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SUMMER 2017

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Redlining Louisville Project:
Early Lessons Learned

SOURCE: Redlining Louisville: The History of Race, Class and Real Estate.

By Jeana E. Dunlap and Joshua Poe

Imagine if all your hard work and aspirations were crippled by a small handful of individuals with low expectations for your future success, credibility or worth. Redlining practices in America did just that. In the latter months of 1937, the city of Louisville, Ky., had recently recovered from the Great Flood of 1937, the single most significant natural disaster in its history. At the same time, the federal government was embarking on a new mechanism to support homeownership opportunities for millions of Americans. The Home Owners' Loan Corp. (HOLC) was also attempting to mitigate risk for the financial institutions that would help deploy billions of dollars in mortgage capital across the country.

The Office of Redevelopment Strategies of Louisville Metro Government launched Redlining Louisville: The History of Race, Class, and Real Estate. This interactive map allows investigation of some of the ways redlining and the HOLC has affected housing, development, disinvestment and lending patterns in Louisville since the 1930s.

HOLC residential security maps provided snapshots of nearly every major American city in the 1930s before urban sprawl moved into greenfield sites (an area of land, usually in the countryside, that has never had buildings on it before). The colors in a typical map represented a four-point classification system devised by the HOLC to indicate where local lenders were encouraged to make loans and where loan requests should be denied. Green ("A Grade") was an indicator for the very best borrowers, followed by blue ("B Grade") and yellow ("C Grade"). Red ("D Grade") was the color reserved for areas of the city where access to capital would be withheld.

In describing how neighborhoods were graded in the 1937 Louisville residential property survey, the HOLC, along with local realtors, lenders and other real estate professionals, offered the following explanation:

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Bridges is a quarterly publication of the Community Development Office of the Federal Reserve Bank of St. Louis. It is intended to inform bankers, community development organizations, representatives of state and local government agencies and others in the Eighth District about current issues and initiatives in community and economic development. The Eighth District includes the state of Arkansas and parts of Illinois, Indiana, Kentucky, Mississippi, Missouri and Tennessee.

Calendar

SEPTEMBER 2017

14 **Regional Food Systems: Driving Entrepreneurship and Small-Business Development**
Webinar

Sponsors: Federal Reserve Board of Governors, Federal Reserve Bank of St. Louis
Visit: https://bsr.stlouisfed.org/connectingcommunities/#63/regional-food-systems-driving-entrepreneurship-and-small-business-development

21 **Delta Communities – The Transformative Potential of Affordable Housing Development on Communities and Families in the Delta**
Clarksdale, Miss.

Sponsor: Federal Reserve Bank of St. Louis
Visit: http://www.cvent.com/d/ktqn76

27-28 **Banking and the Economy: A Forum for Minority Bankers**
Kansas City, Mo.

Sponsors: Federal Reserve Board of Governors, Federal Reserve banks of Atlanta, Kansas City, Minneapolis, Philadelphia, Richmond and St. Louis
Visit: www.kansascityfed.org/events/2017/forum-minority-bankers-9-27-17

OCTOBER 2017

4-6 **Investing in America's Workforce: Improving Outcomes for Workers and Employers**
Capstone Conference
Austin, Texas

Sponsors: Federal Reserve System, Rutgers University, Ray Marshall Center for the Study of Human Resources, W.E. Upjohn Institute for Employment Research
Visit: www.investinwork.org

14 **Money, Purpose, Success: Women's Empowerment Summit**
Cleveland, Miss.

Sponsors: Higher Purpose Co., Federal Reserve Bank of St. Louis
Visit: www.higherpurpose.co/moneypurposesuccess

24 **The Financial Diaries: How American Families Cope in a World of Uncertainty**
St. Louis, Mo.

Sponsors: Federal Reserve Bank of St. Louis, Washington University in St. Louis
Visit: http://www.cvent.com/d/z5qbbf

NOVEMBER 2017

15 SAVE THE DATE!
Delta Communities Convening
Clarksdale, Miss.

Sponsor: Federal Reserve Bank of St. Louis

16 **Investment Connection**
Memphis, Tenn.

Sponsor: Federal Reserve Bank of St. Louis
Contact: Teresa Cheeks Wilson at teresa.cheeks.wilson@stls.frb.org

DECEMBER 2017

7 SAVE THE DATE!
Delta Communities Convening
Clarksdale, Miss.

Sponsor: Federal Reserve Bank of St. Louis

Redlining Louisville Project

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> *"In establishing the grade of an area, such factors as these are considered—Intensity of the sale and rental demand; percentage of home ownership; age and type of buildings; economic stability of area; social status of the population; sufficiency of public utilities; accessibility of schools, churches and business centers; transportation methods; topography of the area; and the restrictions set up to protect the neighborhoods. The price level of the homes is not the guiding factor."*

The process of considering race and class in real estate appraisal did not begin or end with the HOLC. In the 1930s, it was a commonly accepted notion in the real estate industry that the socioeconomic characteristics of a neighborhood determined the value of housing to a much greater degree than physical characteristics. These notions were widely upheld by the Federal Housing Administration's (FHA) underwriting manuals far into the 1970s. The FHA's underwriting system used such standards as "protection from adverse influences and inharmonious racial groups." The FHA manual warned that "older properties in a neighborhood have a tendency to accelerate the rate of transition to lower class occupancy" and suggested that apartment owners should look to the suburbs, preferably a site "set in what amounts to a privately owned and privately controlled park area."

