I believe very strongly that the future of America over the next few decades depends on community action at the local level. That is where the public policy action is going to be as we enter the 21st century. The future depends on people all over the country working together to make things better in their particular place. For community development to succeed, a lot of different groups—businesses, labor, churches, educators, community organizations and various levels of government—need to work hard together. Banks and other financial institutions have to be part of the team. Indeed, community effort works best when the financial institutions in the community believe they have a long-term stake in its vitality and act accordingly.

I did not come to my current level of enthusiasm for local community action because I am sour on the federal government or think there is little role for national policy and national institutions, such as the Federal Reserve. I have spent much of my career working hard to improve national fiscal policy and I am working hard at the Federal Reserve because I believe that monetary policy matters a lot to the health of the economy. But there are limits to what national policy can do.

Where does the Federal Reserve fit in, and what can we do to help you be more successful? First, and probably most important, we can do our best to keep the national economy growing as fast as it can without overheating or generating corrosive inflation.

Right now, the national preconditions for community development are very favorable. The economy is growing at a healthy clip, with payrolls up and unemployment low. With these labor market conditions, businesses are more willing to hire people with lower skills and to provide the job training and experience necessary for people to get ahead. Family incomes are beginning to rise, making better housing more affordable. These are the problems that only effective local community action can turn around.

I cannot promise that the Federal Reserve will always be able to achieve these
goals. I can promise that we will do our best to keep the economy on track.

My point here is to make clear that the Federal Reserve's role in supporting community development is not exclusively related to CRA. To the extent that we are successful in implementing sound monetary policy, we directly further the goals of community development.

**BANKS AND COMMUNITY DEVELOPMENT**

Let me turn now to our other major role—that of bank supervisor, which requires us not only to protect the safety and soundness of the banking system, but also to enforce the CRA.

Banks are natural participants in the community development process. In the broadest sense, most financial institutions always could be considered "community development" institutions. Chartered to meet the convenience and needs of their communities, most banks remain closely tied to the economic health and growth prospects of their local markets. Even those larger interstate institutions, or mega-banks, continue to depend on the collective health of economies that are quite local in nature.

By virtue of their traditional functions—taking deposits and reinvesting them in loans and other investments—banks help create economic value and growth by financing businesses, housing, and community facilities. These functions are central to anyone's concept of community development. Therefore, it is no wonder that the activities of banks often have been a focus of attention when questions about the health of neighborhoods and local economies are raised. It is no wonder that banks are viewed as natural and even essential partners in the community development process. And it is no wonder that banks remain central to any debate over equal access to credit or barriers to economic opportunity for disadvantaged persons.

**THE IMPORTANCE OF CRA**

Getting beyond banks' traditional role of fostering general community growth to a more collaborative effort in helping meet specific community credit needs has not always been easy. As generally conservative, risk-averse institutions, many banks historically did not view low- and moderate-income areas or people as profitable markets for their loans and services. Bankers sometimes did not know enough about those communities and neighborhoods, or about the wide variety of tools and techniques they could use to help meet credit needs in those areas.

Chartered to meet the convenience and needs of their communities, most banks remain closely tied to the economic health and growth prospects of their local markets.

The CRA was designed to change all that. In the 20 years since CRA's passage, financial institutions have learned a lot about low- and moderate-income markets and how to serve them on a profitable basis. They have learned that their loan underwriting standards could be modified to take into consideration common arrangements found in lower-income families. For example, lower down-payment mortgage products that recognize lack of capital and consideration of consistent income from multiple jobs or job changes are now widely accepted.

Financial institutions have learned effective marketing techniques that help them reach low- and moderate-income markets, such as use of targeted advertising in ethnic or neighborhood newspapers, or working with community organizations to help counsel and screen potential applicants. Banks have learned that there are many community-based organizations with which they can work in making housing, small business and other community development loans available.

**REGULATORY ISSUES**

Over CRAs history, community groups have focused on gaining access to information and to the regulatory decision-making process. The push for public disclosure of CRA ratings and evaluations, permanent extension of the Home Mortgage Disclosure Act and the new disclosures of small business lending data are just some examples. As one who values public information and open comprehensible governmental processes, I understand the importance of these issues to community groups.

One of those recent issues emerged from the Federal Reserve efforts to amend our Regulation Y that governs the activities of bank holding companies. Many community organizations are particularly concerned with the part of Regulation Y that covers the application process used by bank holding companies in mergers and acquisitions.

