Rebirth of a Vital Urban Neighborhood: Memphis' Cooper Young Area Experiences Positive Turnaround

Ellen Eubank

Rehabbing older homes is one of several initiatives spurring the growth of Memphis' Cooper Young neighborhood.

Over the past few decades, many successful community development initiatives have been neighborhood-based and comprehensive in focus. Capitalizing on a particular area’s strengths, these initiatives meet both housing and economic development needs. The success of Memphis' Cooper Young neighborhood exemplifies this approach, utilizing three key community groups that evolved over the past 10 years. The result is the rebirth of a vital urban neighborhood. Cooper Young historically had been a strong inner-city neighborhood, but by the mid-1970s, it had fallen on hard times. Several years passed before the Cooper Young Community Association became reinvigorated. But thanks to a city of Memphis demonstration project that added period lighting to neighborhood streets, things began to improve.

Then, in 1989, the city's Main Street Task Force targeted the intersection of Cooper and Young streets for improvements. This led to the formation of a new Cooper Young Business Association, an advocacy group for the area's business interests. It undertook an annual street festival and promoted the area's location as a prime spot for new businesses. The association eventually gave birth to the Cooper Young Development Corporation, which strives to improve the quality of life through housing and economic development in Cooper Young.

These three groups—the Community Association, the Business Association and the Development Corporation—still maintain their interconnectedness, and each continues to fill its niche in supporting the viability of this area. The boards of these three entities recently held their first retreat to re-evaluate their separate strategies and discover new synergies. Although the development corporation is the latecomer to this area, it has benefited from the strong support of both the business community and area residents.

"The strengths of the neighborhood include economic and racial diversity, which provide a steady supply of energy and creativity," said Jim Kovarik, director of the Cooper Young Development Corporation. "The area's residents are primarily moderate- to middle-income, and the diversity helps to keep housing prices more affordable, so all types of people are able to live and flourish here. Cooper Young owes much of its success to these diverse residents who have not just volunteered for many projects, but have driven many key initiatives."
As these development initiatives have grown and matured, so too has the need for paid staff. The business association recently hired its first staff person and is seeking to strengthen its ties with the community. With the addition of staff, the current goal for all the Cooper Young organizations is to take development to the next level while still tapping into the wealth of available volunteers.

Cooper Young Development Corporation is well acquainted with the difficulties of rehabbing older homes, having taken on more than a dozen such houses over the past seven years. Recently, it added the challenge of new home construction and plans to tackle at least eight projects this year, both new construction and rehab. The corporation's goal is to maintain the character of this neighborhood, which is on the National Register of Historic Places, while keeping homes affordable. Cooper Young typically sells its houses for $65,000 even though they cost more than $75,000 to build. Community Housing Development Organization (CHDO) funds are used to subsidize the difference.

Construction funding comes from NationsBank, with whom the Cooper Young CDC has had a long-standing partnership. This relationship has allowed the CDC to tap into a funding source that understands the challenges of revitalizing an urban area. Whereas some lenders still may not want to take a chance on older housing stock, Cooper Young's track record is opening doors to more easily accessible acquisition/rehab loans for area residents.

New projects for the area include Gateways 2000, an initiative partly funded by the Community Foundation of Greater Memphis, which will be implemented over three years. The objectives of Gateways 2000 are to beautify neighborhood entrances, encourage private beautification efforts and improve neighborhood green spaces. Through these efforts, the area hopes to enhance opportunities for residents and organizations to work together and feel more connected. This project involves not only the three key Cooper Young organizations, but also churches, local Boy and Girl Scout troops and garden clubs.

As Cooper Young moves forward, two key goals are to sustain comprehensive development and to grow its success through partnerships with other communities. Cooper Young built its first house outside its boundaries in the adjoining Rozelle-Annesdale neighborhood. This neighborhood approached the Cooper Young CDC after private developers began building infill housing on its numerous vacant lots that was out of character with the older housing stock. Rozelle-Annesdale recognized the experience of Cooper Young in developing the kind of housing it desired, and Cooper Young recognized the importance of helping to revitalize the larger community of which it is a part. This is a win-win situation for both neighborhoods and is at the heart of why neighborhood-based development is so successful. As Jim Kovarik says, "Cooper Young has survived because of strong individuals and strong assets. This is about a whole community, with many parts, that is working together. Whatever we have, we need to take it and move out with it into areas that need help."

