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Creating Economic Growth in Rural Mississippi Delta Counties

David H. Ciscel

The current economic boom in the United States has raised incomes, spurred new business development and increased employment in most areas across the nation. The Memphis region is no exception. Led by trade, transportation, gaming and health services, the area's economy has provided an exuberant business environment for the region in the 1990s.

The Memphis region is greater in geographic area, population and economic potential than just the Memphis metropolitan statistical area (MSA), located in the southwest corner of Tennessee. The Federal Reserve Bank of St. Louis' Memphis zone comprises 39 counties in northern Mississippi, 21 counties in western Tennessee and 13 counties in eastern Arkansas. In addition to the Memphis metropolitan area, the region contains just three other, much smaller urban market centers: Jackson, Tenn.; Jonesboro, Ark.; and Tupelo, Miss. Like most of the Mid-South, these market centers owe a portion of their success to links with the Memphis MSA. Still, each has its own characteristics: agricultural processing in Jonesboro, furniture manufacturing in Tupelo, and a service and marketing mix in Jackson.

The remainder of the zone is rural. It is these rural economies that are a cause for concern, as they are lagging behind both the national economy and the area's urban economies on every significant measure of economic well-being. Understanding why this is so requires an analysis of both the process and the problems of economic development in rural counties—and how they are tied to urban centers.

City vs. Country

Population statistics provide the first hint of what is happening in the rural Mississippi Delta counties. Increases in population are not keeping up with the growth occurring in the urban areas. While the 65 rural counties still have a bigger population than the eight urban counties—1.6 million people in the rural areas in 1995 compared with 1.3 million in the urban areas—the trend is toward urban population growth. Between 1985 and 1995, the urban population growth was 12 percent, while the rural population growth was only 0.2 percent. (See Table 1.)

Perhaps more significant is job creation, which has been less robust in the rural counties than in the urban counties, even though the rural population is greater. Between 1985 and 1995, the eight urban counties—dominated by Memphis—added 175,988 new jobs for area workers, while the rural counties added only 101,091. This translates to a 31.7 percent increase in urban jobs compared with 19.8 percent in rural jobs over the decade. Clearly, the job picture improved in both areas, but the cities outperformed the countryside.

Why are the rural counties neither providing as many jobs nor growing as rapidly? A big issue is the lack of training and education. Rural workforces just do not have the training required for modern economic development. In 1990, 24.5 percent of the U.S. population 18 years and older had a two-year associate's degree or better. Shelby County, which includes Memphis, almost matched that level at 23.2 percent. The rural counties, however, fared less well, with rural Mississippi at 15.3 percent, rural Tennessee at 9.8 percent and rural Arkansas at 10.2 percent. In addition, the percentage of rural residents without a basic high school diploma or GED was far higher than either the urban counties or the national average. Urban or rural, business development requires more workers with computer, communications and office skills than ever before. These skills are generally learned through the higher educational system.

It follows that per capita personal income in the rural counties around Memphis is below both local urban levels and the national average. Although rural income per capita has grown significantly over the last decade, it is still approximately just two-thirds the size of the national per capita income. And from 1985 to 1995, per capita income grew $6,433 to a total of $15,324 in the 65 rural counties, compared with $10,471 growth and a total of $23,640 in the Memphis MSA.

The good news is that wages per job have improved at a slightly faster rate than personal income. In fact, as Table 2 shows, wages per job have generally grown more rapidly in the Delta counties than in the United States as a whole. And from 1985 to 1995, rural wages grew slightly faster than urban wages. The rural wage level deficit in the Delta, however, is still significant compared with the Memphis MSA wage level. Part of the improvement in wages may be attributed to the casinos in rural Mississippi, but a greater factor is the overall job growth brought about by the shift in rural industry from manufacturing and agriculture to trade and services.

Sowing Economic Development Seeds

A poorly educated workforce is a significant barrier to economic performance. Focusing solely on these problems, however, is not likely to lead to a solution. The structure of industry is changing for rural as well as urban counties. Business leaders must adapt to those changing circumstances if they want to successfully implement rural economic development.

Everyone recognizes that the future of business and jobs in metropolitan areas is centered in service-producing companies. The same is true in rural counties. Agriculture, while important in terms of sheer acreage, is no longer the driving force of rural economies. Manufacturing, in industrial parks and along major highways, has been an important source of jobs and economic growth over the past three decades, but it too is in relative decline. Trade and services, once considered tertiary to agriculture and manufacturing, are now driving growth in all parts of the economy.