We proposed the streamlined procedures to reduce the overall costs and regulatory burdens associated with the applications process. Our original proposal drew over 300 comments from bankers, community organizations and others. Most of the comments by community organizations and public officials reflected concerns that the streamlined procedures would make it harder for the public to provide comments on an applicant's CRA performance and other aspects of the convenience and needs factor that the Board must consider.

Having participated directly in the review and discussion of these comments, I can assure everyone that all of them were
Hermann, Mo., now has another reason to be proud of Phyllis Hannan. Owner of Laser Mark It and Laser Light Technologies, Hannan was named the 1996 National Small Businessperson of the Year by the Small Business Administration. Hannan, a native of Hermann, started Laser Mark It in Glendale, Calif., in the mid-1980s. The company uses laser technology to put marks such as logos and serial numbers on products ranging from trophies to medical instruments. As business took off, Hannan decided to expand, but not in California. Instead, she decided to open Laser Light Technologies in her hometown. Hannan had secured land in the Hermann Industrial Park and pursued financing through the Meramec Regional Development Corporation, a Small Business Administration-certified development corporation. It is administered by the Meramec Regional Planning Commission, an Economic Development Administration (EDA)-funded Economic Development District.

Using loans from SBA and Bay-Hermann-Berger Bank, Hannan built and equipped an 8,000 square-foot, state-of-the-art plant. Opened in 1992, Laser Light Technologies now services more than 300 customers. Today, the plant employs more than 50 people and houses the engineering staff and research and development teams for both the Hermann and Glendale facilities. The Hermann business was so successful that more production space was needed, leading to a 12,000 square-foot addition financed with loans from the SBA and First Bank of Hermann.

Phyllis Hannan, owner of Laser Light Technologies of Hermann, Mo., received the 1996 National Small Businessperson of the Year award from the Small Business Administration.

S A S

South African Banker Visits Arkansas

In April, the Fed was host to Dr. Etienne van Loggerenberg, Group Development Manager for ABSA Bank in Johannesburg, South Africa. Dr. van Loggerenberg was in the United States to research the Community Reinvestment Act and the avenues banks use to comply with the regulation. The ABSA Bank is proposing a similar regulation to the South African government.

Arkansas was Dr. van Loggerenberg’s first stop. In selecting banks to visit, Dr. van Loggerenberg used the Internet to identify outstanding rated banks. He chose Southern Development Bancorporation’s Arkansas subsidiaries, Elk Horn Bank & Trust and Arkansas Enterprise Group in Arkadelphia and the Good Faith Fund in Pine Bluff, to obtain a rural bank’s perspective on community reinvestment.

In describing his views of the CRA to Dr. van Loggerenberg, Joe Miles, president of Elk Horn Bank, stated that he is encouraged by the revised regulation and says compliance for small rural banks will be easier since lending is their lifetime.

Dr. van Loggerenberg learned about gap financing to manufacturing firms from Brian Kelly, president of Arkansas Enterprise Group. One of the many challenges of lending in the Arkansas Delta, an area often compared to a third-world country, is financing to companies that create employment. AEG’s focus is on manufacturers that export goods so that income is being injected into the community. Since its inception, AEG has made $14 million in development loans and investments to 85 small companies.

Dr. van Loggerenberg also attended an Affordable Housing Finance Lenders’ Forum at the Fed’s Little Rock Branch. The Forum provided detailed information on local, state and national programs that banks can use to increase their affordable housing lending in low- and moderate-income communities.

This provided Dr. van Loggerenberg an expanded perspective on the government’s role in community revitalization.
Minnie Peats is an elderly woman living in Memphis who had never owned her own home. However, since United Way of the Mid-South focused its efforts on community building—and, specifically, affordable housing—Peat and her sister, Ella, were able to pool their pension income and buy one. “I have been living all these years and never earned enough money to own a home. This is just a blessing,” Peat said.

Like many, the Peat sisters have benefitted from United Way’s HOPE III (Homeownership Opportunities for People Everywhere) grant. The U.S. Department of Housing and Urban Development (HUD) awarded a $1 million implementation grant to United Way in February 1994. United Way used it to leverage an additional $1.6 million in grant funding from the U.S. Department of Health and Human Services, Tennessee Housing Development Authority, Community Foundation of Greater Memphis and the City Department of Housing and Community Development.