The "restrictions set up to protect the neighborhoods" referred to deed restrictions prohibiting the sale of property to people of color regardless of their income, accumulated wealth or ability to repay their loan. These restrictions were mentioned in the assessments more often than physical characteristics (e.g., topography or quality of structures). For instance, several affluent neighborhoods were described as the best areas of the city in large part because they were also "one of the highest restricted areas." Predominantly

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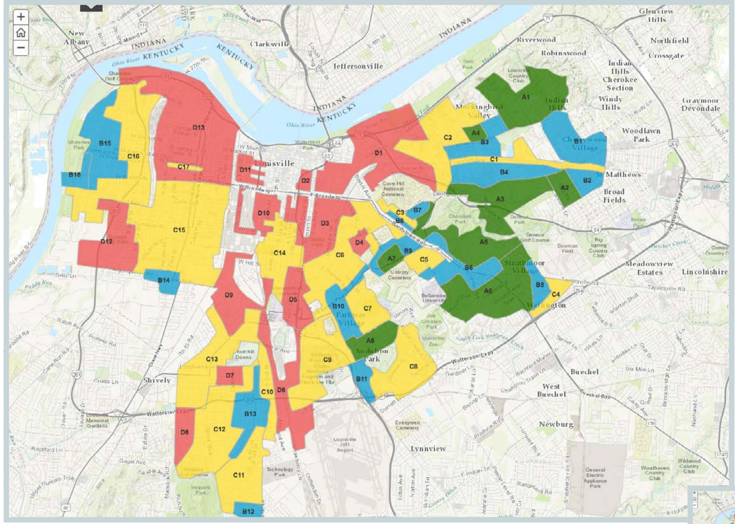
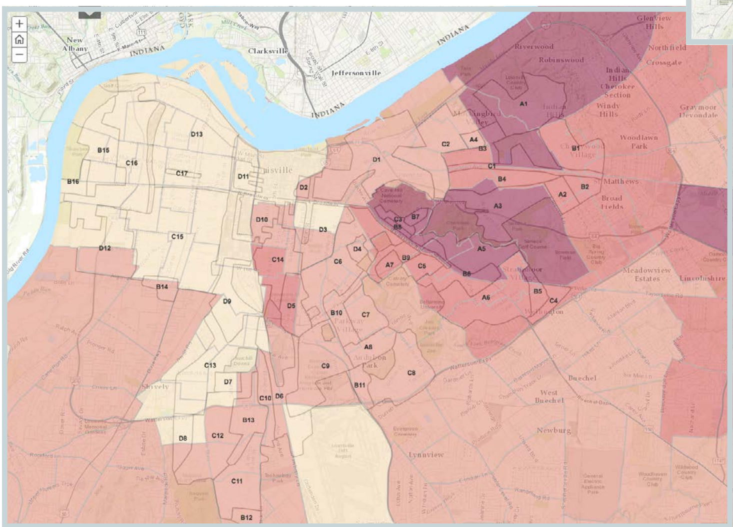
HOLC Neighborhood Descriptions

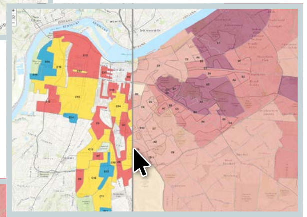
A First Grade | B Second Grade | C Third Grade | D Fourth Grade



Average Residential Property Values by Census Tract

> $295k to $509k | > $164k to $295k | > $56k to $164k | $0 to $56k





^ The site features an interactive slider that allows the user to overlay the HOLC map with the comparative data.

SOURCE: Redlining Lousiville: The History of Race, Class and Real Estate.

Redlining Louisville Project

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white residential areas were often described as "well restricted" and having "restrictions well observed." The HOLC residential security maps were made available to private lenders and realtors but otherwise were kept confidential. Some of these maps, including those for Washington, D.C., are still missing from the national archives.

The first and perhaps most fundamental lesson we've learned is that redlining is not fiction. In fact, the practice began as a suite of federal policies that set the stage for lending practices that still impact urban communities today. Redlining was reality; the impacts of the policy are still felt today. For many of the families that survived World War II and the civil rights era, redlining was difficult to prove. Even if the practice could be substantiated, the likelihood of obtaining a just outcome or holding the offending party accountable was fairly low.

> Redlining was reality; the impacts of the policy are still felt today.