Creating an environment for successful economic progress in these new rural industries is a considerable challenge. It is not as simple as developing a competitive advantage that will allow jobs and income to progress as rapidly (or even more rapidly) than the area's urban economies. Rather, successful rural economic development is more likely to be complementary than competitive to urban development. The ingredients for wealth—financial capital, an educated workforce, supplies and final customers—are all connected to the urban economy. A successful rural economy needs to plug into these resources to grow.

Reaping the Benefits

Three issues are keys to enhancing rural economic development. The first is filtering. Business innovations are typically made in regions where specialized knowledge and capital are available. Movement to rural sites occurs only after a production process or a company has matured. That is, the industry filters down to rural areas. In the past, this has been the primary source of manufacturing plants locating in rural areas. Today, however, manufacturing is less important than it used to be. Capturing a manufacturing plant is more difficult, and keeping one is less likely. Only by changing the focus from manufacturing to service will rural economies be able to import jobs with greater staying power and greater value added over time.

The second issue is agglomeration. New business growth occurs near old businesses. Because the risk of failure is always high when starting a new enterprise, risks can be reduced through locating new businesses near older businesses and their customers, workers and suppliers. Consequently, a key element to enhancing rural economic development is redefining geographic space. With modern roads, rails and air transportation systems, plus a World Wide Web full of computer-based communications, everything is closer than it used to be. That knowledge has to be converted to business development plans. Rural counties need closer political, business and social ties with the urban market centers to become part of the urban development process.

The third development issue is identifying the region's growth pole. Each successful economy has a leading industry or an exemplary firm. In the Memphis area, names like Federal Express, First Tennessee, Harrah's and Methodist Hospitals immediately come to mind. Using firms like these as the foundation for rural economic development is important. If a new firm or plant is tied to the growth pole as a customer or supplier, the probability of success rises. In addition, the exemplary growth-pole firm provides an opportunity for imitation.

Implementing this sort of economic development requires rural counties to engage in three activities. First, they need to build from community-based initiatives, using local talent to bring in new business. Second, business development must be economically integrated with the region's cities. Without the wedge of filtering and agglomeration around an urban growth pole, a rural economic development effort will be a long-term struggle. Third, economic developers need to recognize the primacy of service-based economic growth. It is the source of future jobs and income growth.

Table 1

Population and Jobs in the Mississippi Delta

	1985	1995	1985-1995 Change
Population			
rural	1,555,347	1,558,773	0.2%
urban	1,158,677	1,297,899	12.0%
Jobs			
rural	510,853	611,944	19.8%
urban	554,380	730,368	31.7%

NOTE: Includes 65 rural counties and eight urban counties in the Memphis area.

Table 2

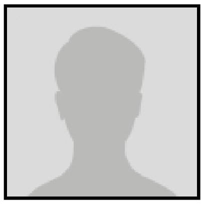
Wages per Job in the Mississippi Delta

(1995 dollars)

	1985	1995	1985-1995 Change
United States	$26,674	$27,419	2.8%
Memphis Area			
rural	$17,491	$18,342	4.9%
urban	$20,286	$21,125	4.1%
Memphis MSA	$25,415	$26,473	4.2%
Mississippi			
rural	$16,695	$17,958	7.6%
urban	$20,874	$20,961	0.4%
Tennessee			
rural	$18,658	$19,708	5.6%
urban	$21,073	$22,926	8.8%
Arkansas			
rural	$17,121	$17,360	1.4%
urban	$18,911	$19,489	3.1%

NOTE: Includes full-time and part-time jobs. Computation of average wage in rural and urban areas does not compensate for differences in working population across counties.

ABOUT THE AUTHOR



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The Changing Face of the Eighth District

Glenda J. Wilson , Tiffany Guynes

Throughout the 1990s, an increasing number of immigrants and refugees have chosen to settle in the middle of the United States, bringing ethnic diversity to many of our cities and towns. People from all over the world —Vietnam, Bosnia, Mexico, Laos, Cuba, Nigeria, Ethiopia, Guatemala and Pakistan—are making their homes in the Eighth District. What factors are contributing to this change? In states like Arkansas, Missouri, Tennessee, Kentucky and Indiana, immigrants are attracted to the affordable housing and the low cost of living. Immigrants view our region as a good place for families and an opportunity to create a better life for themselves.

It is difficult to estimate the exact number of immigrants settling in cities like St. Louis and Louisville. In addition to new immigrants and refugees who come because of the presence of resettlement organizations, there have been substantial changes in the geographic distribution of immigrants in the United States since 1990.

