 Investors Are "Doing Well by Doing Good" with Louisville Community Development Bank
Lisa J. Locke

"By restoring jobs, you restore neighborhoods." Civic, religious and business leaders in Louisville envisioned this concept back in 1992 when they formed a task force to devise a plan for providing long-term improvement of economic conditions in Louisville's inner city. They set out to create a vehicle that would be a self-sustaining economic engine; and, in January 1997, that vehicle was born when the Louisville Community Development Bank (LCDB) opened its doors.

Louisville Development Bancorp, Inc., designated as a CDFI, is the parent company of the LCDB. The LCDB states its mission as: "stimulating economic growth within nine neighborhoods of the West End and three neighborhoods to the east of downtown by providing an array of financial and development resources." These neighborhoods, referred to as the Investment Area served by the bank, cover 17 miles and have approximately 80,000 residents combined, 38 percent of whom are living below the poverty level. To achieve its mission, the bank's objectives are to:

- Support small business development and expansion;
- Make homeowners out of home renters;
- Improve the quality and value of real estate;
- Increase the number and quality of goods and services available to residents; and
- Link neighborhood residents to career-path employment.

With support from the banking community, local corporations, Fortune 500 companies and individuals throughout the entire community, the LCDB began operations with more than $20 million in deposits.

Gary Gambrell, marketing director for the LCDB, said the bank's motto of "partnerships work better" has helped it foster support and cooperative efforts with nearly every other major bank in town. Even though LCDB is a for-profit, FDIC-insured, commercial bank, it does not offer any type of checking or savings account. On the lending side, the LCDB often relies on partnering to facilitate deals.

Certificates of Deposit

The LCDB offers three types of certificates of deposit, all of which are "socially responsible" investments. In addition to its competitive Market-Rate CD, which has a minimum investment of $200, the bank also offers an Easy Access CD. The Easy Access CD, with a minimum investment of $1,000, can be redeemed without penalty after just seven days. While all three CDs are designed to provide community revitalization, the Community CD® most effectively carries out LCDB's mission. With a minimum investment of $200 and a lower interest rate (the customer is given the option of selecting an interest rate ranging from 0 to 3 percent), the foregone interest enables the bank to support and reinvest in community development programs.
The residents also have made a real commitment to the revitalization of their community. Nearly 25 percent of the depositors live within the Investment Area. For many of these depositors, it's their first investment.

**Community Development Lending**

The LCDB is dedicated to a resurgence of housing and businesses in Louisville's inner city. Both residential and business loans are available, but a home or business must be located within the Investment Area. Businesses outside the Investment Area must be committed to employing or servicing the Investment Area residents. Loans offered include:

- Commercial businesses--line of credit or term loans for startup, expansion or working capital
- Residential acquisition of homes for rehab or sale or new construction of single and multifamily structures
- Home improvement--additions, remodeling and repairs
- Commercial real estate--acquisition, rehab, or new construction of commercial, retail, wholesale, manufacturing, distribution and warehouse facilities

In just a little over two years, the bank has partnered with or been the sole financing institution for 89 small business loans. As a result of these loans, more than 600 new jobs have been created for area residents. The LCDB can offer individuals and businesses even more through its relationship with its partner company, LCDB Enterprise Group. This group, also affiliated with Louisville Development Bancorp, Inc., focuses on enterprise/business development by rendering management assistance to facilitate growth and expansion of Investment Area firms.

LCDB has made loans to several childcare providers located in the Investment Area. "Top quality day cares are a real community asset," said Kelly Downard, president and CEO of the bank. "They provide security to the family so that parents can work without worrying about their children, and they provide security to the community by nurturing and educating the next generation."

With a loan from LCDB, one such day care center, The Marchman Learning Centre, purchased a new van that provides transportation to and from the day care for families who need it. Vikki and Maurice Marchman Sr., owners of the day care, also were able to purchase additional property and convert it into a Toddler Tot Unit. With this expansion, enrollment has increased by almost 60 children, and the day care now has a 22-member staff.

Another mainstay of any community is a grocery. The Meat Store, a full line meat and grocery store, opened for business in early 1999 with the help of a loan from the LCDB. Les Estephane and Halim Halabel, owners of The Meat Store, employ more than 60 people. According to Estephane: "We could not have done it without the help of Louisville Community Development Bank. Its staff was very supportive and encouraging."

Creation of jobs, jobs being filled by inner city residents, increased spending in the neighborhoods--this is the new cycle in Louisville's inner city--and the LCDB has been a leader in providing the financial power. But partnerships are the key. Morton Boyd, retired chairman of National City Bank and chairman of LCDB, described the LCDB this way: "It's a different approach. When the banking community pools its resources and shares the risk, we are able to accomplish so much more than a single institution."