Another lesson learned is that redlining policies are contagious. What started out as a mortgage lending tool eventually led to risk management and underwriting standards for everything from property insurance to pizza delivery. Stories and experiences shared by residents and stakeholders have underscored the need to explore systematic barriers for wealth creation in underserved areas. Financial stability for millions of Americans is often predicated on the ability to open a bank account, find a neighborhood banking branch or doctor's office, or insure a home.

We've also learned that we can't ignore or undo the damage from lost time and opportunity. When thriving minority businesses and successful entrepreneurs on Old Walnut Street in Louisville's historic Russell neighborhood were forced to shut down by urban renewal in the late 1960s, the potential for intergenerational wealth building and progressive role modeling was adversely impacted. Those of a certain generation can only imagine what west Louisville might look like today if those displaced business owners and their families had been able to get the financing needed to set up in other local neighborhoods.

Our last lesson is that redlining can be a state of mind. When consumers are uninformed about their options and investors are uninformed about their opportunities, market failures can be a reality. It is important to examine the notion of implicit bias and to abandon "redline thinking." Each of us should consider what we are willing to wager, whom we are willing to wager on, and why that is so. These questions enable us to open our minds to the possibility of making bold, courageous, game-changing decisions on how we invest our resources and where we spend our time. Doing otherwise is to impose a self-fulfilling prophesy on many members of our community.

Let's acknowledge that systemic devaluation and disinvestment in urban-multicultural communities was based on race and class. Let's recognize that both public and private entities are in a position to help facilitate a concentrated effort toward reinvestment in these areas. Let's understand that strategic, mission-based, equitable investments can become a remedy for violence and a catalyst for hope in resilient neighborhoods.

The Redlining Louisville project has opened up honest dialogue on our community's collective history. Over the next several months, Louisville Metro will join forces with numerous community partners to continue the dialogue on the impact of past and present redlining practices. We will engage the community in an effort to develop innovative strategies and new resources that provide parity, possibilities and wealth-building opportunities for our entire community.

We invite you to visit our interactive story-map, Redlining Louisville: The History of Race, Class and Real Estate, where you can experience the impacts of historical redlining practices on poverty, segregation, property abandonment and other neighborhood characteristics.

Jeana Dunlap is the director of Redevelopment Strategies at Louisville-Jefferson County Metro Government. Joshua Poe is an urban planner and independent researcher using GIS and planning principles to facilitate social justice and revitalization. He developed the interactive map that was the impetus for the Redlining Louisville project.

Harvard University's Map of the Month: Redlining Louisville

"Redlining Louisville: The History of Race, Class and Real Estate" is the first selection by the Ash Center for Democratic Governance and Innovation at Harvard's John F. Kennedy School of Government in its effort to recognize "best-in-class data visualizations created by all units of government as well as nonprofit organizations." The Map of the Month contest was introduced in June; Louisville was selected out of several dozen submissions. A selection committee scored and ranked the entries based on criteria such as the ability to make policy impact with a map, its public value and use as an education tool. Redlining Louisville was selected for its "outstanding use of data combined from multiple sources, including historical data, its creativity and effective communication to the public and the policy implications it is likely to have moving forward." For more information, please visit http://datasmart.ash.harvard.edu/news/article/map-of-the-month-redlining-louisville-1062.

Community-Based System Dynamics:
An Essential Tool in the Community Development Toolbox

By Ellen O'Neill

The world of community development is often complex, requiring savvy professionals able to navigate a complicated web of interdependent issues such as housing, generational poverty, financial capability, social and economic mobility, employment and education. As community development professionals, we trade in systems—systems of complex social problems hosting many different actors, policies, programs, assets and resources. Donella Meadows, a scholar in the field of system dynamics, defines a system as a set of things—people, cells, molecules, etc.—interconnected in such a way that they produce their own pattern of behavior over time. The communities we serve are not facing challenges accompanied by simple solutions. We operate in complex systems, no matter which community we call ours. This is why community-based system dynamics (CBSD) is a critical tool in our professional community development toolbox.

CBSD brings stakeholders together in a calculated, structured facilitation designed to improve our understanding of systems at play in our communities. It is a participatory approach that includes communities in the process of understanding and changing systems from the endogenous perspective of system dynamics. Informal maps and formal, simulated models are used to uncover and understand sources of behavior with the goal of solving problems by improving the mental models individuals possess. CBSD is about engaging communities, helping them create models leading to system insights and solutions, stakeholder empowerment, and mobilization of communities to advocate for, and implement changes based on, these insights.[1]

A mental model of a system, it is worth noting, is a cognitive representation of the real system. We use mental models to navigate the world from the time we wake up to the time we fall asleep. Frequently, we rely on mental models to solve a wide variety of problems and to make sense of the world around us. Mental models of a system can be very useful. For example, an accumulation of dirty dishes in the sink is accompanied by a mental model of the system that produced an excess of dirty dishes. This mental model could include the presumption that someone else will do the dishes, a supposed scarcity of dish soap or a perceived lack of time to clean the dishes. The factors that comprise our mental models dictate how we approach solving the problem, regardless of the accuracy of our model.