The secondary migration of immigrants from coastal states toward mid-America is just as difficult to quantify. For example, since the mid-1990s, Bosnians have come in the tens of thousands to south St. Louis, and they are spreading the word to Bosnian enclaves throughout the United States that St. Louis is a good place to buy a home. St. Louis is now home to the second-largest Bosnian refugee population in the United States behind Chicago.

A Melting Pot of Jobs

The addition of these diverse ethnic groups is good for the immigrants who have settled here, as well as the neighborhoods where they have settled. Throughout the Eighth District, immigrants are filling jobs at a time when our region is experiencing a labor shortage.

Adequate entry-level jobs, such as the poultry industry in northwest Arkansas, are available, and employers are looking for workers to fill these positions. In St. Louis, immigrants and refugees are finding jobs as machine operators in manufacturing, as hotel workers and in some high-technology industries. Kentucky and southern Indiana have seen immigrants moving from migrant tobacco jobs to more stable employment in restaurants, farms and factories. Others are becoming teachers and researchers.

Some are starting their own businesses, such as tailoring, restaurants, video rentals and television repair. In fact, Jan Huneke, International Institute's business development coordinator, says, "For every job an immigrant takes, he or she ends up generating another 1.5 jobs because they create markets and start so many businesses."

In addition to spurring economic activity, immigrants are reviving some communities, often buying homes and opening businesses in the same neighborhood. Cultural life can then be enhanced, as a small percentage of foreign-born residents bring diversity to a community by being visible through the businesses they run or work they do.

For example, restaurant patrons in cities like Louisville now may choose Thai, Vietnamese, Indian, Mexican, Chinese, Japanese, Korean or another foreign cuisine—prepared by a local cook who grew up a world away.

Nonprofits Lend a Hand

Resettlement and other nonprofit organizations in our region help immigrants overcome the unique barriers they encounter. The International Institute of Metropolitan St. Louis, World Communities of Louisville, Centro Hispanio in central Arkansas and Catholic Charities of Memphis all offer aids such as English classes, translation, housing and employment assistance, as well as social services. The International Institute alone provides services to approximately 6,000 immigrants and refugees a year, including job placement for approximately 1,000 people in each of the past three years.

Breaking the Banking Barrier

Many immigrants come from countries where they had a mistrust of banks; therefore, they may have a basic fear of banks in the United States. In addition, for non-English speaking immigrants, language can create another barrier if banks do not have bilingual tellers, customer service representatives and loan officers. Some banks are serving immigrant populations in their market areas, helping them understand basic banking services and providing staff that speak their native language. (See sidebar)

Reaching out to immigrants in their service areas is one way banks can increase their customer base while gaining profitable business. For example, loan activity for one branch of Southern Commercial Bank in St. Louis is up 200 percent in the past two years—from 30 loans a month to 90—with almost all of its new business coming from the Bosnian community.

Here are some ways banks may better serve immigrants and refugees in their communities:

- Hire ethnic employees.
- Offer bilingual services.
- Show sensitivity to the level of understanding English-speaking immigrants may have of the language, and don't tease them about it.
- Translate documents into languages other than English.
- Explain the banking system to new customers (i.e., a customer may transact business at bank branches other than the one where the account was opened) or, better yet, offer classes in banking services.
- Provide first-time homebuyer-assistance programs.
- Temporarily waive fee(s) on deposit accounts opened with refugees' cash assistance.
- Relax underwriting criteria to consider rent and utility payments as credit history.
- Do not hold job changes against an applicant if the job change represents an upgrade in salary.

First National Bank of Rogers Serves Growing Hispanic Community

In 1994, First National Bank (FNB) of Rogers, Ark., took a proactive approach to helping its growing first-generation Hispanic customer base develop the skills necessary to succeed in acquiring financial services. First, the bank addressed a basic need—communication. Since most of the immigrants did not speak English, FNB hired several bilingual tellers who could communicate effectively with customers in their native tongue.

As Roland Goicoechea, vice president with FNB, explained, "In the past, Spanish-speaking customers may have waited in a long line until our only bilingual teller became available. Now that has all changed. They go to the next available teller because they know they will be able to communicate with them."

Goicoechea and FNB didn't stop there. Working with the immigrant community, they identified other needs. "For the most part, we were talking about first generation, non-English speaking immigrants that were unprepared to succeed in our financial system," Goicoechea said. "Generally speaking, they had no formal credit or credit history in this country and little or no understanding of the services and products available to them."