**Partners in the Cooper Young Revival**

- The Community Association — promotes resident involvement in the community
- The Business Association — promotes and advocates area's business interests
- The Development Corporation — promotes housing and economic development
Higher FHA Loan Limits Allow

Early this year, the caps on mortgages insured by the U.S. Department of Housing and Urban Development's (HUD) FHA program were raised. The FHA program may insure residential mortgages as large as $208,800 in high-cost areas and $115,200 in the least-expensive housing markets. The previous limits were $170,362 and $86,317, respectively.

With the increase in FHA caps, larger HUD-insured reverse mortgages are now available to senior citizens. Reverse mortgages make it possible for homeowners age 62 and older to borrow thousands of dollars against the value of their homes without selling the homes. The highest amount of a home's value that can be converted to cash with a HUD-insured reverse mortgage ranges from $115,200 to $208,800, depending on housing prices in the metropolitan area where a person lives. In addition, the reverse mortgage program was converted from temporary to permanent status, which also may encourage more lenders to issue HUD-insured reverse mortgages.

Homeowners can collect a lump-sum payment, monthly payments or tap into a line of credit to get cash when needed. No repayment is necessary as long as a homeowner lives in a home with a reverse mortgage. The reverse mortgage is repaid, with interest, when a homeowner sells the home or dies.

By law, HUD cannot consider any amount over a home's value—above the local FHA loan limit—when calculating the amount of cash that may be received from a reverse mortgage. All counties within a metropolitan area now have the same loan limit thanks to the new caps, so the vast majority of these counties have higher limits. The rest of the counties, located in rural areas, saw their FHA loan limits increase to $115,200. In the Eighth District, counties with higher maximum loan amounts are those in the following MSAs:

<table>
<thead>
<tr>
<th>City</th>
<th>Maximum Loan Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Columbia, MO</td>
<td>$121,647</td>
</tr>
<tr>
<td>St. Louis, MO-IL</td>
<td>$142,050</td>
</tr>
<tr>
<td>Louisville, KY-IN</td>
<td>$152,000</td>
</tr>
<tr>
<td>Memphis, TN-AR-MS</td>
<td>$151,905</td>
</tr>
</tbody>
</table>
Arkansas Association Promotes Revolving Loan Funds

A study conducted by the Corporation for Enterprise Development prompted the establishment of the Arkansas Community Loan Fund Association for collectively exchanging ideas and information about programs and capital resources. The association intends to promote economic development and increase the visibility of the revolving loan fund industry in the state.

Taryk Ferris and John Squires of the Community Resource Group (CRG) of Fayetteville led the efforts to start the association. Squires, CRG executive director, views it as a more effective way of providing access to credit for Arkansas’ small businesses.

The revolving loan fund industry in Arkansas consists of 30 entities, including nonprofit community organizations, planning and development districts, and state agencies. According to the study, these organizations provide most of the high-risk, small business loan capital in the state. A revolving loan fund is a pool of funds structured so that loan payments are used to make more loans.

Even though the association is new, Deborah Slayton, vice president of Arkansas Enterprise Group (AEG) and association chairperson, already has realized some benefits. "It's easier to do my job because of the partnerships we've formed with the association's members," Slayton said. "The partnerships allow AEG to better meet its customers' needs not only through loan participations but also through technical advice from other loan fund administrators."

The association's future goals are to provide training opportunities for loan fund administrators, develop membership standards, access capital and increase the capacity of loan funds to extend credit to underserved markets. For additional information, contact Taryk Ferris at (501) 443-2700.
St. Louis Fed Director Receives Lifetime Achievement Award

Joe Gliessner (center), executive director of Louisville-based New Directions Housing Corporation, was awarded the Dorothy J. Williams Lifetime Achievement Award during Kentucky's Annual Governor's Housing Conference. The award, sponsored by the Kentucky Housing Corporation (KHC), was given in recognition of significant achievement in affordable housing. Presenting the award are Kentucky Governor Paul Patton (left) and KHC Chief Executive Officer F. Lynn Luallen.

Gliessner serves as a director on the board of the Federal Reserve Bank of St. Louis.
KHC Expands Homeownership Programs

Kentucky Housing Corporation (KHC) recently received a grant for $290,281 from the U.S. Department of Housing and Urban Development to expand its homebuyer education and homeownership counseling programs. Funds will help increase awareness of homeownership opportunities and improve access by low- and moderate-income families to homeownership.