HOPE III builds on and significantly expands United Way’s involvement in community building and affordable housing. In late 1992, a group of community development corporations (CDCs) asked United Way to be the lead agency in a consortium to apply for a HOPE III planning grant, predecessor to the implementation grant. The bid was successful, and HUD awarded $34,000 to United Way in February 1993. The grant was used for an extensive study to determine the feasibility of converting government-owned properties into affordable housing for neighborhood residents. The study showed that CDCs could purchase, rehabilitate and sell the homes to low- and moderate-income households profitably. HOPE III gave United Way an opportunity to leverage financial resources to support CDCs and affordable housing development in greater Memphis. The grant called for United Housing—a United Way subsidiary corporation—to purchase, rehabilitate and sell 30 government-owned properties to low- and moderate-income individuals and families. In addition, United Housing agreed to provide training and counseling to perspective home buyers.

United Housing fulfilled its grant obligations by subcontracting with CDCs. According to Tim Bolding, United Housing's director, “CDCs are used to giving away their services. This program allows them to do their critical work and get paid for it, too.”

The response to the program has been overwhelming. Although United Way has done little marketing, word has spread throughout the community, and more than 700 people have gone through the homeowner training program. As of November 1996, HOPE III had completed 40 homes throughout the Memphis area.

United Housing also has compiled a variety of grants and mortgage products into a package for low- to moderate-income home buyers. This facet of the program has helped individual home buyers attain mortgage financing and expanded loan opportunities for financial institutions to help meet their Community Reinvestment Act requirements. Dorothy Cleaves, community investment coordinator for NationsBank and United Way Housing Committee member, said of HOPE III, “I saw a tremendous opportunity for

United Way’s Involvement Pr
2. Build Community Capacity by Leveraging Resources. United Way uses a variety of means to provide people and neighborhood-based organizations with the tools and resources needed to implement neighborhood-driven housing and economic development programs. For example, while renovating the HUD houses, United Housing realized recently that there is a problem with lead-based paint in the homes. As a result, United Housing applied for and secured a $500,000 grant from the U.S. Department of Health and Human Services to train and pay welfare recipients to remove the lead-based paint.

3. Promote Collaboration and Partnership. United Way's community-building efforts have stimulated collaboration among donors and CDCs. The program established around HOPE III has become a collaborative process that uses the particular strengths of the public, private and nonprofit sectors. United Way has combined various grants and loans from public and private funders to make financing work for low- to moderate-income home buyers. HOPE III finds those who might be a higher risk without help. It reduces the risk to private financial institutions by providing financial assistance, training and packaging for their mortgages.

4. Enhance Corporate Relationships. HOPE III strengthens United Way's workplace connections. For example, many employees working for major corporations in Memphis are long-time United Way donors and may actually qualify for HOPE III homes. In addition, HOPE III's use of private lending institutions builds yet another connection to United Way. When Bolding made his presentation to the management at NationsBank for the annual campaign, he reminded them that the bank had already originated three mortgages for HOPE III low-income home buyers with more buyers on the way.

HOPE III is the most ambitious aspect of United Way's community-building and affordable housing efforts to date. Although affordable housing is a new area for United Way, it is recognized as a key to stabilizing families and neighborhoods. The momentum generated from the first grant has fostered a partnership between United Way and Shelby County's Housing Department to apply for a second round of funding.

5. Provides HOPE in Memphis

United Way of the Mid-South is making homeownership dreams come true through its HOPE III grant. Shown here is the dedication of the 40th home rehabbed in Memphis. Pictured from right are: Harry Shaw, director of United Way of the Mid-South; Rosemary Hill, homeowner; Benjamin Davis, director of the Memphis HUD office; Tim Bolding, HOPE III director; the Rev. Kenneth Robinson, HOPE III board member; and Karl Birkholz, United Way board member.
Addressing Lender Risks on Brownfields

Glenn P. Harris, Trial Attorney
U.S. Small Business Administration

In response to the interest in brownfields generated by our December 1996 Community Affairs newsletter, Mr. Harris was invited to address financing issues during a Lenders’ Forum held at our Louisville Branch earlier this year. He is an advisor on environmental matters for the SBA.

Increasingly, lenders are encountering issues to consider when examining solicitations for loans involving brownfield properties. Although lenders may consider the following:

1. What is the status of cleanup efforts at the site, i.e., has a party begun to perform remediation and is it close to projected completion? If not complete, how much is the cleanup expected to cost, and what is the level of certainty about the estimate?
2. Generally, contamination of an underground water system will be considerably more expensive than contamination of soil only.
3. Is the borrower or another party going to perform the remaining remediation at the site, and what are the financial resources of the party performing the cleanup?
4. Does the contamination consist of petroleum or man-made chemicals? If the contamination consists of petroleum, a number of states have adopted “risk-based corrective action” programs that impose less stringent cleanup standards or, in some cases, allow it to remain in the ground if it does not pose a threat to a drinking water supply.
5. Can the borrower pledge alternative collateral to secure the loan that might offset any losses to the lender either from not being able to foreclose on the property after default (to avoid environmental liability) or if it was unable to sell the property without paying for extensive cleanup costs?
6. Is the state or local environmental agency willing to issue a letter confirming the extent of remedial action that would be necessary at the site? Although no agency will issue such a letter in absolute terms, even some degree of assurance as to the scope of remaining work at the site may provide a sufficient identification of risk so as to allow disbursement.