The bank decided that education was the key and developed a series of five seminars aimed at teaching basic financial skills. Topics range from a basic overview of financial services, to how to write a check in English, to investments.

The seminars are presented in partnership with area employers, who pay employees to attend during their regular workday. Beyond the seminars, FNB decided to address a third issue—homeownership. A predominant barrier to homeownership for the immigrant population was that most had no credit history, making it nearly impossible for them to secure a mortgage. To bridge this gulf, FNB took the following steps:

- Loans of $500 to eligible applicants, with proceeds of the loan placed in a six-month certificate of deposit. When it matured, the loan was repaid. Through this simple process, the borrower created a credit history while earning interest on the investment.
- Relaxing underwriting standards to use nontraditional credit history factors, such as payment of monthly bills for utilities, telephone and water.

According to an August 1996 special census, the city of Rogers has 1,000 Hispanic households. Of these, 250 families own their own homes, many as a result of efforts by FNB. The program has been so successful it is being adopted in Emporia, Kan., which is experiencing similar challenges in serving its immigrant populations.

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CRA/HMDA Data Integrity

Keith Turbett

Large banks are facing a new but familiar challenge—ensuring clean and accurate data reporting—as they adjust to revisions in the Community Reinvestment Act (CRA), which includes the collection of small business and small farm data.

Banks and regulators have been dealing with similar reporting issues for several years under the Home Mortgage Disclosure Act (HMDA) and have gradually improved their data accuracy. However, testing the integrity of HMDA and CRA data is still at the forefront of compliance examination concerns for large banks.

In reviewing a bank's performance under the CRA regulation, the examiners primary tool is the data reported on the loan application register for HMDA and the loan register for CRA. The CRA regulation's focus on lending—and in particular, lending to low-to-moderate individuals and areas—gives the data produced from lending records utmost importance. Credibility with examiners, as well as community groups that may analyze the data, could be compromised if inaccuracies occur.

A recent OCC advisory letter (98-16) describes common mistakes banks make when recording data. They include:

1. Human error, especially keystroking mistakes. Simply pressing the wrong button on the computer keypad can cause the incorrect reporting of key information such as the borrower's address or income—thus misrepresenting the neighborhood or income category to which the loan was made. In addition, if the person keying in the loan does not enter all of the required data, analysis and submission are likely to be difficult or delayed.

2. Misinterpretation of the actual reporting requirements. In the case of a small business or small farm, the loan recipient's address is often reported incorrectly. CRA regulations say, "The institution should record the loan by either the location of the business headquarters or the location where the greatest portion of the proceeds are applied, as indicated by the borrower." Often, the lender will record a home address of the small-business borrower or another location, which is neither where the headquarters are located nor where the proceeds of the loan will be used.

3. Geocoding. All loans should have addresses that can be geocoded to indicate the location (i.e., the census tract or block numbering area) of the loan. Borrowers' addresses in rural areas frequently consist of only rural route numbers or post office boxes. However, the new CRA Q&As state that "prudent banking practices dictate that an institution know the location of its customers or loan collateral. Therefore, institutions will typically know the actual location of their borrowers or loan collateral." Once an institution has this information available, it should assign census tracts or block numbering areas to the location (geocode) and report it.

The Q&As do give an exception to this "if the institution cannot determine the borrower's street address and does not know the census tract or block numbering area." The institution should then report "the borrower's state, county, MSA, if applicable, and 'NA,' for 'not available,' in lieu of a census tract or block numbering area code." This option should be used only after all efforts to geocode have been exhausted, including the use of census tract maps.

4. Reporting the renewal of a small-business loan as an origination. In the case of a credit-line increase, many institutions report the total amount of a line of credit instead of the increase alone.

When it comes to preventing data integrity problems, the stakes are high. In fact, some institutions have spent upwards of a million dollars cleaning up their HMDA data. Ensuring your institution's data is clean will prevent you from spending unnecessary time and money "scrubbing" HMDA and CRA data before submission.

Ultimately, the potential for errors is large, and data integrity issues will persist unless bank management gives proper attention to the problem and takes corrective action.

Ways to Improve the Accuracy of CRA and HMDA Data

Test the integrity of the data. Assign employees with good knowledge of HMDA and CRA regulations to pull samples from your current loan register and match the data in the actual loan file to the data collected during the application process. During testing, make sure your employees scrutinize the files as closely as your regulatory agency does. Depending on the severity of the problem, test at least quarterly, if not more often.