There is nothing wrong with relying on mental models. In fact, it would be impossible to successfully navigate an entire day without relying on our own personal models. However, there are times when flawed mental models can contribute to the problems we are experiencing. In these situations, specifically pertaining to community development, we are making decisions relying on the wrong set of assumptions, perceptions and inferences, which are, in turn, not solving problems and often making matters worse.

The focus of CBSD is on understanding and solving problems by challenging mental models held by individual participants in the session. Informal maps and formal simulation models provide a means to make our mental models more explicit and test assumptions. Often, the process of developing the model leads to counterintuitive insights about the structure and behavior of a system, which leads to solutions that challenge conventional wisdom and approaches to community development.

Recently, the Federal Reserve Bank of St. Louis convened six CBSD sessions—two each in St. Louis, Evansville, Ind., and Memphis, Tenn.—to discuss financial decision-making and well-being among underserved populations. Each session was approximately three hours long, culminating in the development of a model. These sessions allowed stakeholders to challenge and adjust their mental models of financial decision-making and well-being, identify unintended consequences of the system and uncover connections between previously unconsidered

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Perhaps it is time to apply a new tool to community development that allows us to challenge our mental models, help us uncover sources of system behavior and empower our communities to advocate for change in the process.

Community-Based System Dynamics

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determinants of financial health. It challenged participants to venture outside of a traditional cause-and-effect, linear conceptualization of the world and, as a result, to adapt their mental models accordingly.

We all intuitively know how to navigate systems; we function as part of an infinite number of systems in our daily lives. The mental models we have built as community development professionals regarding housing, generational poverty, financial capability, social and economic mobility, employment and education frequently dictate our attempts to solve these challenges. Perhaps it is time to apply a new tool to community development that allows us to challenge our mental models, help us uncover sources of system behavior and empower our communities to advocate for change in the process. By engaging in rigorous contemplation of the systems and mental models driving our communities, we can begin to develop sustainable, effective social policies and interventions.

ENDNOTES

1 Hovmand, Peter: *Community Based System Dynamics*, Springer, 2014.

About the Author

Ellen O'Neill is a project manager for the Center for Social Development at Washington University in St. Louis. Previously, she served as an intern in the Community Development department at the Federal Reserve Bank of St. Louis, where she was involved in many aspects of the field, including devising and conducting a system dynamics study of underserved and unbanked communities in St. Louis, Memphis, Tenn., and Evansville, Ind. She also served as a practicum student for Prosperity Connection, focusing on issues of financial health and well-being for underserved or marginalized populations. O'Neill began her career in social work at a nonprofit center in Burlington, N.C., where she served as a domestic violence crisis counselor. Struck by the larger systemic problems facing her clients, she decided to leave direct case management to pursue a master's in social work, focusing on economic and social development, policy and system dynamics. O'Neill received her master's degree in social work from the Brown School of Social Work at Washington University in St. Louis. She holds a bachelor's degree from Elon University in North Carolina.

Thinking Big—And Thinking Small

By Ray Boshara

There's a lot of big and bold thinking going on these days among my colleagues at the Federal Reserve Bank of St. Louis and the Aspen Institute Financial Security Program.

At the Asset Funders Network conference in May, Aspen's Financial Security Program Executive Director Ida Rademacher observed that the field's well-intentioned and commendable efforts to reduce hardship and make it "less expensive to be poor" have unintentionally led to a "transactional rather than a transformational mindset about the goals of this work"; that the field's good solutions were "palliative rather than curative"; and that its necessary and laudable efforts to respond to adverse financial volatility and shocks in the shorter term have detracted from the field's underlying and more fundamental challenge of achieving financial well-being in the longer term. The challenge, Ida memorably observed, is not unlike responding to extreme weather (hurricanes, tornadoes, floods, etc.) at the expense of tackling climate change, which of course contributes, in part, to extreme weather. She noted, "We cannot resolve either the short- or long-term financial challenges families struggle with today until we address the underlying issues that are shrinking both the income and wealth shares of American workers." That's correct, and of course requires, *inter alia*, a broader distribution of productivity gains, larger and more targeted investments in human capital development and stronger mediating institutions—all bold and ambitious goals themselves.

Underlying Issues Are Shrinking Both Income and Wealth Shares of American Workers

Then in late May, my colleagues at the St. Louis Fed's Center for Household Financial Stability, William Emmons and Lowell Ricketts, publicly argued that "structural" responses—such as permanent desegregation of housing and schools, affirmative action in education and employment, and rigorous and targeted financial education and consumer protection—were needed to address the large and persistent racial wealth gap in the U.S., itself heavily influenced by group norms that may reflect structural and systemic barriers accumulated over centuries. This was bold because Bill (our Center's lead economist) and Lowell (our Center's lead analyst) sharply challenged the predominant but debatable "post-racial" assumption among economists—and certainly among Fed economists—that blacks and whites face similar choices and opportunity structures, implying that if blacks simply chose as well as whites have they would have more wealth. Well, the racial wealth gap is too large and too persistent for freedom of choice and equality of opportunity to be plausible; more plausible is that each group has distinct shared experiences that in turn shape their opportunities to build wealth. So we have to reshape those structures that shape opportunity—also bold and ambitious goals.