There are a number of factors that lenders may consider in attempting to quantify and offset the risk arising from a loan involving a brownfield property. Although it is impossible to obtain a risk-free position, even through indemnification, often it is possible to limit the scope of risk to a reasonable level, thereby allowing loan disbursement to occur.
Fannie Mae is opening a statewide Partnership Office in Jackson and is targeting $2.5 billion in single-family and multifamily financing to assist more than 30,000 families in Mississippi over the next five years. Fannie Mae has partnered with the state of Mississippi, local mortgage lenders and housing partners to increase homeownership opportunities. Through the HouseMississippi investment strategy, below-market interest rate mortgages with little or no down payment will be provided. In addition, other elements of HouseMississippi include homebuyer education and counseling, mortgage revenue bonds, employer-assisted housing, multifamily tax exempt bonds, and rehabilitation and home improvement lending.

For more information, call 1-800-FANNIE.

NEW FUNDING FOR ARKANSAS ENTREPRENEURS

The Central Arkansas Entrepreneurship Training Program (CAETP) held its first class May 12 with 20 potential entrepreneurs attending. The training is targeted to low- and moderate-income individuals and areas in Pulaski County. Executive Director Pamela Petty says the program's importance will increase as the new welfare reform provisions come into effect. Partnerships with existing organizations will be key to the program's success. According to Petty, current partners include Arkansas Human Development Corp., Main Street ARGENTA, and In-Affordable Housing.

For more information, call Pamela Petty at (501) 372-5110.
The Federal Reserve Board recently announced the publication of H.2A, a new weekly listing of applications and notices that have been filed under the Bank Holding Company Act or the Change in Bank Control Act. The publication lists applications and notices alphabetically by applicant, together with the appropriate Federal Reserve Bank where comments may be filed and whom to contact to receive the public portion of an application. The H.2A is available in three forms:

• Through a fax-on-demand call-in facility available 24 hours a day, seven days a week. The system automatically will fax the most recent copy of the publication to the caller. The call-in number is (202) 452-3655.
• On the Board’s Internet Home Page at www.bog.frb.fed.us
• By mail, by contacting the Board’s Publication Services at (202) 452-3245 or by writing to Publications Services, MS-127, Federal Reserve Board, Washington, D.C., 20551.

Community-Based Development—An Idea Whose Time Has Come—An April 1997 report from the Federal Reserve Bank of Richmond that describes the evolution of community-based development and the ways in which it gradually acquired a supportive political and financial structure. Copies are available from the Richmond Fed, (804) 697-8109.

Brownfields 97 Conference—Kansas City, Mo.
Sponsor: U.S. Environmental Protection Agency, (888) 795-4684

Brownfields ‘97 Conference—Kansas City, Mo.
Sponsor: U.S. Environmental Protection Agency, (888) 795-4684

Sponsor: Pathways from Poverty; Contact Missouri Valley Human Resource CAA, (816) 886-7476

Sponsor: Consumer Bankers Association, (703) 276-1750

23 Symposium of Microlending—San Antonio
Sponsor: Federal Reserve Bank of Dallas, (800) 333-4460, ext. 5276

21-25 Neighborhood Reinvestment Training Institute—Chicago
Sponsor: Neighborhood Reinvestment Corporation, (800) 438-5447 or (202) 376-2642

29 Community Affairs Lenders’ Forum—Little Rock
Sponsor: Federal Reserve Bank of St. Louis, (501) 324-8251

9-14 1997 National Community Development Lending School—Seattle
Sponsor: University of Washington

Post Office Box 442
St. Louis, Missouri 63166

Contributors: Judy Armstrong, Matthew Shin Kim, Beate, Diana Judge, Tamara Watney, Tammy Tannehill, Keith Tyner and Crystal D’Lash. Bridges is published by the Community Affairs Office of the Federal Reserve Bank of St. Louis. Please direct any questions to Glenda Wilson at (314) 444-0311. Bridges also is available on the Internet at www.stls.frb.org.