center. "We decided to invest in Gateway not out of philanthropy but because it was good for business," says regional president John Puig.

In fact, he says, "We would have lent money to Gateway without the tax credits because it has strong financials. The benefit of the credits is that they enabled us to make a loan at a much lower rate—zero percent." Puig estimates that without the credits, financial institutions would have charged the community health center a 7.75 to 9.75 percent rate. Although there may have been some interest on the loan with the credits, he thinks it would have been no higher than 3 percent.

The First National/CDCHC loan enabled Gateway to move out of leased space and construct a state-of-the-art building that—at 63,000 square feet—is twice the size of the former facility.

This investment has significantly benefited Gateway, its customers and the local community. Gateway has equity in the building, which could be used for collateral in the future. The principal on the loan is less than the monthly rent was on Gateway's leased space. With the NMTC loan, Gateway saves an estimated \$49,665 per month, which totals \$4.2 million over seven years. By 2011 it will have saved more than \$6 million in interest. Using the 2006 Texas CHC average total cost per patient (\$496), Gateway can serve 12,247 additional patients with its interest savings. Using the 2006 Texas CHC average medical cost per patient visit (\$111), the center can cover 54,726 additional medical visits.¹⁵

Says Gateway board member Cecilia Garza, "The beautiful, modern facility of the Gateway Community Health Center stands out as concrete evidence of what is possible when team players have a common vision along with resourcefulness and stubborn perseverance."

Notes

¹ This conversation is part of a larger one about blended-value investing. The blended-value proposition states that "all organizations...create value that consists of economic, social and environmental value components—and that investors...simultaneously generate all three forms of value through providing capital to organizations." For more information, go to www.blendedvalue.org.

² "Tough Choices or Tough Times: The Report of the New Commission on the Skills of the American Workforce," Executive Summary, National Center on Education and the Economy, www.skillscommission.org.

³ *More Than Measuring: Program Evaluation as an Opportunity to Build the Capacity of Communities*, by Dennis Palmer Wolf, Jennifer Bransom and Katy Denson, Big Thought, 2007.

⁴ Big Thought.

⁵ For more information on Dallas Achieves, go to www.roadtobroad.com.

⁶ "Learning, Arts, and the Brain: The Dana Consortium Report on Arts and Cognition," www.keepartsinschools.org/Research/Materials/Dana_2008.pdf.

⁷ "Living the Arts through Language + Learning: A Report on Community-based Youth Organizations," by Shirley Brice Heath, Americans for the Arts, *Monographs*, November 1998.

⁸ "Critical Evidence: How the Arts Benefit Student Achievement," National Assembly of State Arts Agencies/Arts Education Partnership, 2006, www.keepartsinschools.org/Research/Materials/CriticalEvidence.pdf.

⁹ Data are from December 2007.

¹⁰ OECD broadband statistics, 1d. OECD broadband subscribers per 100 inhabitants, by technology, December 2007, www.oecd.org/dataoecd/21/35/39574709.xls.

¹¹ One Economy Corp., 2006 and 2007 annual reports, www.one-economy.com, and Austin Bonner, One Economy director of communications and media relations.

¹² 2007–2008 Assets and Opportunity Scorecard, www.cfed.org.

¹³ National Association of Community Health Centers, www.nachc.com/state-healthcare-data-list.cfm.

¹⁴ The BPHC data do not include statistics from federally qualified health center "look-alikes," which do not receive funding from the HRSA Health Center Program (<http://bphc.hrsa.gov/about>). Therefore, this data may not represent all community health service providers. State-level data are available from state associations, such as the Texas Association of Community Health Centers.

¹⁵ None of these numbers are adjusted for inflation. According to Daniel Diaz, the interest savings is based on the terms of a typical 2004 commercial loan. At that time, a reasonably priced commercial loan had an 8.5 percent interest rate and 20-year amortization period, with a requirement to refinance after seven years.