Thankfully, we've faced daunting challenges before and yet managed to achieve "bold and ambitious" reforms: in America's Progressive Era, that roughly 30-year period beginning with the depression of the early 1890s.

As Phil Longman and I describe in our 2009 book, *The Next Progressive Era*, the late 19th century was an era of rapid technological change; stunning advances in science; rising fundamentalism; gaping inequality; double-digit unemployment; networks of violent nonstate actors; a health care system in crisis; a new era of infectious disease; massive consolidation among corporations; new mediums spreading violent and obscene images; widespread, nefarious lending practices and rising debt levels among the middle class; and development of a massive, cheap energy source along with mounting concerns about the environment. Sound familiar?

Now let me share with you some of what Progressives achieved and the enduring institutions they created. They seriously reduced the role of money in politics; reformed the health care system; dramatically reduced rates of infectious disease; tamed the drug industry; created a regulatory regime for Wall Street and the banking sector that prevented any need for massive taxpayer bailouts, including the creation of the Federal Reserve System; stopped predatory lending; created credit unions; enacted the Pure Food and Drug Act and the consumer safety movement; instituted the federal, progressive income tax system; forestalled the growth of terrorism and rationalized immigration; engineered a massive conversion to cleaner, cheaper energy; restored public trust in government; ended child labor; gave women the right to vote; universalized public high school education; instilled an ethic of thrift, conservation and public service; and left no legacy of public debt. Not bad, huh?

> The racial wealth gap is too large and too persistent for freedom of choice and equality of opportunity to be plausible; more plausible is that each group has distinct shared experiences that in turn shape their opportunities to build wealth.

Of course, the Progressives failed on many fronts as well. But we can be inspired by and learn from them, especially their commitment to relentless experimentation. This actually might be the most important lesson for today's big thinkers. Progressives certainly had big, bold and ambitious ideas, but their national reforms were more often achieved by first trying and scaling up smaller innovations at the local and state levels. Among the most prominent experiments was the "Wisconsin Idea," which pioneered policies for worker's compensation, progressive income taxes, the direct election of senators, protections against police brutality and prohibiting pollution, to name a few.

A Small or Modest Innovation Can Become the Basis for State and National Policy

So, yes, think big—and think small. And by small I don't mean a small idea, but a big idea that starts as a small or modest innovation—a regulatory, product or program tweak (e.g., changing a savings default setting from opt-in to opt-out), or a policy innovation (e.g., starting a 529 college savings account automatically at birth)—that could become the basis for state and national policy. Indeed, states have always been laboratories of democracy, and may even be more so in the current environment. So let's keep pursuing those new, testable and scalable ideas that increase income and wealth shares for workers on the wrong side of globalization. And let's keep thinking about the modest but scalable innovations that reshape economic opportunity for struggling Americans.

Of course, it's hard to know when the stars will align to make it possible for modest innovations to become big, bold national policies. But being ready for that moment is key for, as Mark Twain is said to have observed, history may not repeat itself, but it often rhymes.

Ray Boshara is a senior adviser and the director of the Center for Household Financial Security at the Federal Reserve Bank of St. Louis, and a senior fellow in the Financial Security Program at The Aspen Institute.

Reprinted from The Aspen Institute: Boshara, R. (2017, July 6). Thinking Big—And Thinking Small [Blog post]. Retrieved from www.aspeninstitute.org/blog-posts/thinking-big-small.

Opportunity Knocks:
Socially Underwriting the Small-Dollar Mortgage

By Roshun Austin and Carla Jarrell

When Pinnacle Bank entered the Memphis market through their acquisition of Magna Bank, the community development team began to meet with community leaders. They kept hearing one thing over and over again: "We need a source for small-dollar mortgages. We have a lot of homes that are available for sale for less than $50,000, but we can't find a lender that will make these mortgages." The Pinnacle team immediately started to focus on how to get that money into the market. They worked with two nonprofits in the Memphis area to begin small-dollar mortgage pools. This is the story of one of those partnerships.

Home Loan Opportunity Fund

Pinnacle Financial Partners and The Works Inc. have formed a unique partnership to provide small-dollar home loans to low- and moderate-income (LMI) individuals. Many people, despite having acceptable credit and the ability to repay, find it difficult to obtain first-mortgage loans at all, let alone at reasonable rates. Given this reality, there is a tremendous need for a new solution in Memphis.

The current lack of availability of these loans is the result of a number of factors. Given their small-dollar amount, these mortgages offer financial institutions little return for the same level of underwriting effort and administration as larger loans that provide a greater return. These loans are often more difficult to underwrite than a typical larger-dollar transaction in more affluent communities with higher median incomes. The challenges for financial institutions in originating these small loans have also been exacerbated by the global financial crisis and resulting new regulation, some of which had the consequence of making it less likely that financial institutions would originate these types of mortgages. In a laudable effort to eliminate predatory lending, fees and closing costs are included in the calculation of the consumer's effective interest rate. Because many of these costs are fixed (legal, appraisal, etc.), they are a larger percent of the smaller mortgage amount. Therefore, small-dollar loans may give the false impression of being predatory.