Train loan operations staff in-depth on what constitutes a HMDA or CRA reportable loan. Structure this ongoing training—conducted by a compliance officer or auditor who can answer questions on data collection and reporting—to the specific needs of your loan processing personnel. Place an emphasis on the importance of this data to the overall performance of the institution.

Track the flow of the data. Keep a log of who is keying in the data, making the determination of whether the loan is HMDA- or CRA-reportable, and creating the loan registers. This will allow you to make quick corrections and hold responsible those who are making errors. Accountability within the bank is key to clearing up many of these problems.

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Spanning the Region

Missouri Enacts FDA Program

The family development account (FDA) program (more commonly referred to as individual development accounts, or IDAs), attached to Missouri Senate Bill 387, was signed into law this summer. The recently signed legislation allows families or individuals with incomes at 200 percent or less of the federal poverty level to establish FDA accounts. Deposits into an FDA by an individual or family are matched by public and private sources. Account holders may use the matched savings for homeownership and repair, small business capitalization and education.

The new legislation also provides the state with up to $4 million a year in tax credits annually for contributors of FDA matching funds. Contributors receive a 50 percent tax credit on all monies given for FDAs, up to $50,000 per year.

While this program is in the early stages of implementation, it is not too early for organizations to begin program planning. For more information about contributing to an FDA, go to the following web site: The Corporation for Enterprise Development (http://www.cfed.org).

THDA Launches Web Site

The Tennessee Housing Development Agency (THDA) launched its new web site this summer. The web site features information useful to homebuyers and lenders (such as descriptions of the various THDA programs), as well as application pages in a download format, agendas and minutes of the Board of Directors' meetings, and news releases.

The web site also has links to mortgage information, such as the homeownership program's acquisition costs and income limits, lenders, homeownership education trainers and interest rates.

Be sure to visit THDA's new web site at www.thda.org.

SBA Opens 25 New Women's Business Centers Sites

The Small Business Administration opened 25 new Women's Business Centers this year, including three in the Eighth District, listed below:

Arkansas Enterprise Group
Good Faith Fund's Arkansas Women's Business Center
2304 W. 29th
Pine Bluff, AR 71603
(870) 535-6233

Mississippi Action for Community Education (MACE)
Mid-Delta Women's Entrepreneurial Training and
Technical Assistance Program (WE-TAP)
119 S. Theobald Street
Greenville, MS 38701
(601) 335-3523

Grace Hill Neighborhood Services
2600 Hadley
St. Louis, MO 63106
(314) 539-9506

The centers' goal is to take women who have the desire, energy and dedication—but not the background or assets—and make businesswomen out of them. Each center offers training and counseling in finance, management, procurement and the Internet to low-income and socially disadvantaged women entrepreneurs. Centers also offer specialized programs for displaced and rural workers.

To learn more about the Women's Business Centers, visit their new interactive web site at www.onlinewbc.org.

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Resources

Consumer Handbook on Adjustable Rate Mortgages

Banks are required to provide this recently revised brochure (or a suitable substitute) to consumers when an application form is provided or before the consumer pays a nonrefundable fee. Copies of the revised brochure are available from the Board of Governors of the Federal Reserve System, Publication Services, Mail Stop 127, Washington, D.C. 20551.

Entrepreneurs and the Economy

Part of the Everyday Economics series of books developed by the Federal Reserve Bank of Dallas. For copies, call 1-800-333-4460, ext. 5254.

1998 HMDA Data

Reports of 1998 mortgage lending activity, required by the Home Mortgage Disclosure Act (HMDA) and small farm and community development lending required by the Community Reinvestment Act, are available on the Federal Financial Institutions Examination Council web sites at www.ffiec.gov/hmda and www.ffiec.gov/cra.

Conference Papers Online

Papers presented at the Federal Reserve System conference on Business Access to Capital and Credit are available online. The papers represent the latest research on small business lending and credit. Topics include: CRA data on small-business lending, access to credit for minority-owned businesses, microenterprise lending, and credit scoring and securitization of small business loans. To access the papers, go to the Dallas Fed's web site at www.dallasfed.org and click on Community Affairs, Other Resources/Links.

The Stand Up for Rural America Campaign

A nationwide coalition offering a Directory of Rural Community Developers and a copy of the video, "Rural Communities Creating Opportunity." The directory includes more than 1,000 rural community developers and their activities on a state-by-state basis. The video shows how rural community developers improve people's lives, focusing on examples in California, Louisiana, Maine, Mississippi and West Virginia. To order the directory and/or the video, call Sarah Petry at (202) 739-9296 or e-mail her at Spetrey@liscnet.org.