In addition to KHC’s Yes You Can...Own A Home homebuyer education workshops, KHC offers homeownership counseling to families and individuals who have been declined a KHC mortgage loan due to credit problems and to participants in the Family Self-Sufficiency Program. Training for homebuyers includes instruction on how to: evaluate their financial status; analyze their debt-to-income ratio; develop a budget and savings plan; and prepare to purchase a home. Basic home maintenance training also is offered.

To learn more about KHC's homeownership education and counseling programs, call 1-800-633-8896, ext. 324.
San Francisco Fed Offering Lending School

The Federal Reserve Bank of San Francisco is presenting a training program designed to make community development lending a profitable, dynamic venture for institutions. The National Community Development Lending School will be offered July 18-22 at the University of California at Berkeley on the Clark Kerr Campus.

Some of the most highly acclaimed experts in the banking industry will teach attendees how to think like an entrepreneur, manage risk, structure profitable loans, analyze credit, develop community partnerships and make sound business decisions for their institutions.

For program and registration information, call (415) 974-2968.
Angels and Other Venture Capitalists
Kim Peters

For decades, venture capitalists have nurtured the growth of America’s high technology and entrepreneurial communities, resulting in significant job creation, economic growth and international competitiveness. Companies famous for receiving venture capital early in their development include Apple, Federal Express and Microsoft. Venture capital is money raised to invest in companies that have the potential to develop into significant economic contributors. The expectation is that the high-risk, long-term investments will yield higher rewards. Far from being passive financiers, venture capitalists foster growth in companies through their involvement in the management, strategic marketing and planning of their investee companies. They are entrepreneurs first and financiers second.

Venture capital comes from a variety of sources, including institutional public and private pension funds, endowments, foundations, insurance companies, banks or individuals. A venture capital firm is a pool of capital, typically organized as a limited partnership that invests in companies expected to yield a high rate of return within five to seven years. The venture capital firm serves as the general partner and the investors are the limited partner(s).

Venture capitalists may be generalist investors, which means they invest in a variety of industry sectors, geographic locations or stages of a company’s life. Or, they may be specialist investors and invest only in specific industry sectors or geographical locations.

According to the National Venture Capital Association, the amount of capital invested by venture capital funds rose to more than $16 billion in 1998, a 12-percent increase over 1997. California continued to receive the most disbursements—almost $6.5 billion. Massachusetts followed with more than $1.8 billion while Texas, New York and Colorado rounded out the top five for 1998.

Investing at any Stage

Not all venture capitalists invest in start-up businesses. In fact, many will invest in companies at various stages of the business life cycle:

- **Seed** investing occurs before a real product or the company is organized.
- **Early Stage** investing happens when a company is in its first or second stages of development. These companies have expended their initial capital in development and market testing and require funds to begin full-scale operations and sales.
- **Expansion Stage** investing, as the term implies, helps a company grow to become more successful. These companies are producing and shipping and have growing inventories and accounts receivable.
- **Later Stage** investing occurs in companies that are break-even or profitable and are experiencing increased sales volume to the point that additional funds are needed for plant expansion, full-scale marketing programs and working capital.
MBO/Acquisition investing occurs when managers have the opportunity to purchase an independent company or a division or product line of their employer, thus creating a new, independent business. Another situation that might occur is when a family business is experiencing growth and needs an ownership change to other family members and management.

The most common type of venture capital firm is the private independent firm, which has no affiliations with any other financial institution. Venture firms also may be affiliates or subsidiaries of a commercial bank, investment bank or insurance company. Others may organize through local, state or federal government investment programs that assist start-up companies. One common vehicle is the Small Business Investment Company program that is administered by the Small Business Administration. (See below for additional information.)

Corporate venturing programs are another form of venture capital. This investment vehicle, usually called "direct investing," seeks to invest in portfolio companies that have similar strategies as the parent company and will produce synergy or cost savings. These programs are designed to assist in meeting specific strategic objectives. Generally, the parent company's capital is used for investing.

In addition to organized venture capital funds, individuals also may be venture capitalists. Commonly referred to as "angels," these people mentor a company and provide needed capital and expertise to help them develop. Many angel investors are wealthy people with management expertise or retired businessmen and women who seek the opportunity for first-hand business development.