Many people, despite having acceptable credit and the ability to repay, find it difficult to obtain first-mortgage loans at all, let alone at reasonable rates.

Solution

One solution is the partnership between The Works and Pinnacle. The Works is a long-standing not-for-profit organization with deep roots in the community and specific experience in mortgage loan origination, credit counseling and loan servicing. The organization became a nonprofit mortgage brokerage in early 2006 through their Safe Loans program. In February 2007, The Works was licensed as the first nonprofit mortgage brokerage in both Tennessee and Mississippi. In one year of operation, the Safe Loans program generated more than $1.2 million in total loans and received FHA certification. Unfortunately, this program was discontinued due to the global financial crisis. However, The Works gained valuable experience in the implementation and administration of an effective mortgage loan program.

As a pilot program, Pinnacle Financial Partners, the second-largest Tennessee-based bank, provided $500,000 in initial funding for the Home Loan Opportunity Fund. However, the intention is to expand the program with additional funding based on its success and market demand. Working directly with individuals, The Works will provide credit counseling and assist in the application process. The organization will also continue to be involved with mortgage clients as an ongoing resource. Pinnacle, in concert with The Works, will provide servicing for the loans that are originated.

Structure

Pinnacle's initial investment financed the mortgage loan pool through Tennessee's Community Investment Tax Credit program. The investment was priced at prime minus 4 percent, which resulted in the investment having an interest rate cost of 0.25 percent to The Works based on current rates. The investment has an initial term of seven years with automatic one-year extensions until otherwise notified by Pinnacle. Once notice has been provided, a repayment structure will be agreed upon and the loan set on an amortizing term note.

As payments are received on the individual mortgage loans, they will be applied to any interest due on the Pinnacle investment with the remainder contributed to the loan loss reserve fund. The reserve fund will be owned by The Works and pledged as collateral to the investment. The reserve fund was prefunded and maintained at a level of 10 percent of the outstanding mortgage loan pool. These funds are available to cover any actual losses incurred on the individual mortgages. Excess reserve funds are available to The Works to increase the program, cover operating costs or apply to other programs.

Results

The Home Loan Opportunity Fund was officially launched in January 2017. Since the initial meeting with potential borrowers in January, 58 borrowers have applied, and the approval rate is 24 percent (14 loans). Applicant preapproval loan amounts ranged from $35,000 to $50,000, with the majority receiving $50,000. The first two loans closed in late May 2017, less than six months after the program was initiated. The Works will maintain detailed information on the applicants and loan performance to build a case for small-dollar mortgages and to encourage CRA-qualified investment from other financial institutions into similar loan pools, expanding opportunity for LMI borrowers.

Roshun Austin is the president and CEO of The Works Inc. Carla Jarrell is the community development officer at Pinnacle Financial Partners.

Communities and Capital:
A Foundation for Success

By Deborah Temple

Communities Unlimited—Our Story

Over the last three years, Communities Unlimited (CU) has forged new approaches to community economic development that are built on the passion and decades of experience within Community Resource Group—a nonprofit that helped rural communities solve water and wastewater problems—and alt.Consulting—a nonprofit that provided on-site training and management assistance to small businesses. These two nonprofits and community development financial institutions (CDFIs) merged in October 2014 to create an integrated service delivery model for rural communities in the South to address infrastructure needs, drive economic development through entrepreneurship, and support community leadership teams implementing development plans.

CU's mission is to move communities in areas of persistent poverty toward sustainable prosperity. In a seven-state target market from Texas to Tennessee that includes 45 percent of the persistent poverty counties in the United States, this is a bold mission that drives CU's work every day.

Communities Unlimited—Our CDFI

It is easy to see differences between an organization working with water and wastewater systems and another working with small businesses. Instead, our leaders saw opportunities. One of the biggest surprises of the merger was the similar history and approach of the two CDFIs. Both organizations got their start by offering on-site technical assistance and training, and both decided to begin making loans when their target market could not access the needed capital to ensure safe drinking water or to grow small businesses. Both organizations worked to solve concrete problems, both believed in expanding resources for at-risk communities and both were passionate about their mission.