**LCDB partners with these local banks:**

- Bank of Louisville
- Bank One
- Commonwealth Bank and Trust
- Fifth Third Bank
- First Capital Bank
- Firstar Bank
- National City Bank
- PNC Bank
- Republic Bank and Trust
- Stock Yards Bank and Trust
Building for the Future
Ellen Eubank

Building for the Future (BFF) is not only creating a brighter future for prison inmates and low-income families in need of affordable housing, but also winning awards for it. This innovative collaboration of 10 different Memphis agencies was recently recognized as one of 25 finalists for the Innovations in American Government awards program sponsored by the Ford Foundation, Harvard University's John F. Kennedy School of Government and the Council for Excellence in Government. BFF was selected as a finalist from more than 1,400 applicants and received a $20,000 grant. BFF trains inmates in home-building skills and uses those inmates in the construction of affordable housing for low-income Memphis area families. Since 1993, approximately 600 inmates have received this valuable training while helping to build more than 48 homes. For these inmates, the recidivism rate (the rate at which inmates return to prison for committing another crime) has been reduced by 47 percent. Screening by Adult Offender Center counselors and Building for the Future instructors allows for the selection of students whose sentencing permits their completion of the 12-week course. Inmates selected must have work release status. The neighborhood associations where the inmates work are notified and support the program.

The unique effort that has made such success possible involves: the Shelby County Public Defender's Office, Shelby County Correction Center, Memphis City Schools, City of Memphis Division of Housing and Community Development, Habitat for Humanity of Greater Memphis, Neighborhood Housing Opportunities, First Tennessee Bank, Tennessee Technology Center, Carpenter's Local Union #345 and Home Depot. Surprisingly, this program works without a paid director or 501(c)3 status. Representatives of these collaborating organizations meet twice a month to plan and evaluate progress.

BFF encompasses five components: BFF Carpentry, Panel Plant I-Wood Studs, Panel Plant II-Metal Studs, Women in Construction and the Masonry Program. All BFF programs are voluntary for the participating inmates and involve classroom instruction as well as hands-on experience. The goal is to help develop a work ethic and marketable construction skills that will enable inmates to gain stable employment upon release. Delbert Metcalf, an instructor in Panel Plant I, said that when the inmates have finished a panel, transport it to the site and stand it up for the first time, "they can't believe it. It gives them a tremendous sense of accomplishment. Inmates not only learn the ins and outs of construction but also math, problem resolution and teamwork skills."

Said Eddie Walsh, of the Shelby County Public Defender's Office, "This program is so user friendly that any municipality could replicate and use it to address some of its most pressing community needs."

Groups like Habitat for Humanity that use the housing panels constructed by inmates are able to reduce costs and construction time, making their homes even more affordable. In addition, BFF can help nonprofits that are beginning affordable housing construction to develop their plans. BFF hopes to foster a closer
relationship with area affordable housing providers by working with them from the planning stages all the way through to completion of homes using BFF services.
Incubator without Walls: An Enterprising Outlook on the Road

Mobile health screenings, bloodmobiles and bookmobiles all take their services directly to the streets, directly to the people. A business development organization based in Macon, Mo., also is hitting the road to meet new customers in rural communities. The approach has become known as an “incubator without walls.” As the first incubator without walls in Missouri, the Thomas Hill Enterprise Center began in 1993. At that time, its mission was to assist people displaced from jobs by the closing of the Thomas Hill coal mine. The intent was to stabilize the area through job placement and economic development services. Over the past few years, small business development has moved to the forefront of its activities. The goal of the center now is to assist small businesses and small communities to become part of the growing state and global economy.

Today, the Enterprise Center is a small business training center designed to provide assistance for start-up or existing businesses using a mobile computer learning lab and electronic online resources. The center is a nonprofit private corporation funded by several public and private partners including: Missouri’s Rural Electric Cooperatives, the U.S. Department of Agriculture-Rural Development, the Missouri Department of Economic Development, GTE, NationsBank, the Small Business Administration and Truman State University.

The Enterprise Center has become a recognized leader in rural development strategies that build better communities through enhancing hard and soft skills. It promotes entrepreneurship through the development and delivery of programs designed to teach hard skills like business planning and finance and soft skills like entrepreneurial thinking and process management. In some cases, the center also offers financing.

Incubating Skills and Ideas

Early in 1998, Enterprise Center Director Jane Vanderham began thinking that long-lasting solutions might come better by providing more opportunities for nurturing rural community members to develop their own entrepreneurial way of thinking. Vanderham said, "It's the ability to vision and understand the vision that is the difference between the computer hacker and a Bill Gates."

At Thomas Hill, enterprise development means that the root of teaching enterprise in rural areas includes a combination of civics and critical thinking skills. These "soft skills" enable people to conceive jobs and livelihoods that fit into the local and global communities.

"We have to know how to approach problems prior to encountering them be they political, economic, social or cultural in nature," Vanderham said.