<table>
<thead>
<tr>
<th>Venture Capital Investments (by industry)</th>
<th>%</th>
<th>$ Invested (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computer Software &amp; Services</td>
<td>33.9</td>
<td>5,428.5</td>
</tr>
<tr>
<td>Communication</td>
<td>17.3</td>
<td>2,763.5</td>
</tr>
<tr>
<td>Medical/Health Related</td>
<td>13.9</td>
<td>2,221.2</td>
</tr>
<tr>
<td>Other Products &amp; Services</td>
<td>10.1</td>
<td>1,622.5</td>
</tr>
<tr>
<td>Biotechnology</td>
<td>6.8</td>
<td>1,085.5</td>
</tr>
<tr>
<td>Semiconductors/Other Electronics</td>
<td>5.2</td>
<td>834.9</td>
</tr>
<tr>
<td>Computer Hardware</td>
<td>4.5</td>
<td>727.3</td>
</tr>
<tr>
<td>Industrial/Energy</td>
<td>1.9</td>
<td>311.3</td>
</tr>
</tbody>
</table>

SOURCE: National Venture Capital Association

Small Business Investment Companies

The Small Business Investment Company (SBIC) program fills the gap between the availability of venture capital and the needs of small businesses that are either starting or growing. Licensed and regulated by the Small Business Administration (SBA), SBICs are privately owned and managed investment firms that make capital available to small businesses through investments or loans. They use their own funds plus funds obtained at favorable rates with SBA guaranties and/or by selling their preferred stock to the SBA.

According to Joe Foglia, SBA district director for Arkansas, "SBA licensed 31 new SBICs in 1998 and helped to provide equity capital to nearly 3,500 small businesses. In addition, SBA soon will introduce a New Market Venture Capital program to support $100 million in equity investments and $30 million in technical support for firms located in low-to-moderate income areas."
SBICs are for-profit firms whose incentive is to share in the success of a small business. In addition to equity capital and long-term loans, SBICs provide debt-equity investments and management assistance. The SBIC program provides funding to all types of manufacturing and service industries. Some investment companies specialize in certain fields, while others seek out small businesses with new products or services because of the strong growth potential. Most, however, consider a wide variety of investment opportunities.

According to the Community Reinvestment Act (CRA) regulation, a bank's investments in support of organizations promoting economic development by financing small businesses receive favorable consideration as a CRA-qualified investment. Such organizations include SBICs and specialized SBICs.

For information on the following upcoming SBIC workshops, call 1-800-734-9496:

- Kansas City, April 6
- New York, April 12
- Atlanta, May 6
- Dallas, May 17
- San Francisco, June 2
Brokering Tax Credits—A New Approach to Community Development

Many communities have created public-private partnerships to address complex development challenges. The search for solutions to these challenges has led diverse groups to meet and start working together. Often, nonprofit organizations and businesses create new partnerships motivated by state tax credit programs.

Missouri is one of only several states to extensively use state tax credit programs to promote community development. Administered by the Missouri Department of Economic Development, these include the Community Development Bank Tax Credit; Historic Preservation Tax Credit; Capital Tax Credit; Brownfields Tax Credit; Neighborhood Assistance Tax Credit; and Rebuilding Communities Tax Credit programs.

An appealing feature of certain programs is that credits may be sold or transferred, making them valuable to investors who may not have Missouri tax liability.

What Are Tax Credits?

Tax credits are used to induce contributions and investments from the private sector in projects that benefit distressed communities and populations. A tax credit is different from a deduction in that a percent of the value of the contribution or investment is subtracted from the bottom line, reflecting state taxes due by the taxpayer. A deduction occurs in the tax calculation formula and lowers the liability of the taxpayer. Effectively, tax credits allow taxpayers to redirect their state taxes to community or economic development projects approved by the state.

The Challenge

The primary difficulty with tax credit programs is that investors and contributors may or may not choose to receive them. Tax credits allocated to projects may remain unclaimed by investors and contributors. One of the primary reasons that using tax credits to induce private investment is easier said than done is that information about the program takes time to catch on, which creates a lag in program delivery. The lag effect could mean that potential investors do not understand how to make the best use of the programs in their communities. Another problem is that there is no tax credit market to provide a place where buyers and sellers come together to trade.

One Solution

A bold solution to the challenge of making the best use of tax credit programs is the Missouri Tax Credit Clearinghouse, a subsidiary of St. Louis-based Mercantile Community Development Corporation. Approved to operate by the Office of the Comptroller of the Currency in late 1998, the Clearinghouse has become the first entity in the nation to start brokering tax credits.
The Clearinghouse works only with state tax credits that may be sold or transferred between parties. Kathy Bader, president of the Mercantile Community Development Corporation, estimates that the primary activity of the Clearinghouse, so far, has been in facilitating buying and reselling tax credits. "Many people want to invest in community development projects, but they don't understand how tax credits work or which projects are a good match for them," she said. "On the other hand, some companies and nonprofits have more tax credits than they can use. The Missouri Tax Credit Clearinghouse brings them together."