Growing the newly combined CDFI is one strategy for deepening CU's impact in communities, in part because of our collaboration

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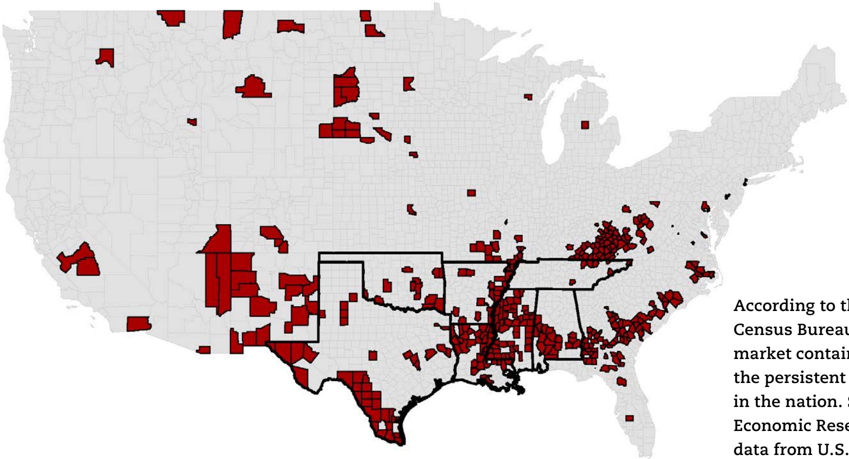
Persistent Poverty Counties



According to the latest U.S. Census Bureau data, CU's target market contains 45 percent of the persistent poverty counties in the nation. SOURCE: USDA, Economic Research Service; data from U.S. Census Bureau

Communities and Capital

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with many lenders across our target market and the expertise they share. Bankers comprise the majority of our commercial loan committee and they provide invaluable guidance and feedback to help us manage risk while making the difficult loans—from the startup loan to an entrepreneur attempting to lift a family out of poverty to the emergency loan needed by a rural town to continue to provide safe drinking water to its citizens after a flood washed out the waterlines.

The unique value that CU provides is our deep connection to the borrower through technical assistance. Our team works with the business and/or community to clearly understand their financing need, cash flow, pricing and accounting to ensure they can repay their loan through profits. These relationships allow CU to take more risk and fill gaps by making multiple loans that grow with the client over time and by leveraging larger loans through our network of lending partners in the region.

Using this model, CU works closely with existing and new partners serving our target market. These partnerships support our CDFI work and include program-related investments (PRIs) from foundations like the Mary Reynolds Babcock Foundation, the Winthrop Rockefeller Foundation and the Arkansas Community Foundation, which made its first PRI to benefit CU's loan fund. These investments work in concert with loans from financial institutions like Bank of America, Wells Fargo and Arvest. With these funds, CU has made loans ranging from $2,500 to $450,000. Examples include:

- $45,000 to a small heating and air conditioning business that increased sales, leading to three new jobs in a rural town;
- $152,000 to build infrastructure to connect 11 rural households with problem wells to the city of Fayetteville's water system; and
- $32,000 to a multistakeholder cooperative in the Arkansas Delta to expand a biodiesel business in a very rural farming town.

Communities Unlimited—Our Work

At the heart of our work is the vision of vibrant, thriving communities and neighborhoods in which all individuals can sustain their livelihoods, enjoy a good quality of life and build wealth. CU supports this work through an integrated service delivery model that targets three mission areas:

- Community Sustainability—Strategic business and community development strategies
- Entrepreneurship—Helping small businesses grow, sustain and create jobs
- Environment—Clean and safe drinking water and sanitary wastewater disposal for communities

Tools and services (e.g., loans through our CDFI), together with technical assistance to communities and businesses, training and GIS mapping are integrated to provide deeply impactful assistance to enable sustainable growth.

For more information about our work, please visit www.communitiesu.org.

Among other projects, Communities Unlimited has provided loans to build infrastructure and to expand a biodiesel business in a rural farming town.

CDAC Member Spotlight

Deborah Temple is the director of entrepreneurship at Communities Unlimited (CU), leading the entrepreneurship team and managing its business lending. She has extensive experience in business and banking and has used her background in small-business development and management to build strong capital programs for small-business lending.

Over the past 13 years, Temple has been an integral part of the growth of the entrepreneurship work of CU, including the development of business lending models and the expansion into regional economic development initiatives that work with entire communities, creating a framework for supporting many small-business owners. She is a member of the Community Development Advisory Council (CDAC) for the Federal Reserve Bank of St. Louis.

CDAC members are experts in community and economic development and financial education. They complement the information developed through outreach by the Eighth District's Community Development staff and suggest ways that the St. Louis Fed might support local efforts. A list of current members is available at www.stlouisfed.org/community-development/community-development-advisory-council.

Reviewing Community Development Activities for the Four Ws

This article is part of a series on CRA best practices from an examiner's perspective. Although this column focuses on CRA best practices for financial institutions, the content may provide insights to community development organizations working with financial institutions to meet credit and community development needs. As a disclaimer, this series is only meant to represent best practices; financial institutions should consider the information presented in context of the requirements or guidance of their primary regulator and the business needs of their financial institution.

By Douglas Yarwood

Just as in other areas of examination, periodic review and monitoring of CRA community development activities makes sense. It allows an institution to gauge its current level of performance and adjust as necessary to achieve its CRA goals at the next evaluation. Successful community development programs include periodic reviews and monitoring of activities to ensure they address what I term the Four Ws (Who, Where, When and Why).