Thomas Hill offers courses in Quickbooks, Peachtree Accounting and Quicken to help small business owners with accounting and finance problems. But these problems are only symptoms of a more permeating disease,
Vanderham said. That disease is the lack of a thought process that allows the entrepreneur to become poised to make timely and appropriate business decisions. The Enterprise Center teaches process management, the ability to know what to anticipate.

**Without Walls**

One of the most significant challenges in rural development is delivering services to customers dispersed over many miles. How does one meet a wide range of needs and deliver intangible service products across many miles without the benefit of customer density? The development of the Center's online EnterpriseNet was one first-stage tool created in response to this challenge. The EnterpriseNet is an electronic resource center for business planning placed in a delivery channel for a dispersed rural market. EnterpriseNET is a portable and state-of-the-art computer lab offering customized training. The portability enables the center to train small-town entrepreneurs who do not have the advantage of receiving training without traveling to class. Short courses have included: forecasting for small manufacturers, customer service and marketing strategies.

The Enterprise Center is bringing down the walls for lenders as well. The center formed a partnership with the Gateway Region American Institute of Banking in 1998 to, among other things, train rural community bankers in the use of certain accounting and finance software. These bankers would otherwise have to go to St. Louis for this training.

**Mind Your Ps and Cs**

In the mix of various hard and soft skill levels, approaches and outlooks, what has Thomas Hill learned about developing enterprise? Mainly, that all entrepreneurs have a need for a long-term banker. Vanderham suggests that the crux of community lending includes an emphasis on developing entrepreneurs through financial counseling and business assistance in addition to applying the five Cs of lending (capital, character, collateral, capacity and condition).

Looking forward, Vanderham said one of the greatest market opportunities in rural areas is for community banks to understand how to improve the performance of an existing underperforming business. She stated that entrepreneurial lending should begin with the three Ps of entrepreneurship—planning, patience and profitability. To ensure business growth, the three Ps should be followed by two other Cs—continuity and constancy. "Constancy is particularly important for incubation," Vanderham said. "Alter the temperature, and you'll get less than desired results."
How the Enterprise Center Helped Fayette Environmental Services

Several years back, in the small town of Fayette, Mo., (population 3,000), Rhys Thomas developed a unique storage tank leak detection system. This finding eventually led to Thomas and partners Bob Greenwood and J.B. Waggoner forming Fayette Environmental Services Inc. in 1994. The company looked to the Thomas Hill Enterprise Center for assistance in editing and improving its business plan and providing finance suggestions. "The center assisted us in fine tuning a business plan that helped with both a new management approach and how to price services," said Waggoner, vice president and director of Business Development.

The Center also provided funding to Fayette Environmental Services in the form of a $50,000 loan to fund a cash flow gap. Fayette Environmental was able to meet its five-year business plan goals within the first three years of operation and now employs five chemists and three business support professionals.

Today, Fayette Environmental is exploring innovations in environmental problems. It has received Small Business Innovation Research and Small Business Technology Transfer grants from the U.S. Department of Commerce, the U.S. Environmental Protection Agency and the U.S. Air Force. Now in an expansion phase serving a national base of customers, Fayette Environmental remains involved in laboratory analysis but is moving rapidly into research and the commercialization of technology.

"I would advise anyone starting a new venture to talk with the experts at the center before getting started," Waggoner said.
Teaching Money Management to Students Offering Banks CRA Service Opportunity

How do you create a win-win situation? As a banker, one way is to participate in the Dollars & $ense program. Administered by the Missouri State Treasurer's office, the Dollars & $ense program links Missouri elementary schools and local banks. The banks open savings accounts for students at their partner schools, providing opportunities for students to learn and practice money-management skills. The program is open for grades three through five and features a curriculum that offers hands-on activities for teaching about personal finance. Students learn to set financial goals--from buying a candy bar to paying for college--and also develop an understanding about the banking world.

Everybody wins, right? The bank is establishing a customer base, and the students are learning about responsible personal finance. In this scenario, however, the bank wins twice.

Dollars & $ense and similar programs help banks meet their Community Reinvestment Act (CRA) obligations under the service test, one of three assessment tests for banks examined under the large bank examination procedures.

Under this service test, examiners evaluate a bank's record of helping meet the credit needs of its assessment area(s) for delivering retail banking services and the extent and innovativeness of its community development services. Community development service is defined by the CRA regulation as a service that:

- has community development as its primary purpose;
- is related to the provision of financial services; and
- has not been considered in the evaluation of the bank's retail banking services.

To more fully understand what a community development service is, we must know how community development is defined in the CRA regulation. For purposes of CRA, community development is:

- affordable housing (including multi-family rental housing) for LMI individuals;
- community services targeted to LMI individuals;
- activities that promote economic development by financing businesses or farms that meet the size eligibility standards or have gross revenues of $1 million or less; and
- activities that revitalize or stabilize LMI geographies.