The Hotel Governor in downtown Jefferson City, Mo., had been idle for more than 10 years. Currently, it is being renovated as an office building. Until state brownfields and historic preservation tax credits became available, the project was not doable. Then, Mercantile made a $5-million equity investment and a $7.5-million construction loan for the renovation. The bank will recoup its investment through a combination of federal and state tax credits. Since the bank has enough tax credits from other projects to claim against its own liabilities, however, it will sell the credits from this project to investors. "Without the various tax credits, we wouldn't have been able to finance this project," Bader said.

In the future, the Clearinghouse plans to expand activities into providing financial advice, deal structuring, and managing transactions, as well as continuing to broker or bring together investors and developers.
Spanning the Region

Locke Joins Community Affairs

Lisa Locke recently joined the Community Affairs staff of the Federal Reserve Bank of St. Louis. Locke, a community affairs specialist, is assigned to the Louisville Branch, where she has worked in operations since 1994. Prior to coming to the Fed, Lisa was assistant branch manager of a retail operations center for National City Bank. She holds a bachelor of science degree from the University of Louisville and a master of arts degree from Webster University.

Lisa will assist in the Bank's efforts to provide banks and bank holding companies with information on programs to meet community development needs and facilitate communication among local governments, community organizations, neighborhood groups and financial institutions. Lisa may be reached at (502) 568-9216.

Fed to Publish St. Louis Homebuyer Brochure

The Federal Reserve Bank of St. Louis is producing a brochure that lists St. Louis-area homebuyer counseling providers and a summary of their programs.

The brochure is in response to recommendations from the four groups of the St. Louis Mortgage Credit Partnership project (MCP). The MCP project, co-sponsored by the St. Louis Fed and the Institute for Policy Leadership at the University of Missouri-St. Louis, is an on-going effort to identify and eliminate barriers to affordable housing in the city of St. Louis. The project studied all areas related to the homebuying process, including lending, appraisal, real estate, insurance and the secondary market.

The brochure will be available in April and is free of charge. For more information, please contact Diana Zahner at (314) 444-8761.

St. Louis Minority Business Council Administering Loan Program

The St. Louis Minority Business Council is administering a state-funded loan program called the Urban Enterprise Loan (UEL) program to assist companies expanding in or relocating to the state-designated Enterprise Zone or federally designated Enterprise Community areas. Borrowers are for-profit businesses with fewer than 100 employees. Eligible activities include fixed-asset or working-capital needs, and projects must retain or create one job for every $20,000 in funding under the UEL program. Job creation must occur within two years of the completed project.

Up to 50 percent of project costs, or a maximum loan amount of $100,000, is available through the UEL program. Typically, the loan structure will be 45 percent from bank financing secured by a first-security interest, 45 percent from a UEL-subordinated loan, and 10 percent equity. Loans are collateralized to the fullest extent possible.
For more information, contact the St. Louis Minority Business Council at (314) 241-1143.
Resources

To Their Credit: Women-Owned Businesses

A video developed by the Federal Reserve Banks of Chicago, Boston and San Francisco, features successful women business owners describing their experiences in obtaining bank credit. To potential entrepreneurs, the tape stresses the need for future commercial borrowers to build a relationship with the lender and to have a comprehensive business plan prepared prior to approaching a lender. To potential lenders, it focuses on the profitability this fast-growing segment of the economy offers financial institutions. The video is available through FVS Media for a nominal fee by calling 1-800-555-5471.

Looking for the Best Mortgage: Shop, Compare, Negotiate

A brochure that provides details on how to obtain information from several lenders to make the best deal, includes information on fair lending, reviewing your credit report and a mortgage shopping worksheet. Orders for up to 100 copies of the brochure are free from Publications Services, Mail Stop 127, Federal Reserve Board, Washington, D.C. 20551.

Helping People in Your Community Understand Basic Financial Services

A guide for community educators for use with a variety of audiences who currently do not have accounts with financial institutions or who need basic information about how to use accounts, is available in English and Spanish. To obtain copies, fax a request to U.S. Department of Treasury Financial Management Services Product Promotion Division at (202) 874-7321 or download a copy from the Treasury web site at www.treasury.gov.