Proactive processes begin with clearly identifying the "who" and "where" of the activity and how these factors were considered according to the five CRA community development purposes:

- Affordable housing for low- and moderate-income (LMI) individuals
- Community services targeted to LMI individuals
- Activities that promote economic development by financing small businesses and small farms
- Activities that revitalize or stabilize LMI geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas
- Loans, investments and services that support, enable or facilitate Neighborhood Stabilization Program-eligible activities in communities affected by high levels of foreclosures and designated as target areas in plans approved by the U.S. Department of Housing and Urban Development

The review of "when" is important to ensure the activity benefits the assessment area during the evaluation period. Clear identification of "when" helps examiners determine the responsiveness of activities in consideration of related performance context regarding significant needs of the assessment area. Additionally, time limits on disaster areas[1] and criteria for distressed and underserved nonmetropolitan middle-income areas[2] should be considered to ensure new activities will still qualify. Similarly, review of "when" helps these institutions identify the impact of maturing qualified investments in consideration of their CRA investment goals.

Lastly, the monitoring process should ensure documentation clearly captures "why" the activity was considered responsive, innovative and/or flexible in meeting the specified needs of the assessment area at the time of occurrence. By performing periodic monitoring of activities for "why," institutions are more successful in capturing essential supportive details of the activity that were not captured at the time of occurrence. The periodic monitoring of documentation alleviates the frustrations associated with changes in key players (e.g., loan officers or intermediaries) and website addresses that are relied on for information.

Douglas Yarwood is a senior examiner at the Federal Reserve Bank of St. Louis.

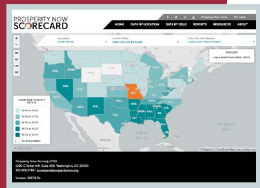
ENDNOTES

1 CRA Q&A disaster areas§___ .12(g)(4)(ii)

2 CRA Q&A distressed and underserved areas §___.12(g)(4)(iii)

HAVE YOU Heard?

2017 Prosperity Now Scorecard Available



Released annually, the *Prosperity Now Scorecard* (formerly the CFED *Assets & Opportunity Scorecard*) equips advocates, policymakers, service providers and others with data on how residents in states, counties and cities across the nation are faring when it comes to their financial health, as well as on state-level policies that could be enacted to put all U.S. households on stronger financial footing. The measures—many of which are disaggregated by race to help close the racial wealth divide—span five distinct issue areas: Financial Assets & Income, Businesses & Jobs, Housing & Homeownership, Health Care, and Education. For more information, visit http://scorecard.prosperitynow.org.

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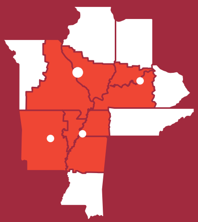
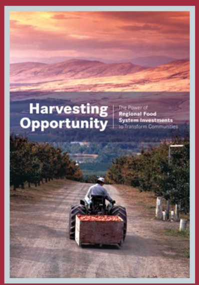


S P A N N I N G
the Region

The region served by the Federal Reserve Bank of St. Louis encompasses all of Arkansas and parts of Illinois, Indiana, Kentucky, Mississippi, Missouri and Tennessee.

Harvesting Opportunity: The Power of Regional Food System Investments to Transform Communities



The Board of Governors of the Federal Reserve System, the Federal Reserve Bank of St. Louis and the U.S. Department of Agriculture have released this publication, which focuses on regional food systems as a means for enhancing economic opportunity. It explores new insights into the potential for regional food systems to promote economic growth for both rural and urban communities through the creation of new or the enhancement of existing jobs and businesses. It also highlights how appropriately targeted policies and support can harness regional food system investments to advance the economic and financial security of low- and moderate-income households and communities.

Harvesting Opportunity can be viewed separately by chapter or downloaded in its entirety on the book's webpage—www.stlouisfed.org/harvesting-opportunity.

Resources . . .

Regional Research

The St. Louis Fed's Economic Research department has created a webpage that hosts all of the Bank's regional research reports. It highlights notable data releases and includes blog posts and other regional reports. Regular updates include the Housing Market Conditions report, The Quarterly Debt Monitor, The Beige Book, Agricultural Finance Monitor, The Regional Economist industry profile and The Regional Economist District overview. Visit https://research.stlouisfed.org/publications/regional-research.

State Workforce and Economic Development: Opportunities for Collaboration

The Urban Institute released a report and fact sheet on states' efforts to integrate workforce development programs with economic development interests. Several case studies are summarized as best practices. The fact sheet is available at www.urban.org/research/publication/state-workforce-and-economic-development-collaboration; the full report can be downloaded at www.urban.org/sites/default/files/publication/86131/2001004-state-workforce-and-economic-development-opportunities-for-collaboration_1.pdf.

First-Time Homebuyer Market Report

Using a combination of government and mortgage industry data, this report provides estimates of the size of the first-time homebuyer market going back to 1994 (20.1 million). The data provides a historical perspective on the first-time homebuyer market as well as important recent trends. Access the report at https://miblog.genworth.com/wp-content/uploads/2017/06/Genworth-FTHB-Market-Report-6.17.pdf.