"Provision of financial services" often involves either informing community members about how to get or use credit or providing credit services or information to the community. For example, service on the board of directors of an organization that promotes credit availability or finances affordable housing is related to the provision of financial services.
Dollars & $ense is just one example of a program that provides an opportunity for banks to meet their obligations under the CRA service test. The Treasurer's Office is particularly interested in recruiting additional St. Louis banks to partner with city schools. To obtain a registration form, banks should contact the Office of the Missouri State Treasurer at (573) 751-2411.
Spanning the Region

Guynes Joins Community Affairs in Little Rock

The Federal Reserve Bank of St. Louis has hired Tiffany Guynes as a community affairs specialist assigned to the Little Rock Branch. She will assist in the Fed's efforts to provide banks with information on programs to meet community development needs and facilitate communication among local governments, community organizations, neighborhood groups and financial institutions. Previously, Guynes was the marketing coordinator for the Arkansas branch of a multistate engineering firm, where her responsibilities included grant writing, business development, development of a marketing plan and client outreach and support. She also spent three years as assistant director of the Arkansas Office of Rural Advocacy and one year working for the Arkansas House of Representatives as the assistant information officer. Guynes can be reached at (501) 324-8240.

Fannie Mae to Open Tennessee Partnership Office

In May, Fannie Mae announced the selection of Tennessee as its newest Partnership Office. The statewide office will be located in Nashville.

Partnership Offices enable Fannie Mae to establish an "on-the-ground" presence in major communities across the country. The Tennessee Partnership Office will work with state and local municipalities in the development of affordable housing by enhancing Fannie Mae's capacity to deliver mortgage products and services to Tennesseans. For more information, call 1-800-7FANNIE.

Kentucky Trust Fund Hits the Jackpot

Although it has nothing to do with picking the right numbers, some low-income Kentucky residents will benefit from the Kentucky Lottery. Their good fortune is the result of legislation passed last year that allotted unclaimed Kentucky lottery prize money during fiscal year 1999 to the Affordable Housing Trust Fund (AHTF). The trust fund, which provides housing assistance to those who qualify, is receiving $2.3 million from a total of $8.3 million unclaimed winnings from the first six months of the current fiscal year. It is likely that more will follow from the second half of this year.

The AHTF serves individuals and families who are below 60 percent of the statewide median income and who have critical housing needs. The AHTF also gives priority to proposals designed to assist those below 30 percent. Unlike other funding sources that have restrictions, AHTF funds can be used by agencies for any cost associated with housing development for low-income Kentuckians. For more information, call Kentucky Housing Corporation at (502) 564-7630.

"One Stop Capital Shop" Opens in St. Louis
The Small Business Administration (SBA) recently opened its "One Stop Capital Shop" in St. Louis' Empowerment Zone, an economically depressed urban area. Under the program, the SBA will guarantee loans, provide entrepreneurial training and help establish or expand women- and minority-owned businesses in the zone. The shop will also hold weekly workshops on SBA loans and other services offered.

One of the largest of the 10 shops across the nation, the St. Louis office has five staff members, including a loan officer, procurement assistant specialist, economic development specialist, business information manager and a director. Two retired executives from SCORE will also serve as part-time advisors.

In addition, Rural Missouri Inc. the SBA's micro-lender for St. Louis, will be at the shop two days a week making micro-loans of $500 to $25,000. Maureen Brinkley, the shop's director, expects that 80 to 100 micro-loans will be made in the first year. More traditional SBA loans will also be made. For more information, call (314) 539-6600.
Resources

CRA Questions and Answers

The Federal Financial Institutions Examination Council (FFIEC) published the CRA Q&As in the May 3, 1999, Federal Register, volume 64, no. 84, on pages 23618 through 23648. They are also available on the FFIEC's web site at www.ffiec.gov.

Principles & Practices of Community Development Lending

In its second edition, this guide is targeted to lenders and their community development partners who want to increase their knowledge of evaluating and making community development loans. The guide contains a method for analyzing community development loan proposals and includes a list of public and private credit programs. The guide is available from the Federal Reserve Bank of Minneapolis for $25. For more information, call (612) 204-5074.

One Man's Trash is Another Man's Treasure: Brownfields and the Redevelopment of Disadvantaged Neighborhoods

This report explores challenges faced by developers and financial institutions when considering redevelopment of contaminated land and facilities in our cities. It describes the history of the brownfields phenomenon, analyzes the variety of practical and institutional barriers to redevelopment of brownfields sites and presents strategies and best practices in programs facilitating cleanup and redevelopment, including alternative approaches to public-private financing arrangements that have been employed around the country. To obtain a copy of the report, contact the Community Affairs Office, Federal Reserve Bank of Richmond, at (804) 697-8447.