



# bridges

WINTER 2017-18

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## New St. Louis Fed Tool Dives Deep into Community Investment

By Michael Eggleston

It might come as a surprise to learn the following:

- The New Markets Tax Credit (NMTC) program was critical to financing New Orleans' recovery after Hurricane Katrina. In the five years preceding Hurricane Katrina, New Orleans received nearly the same amount of NMTC investment as did Tulsa, Okla. (See Figure 1.) In the five years post-Katrina, New Orleans received \$1.2 billion in NMTC investment while Tulsa received \$68 million. (See Figure 2.)
- Arkansas, Illinois, Mississippi and Missouri had among the lowest average interest rates in the nation on small-business loans originated by Community Development Financial Institutions (CDFIs) in 2015. (See Figure 3.)
- Wisconsin is a national leader in NMTC and CDFI investment into nonmetro, rural communities.
- El Paso, Texas, leads all metros for CDFI consumer lending.

You can dive deeper into these and other stories through the St. Louis Fed's new Community Investment Explorer (CIE),

FIGURE 1

### NMTC Investment (2001-2005)

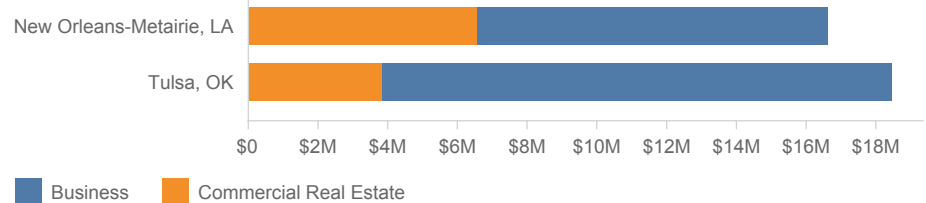
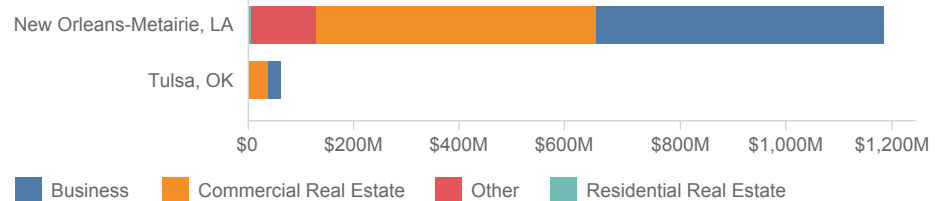


FIGURE 2

### NMTC Investment (2006-2010)



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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.

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##### Policy and Analysis Team

- Daniel Davis, Assistant Vice President and Community Affairs Officer, *Bridges* Managing Editor
- Michael Eggleston, Senior Community Development Specialist—Community Development Finance
- Lisa Locke, Senior Community Development Specialist—Small Business
- Jeanne Marra, Senior Community Development Specialist—Financial Access, Capability and Empowerment
- Drew Pack, Senior Community Development Specialist—Workforce Development
- Faith Weekly, Senior Community Development Specialist—Neighborhoods and Housing
- Ted Floros, Intern

##### CRA Team

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- Kathy Moore Cowan, Senior Community Development Specialist—CRA
- Teresa Cheeks Wilson, Senior Community Development Specialist—CRA

##### Center for Household Financial Stability

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- William Emmons, Lead Economist and Assistant Vice President
- Ana Kent, Policy Analyst
- Lowell Ricketts, Senior Analyst

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For contact information, please visit [www.stlouisfed.org/community-development/staff-directory](http://www.stlouisfed.org/community-development/staff-directory).

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## APRIL 2018

**2-8** **2018 National Community Development Week National**  
**Sponsor:** National Community Development Association (NCDA)  
**Visit:** <http://ncdaonline.org/2018-national-community-development-week>

**9-12** **Enhancing Rural Innovation: 11th OECD Rural Development Conference Edinburgh, Scotland**  
**Sponsor:** Organisation for Economic Co-operation and Development (OECD)  
**Visit:** [www.oecd.org/rural/rural-development-conference](http://www.oecd.org/rural/rural-development-conference)

**23-25** **Black Communities: A Conference for Collaboration Durham, N.C.**  
**Hosts:** Institute for African American Research, NCGrowth, Southern Historical Collection, Center for the Study of the American South, Kenan Institute of Private Enterprise  
**Visit:** <http://blackcommunities.unc.edu/INDEX.PHP/EVENT-REGISTRATION>

**25** **Workforce Development and CRA: An Interagency Training Event for Nonprofits and Financial Institutions Louisville, Ky.**  
**Sponsor:** Federal Reserve Bank of St. Louis, Federal Deposit Insurance Corp. (FDIC), Office of the Comptroller of the Currency (OCC)  
**Visit:** [www.cvent.com/d/qtqbw0/4W](http://www.cvent.com/d/qtqbw0/4W)

## MAY 2018

**18-20** **Regards to Rural 2018: Bridges Between Rural & Urban Portland, Ore.**  
**Sponsors:** Multiple  
**Visit:** <http://r2r.rdiinc.org>

**23-24** **Is College Still Worth it? Looking Back and Looking Ahead St. Louis, Mo.**  
**Sponsors:** Center for Household Financial Stability, Community Development at the Federal Reserve Bank of St. Louis  
**Visit:** [www.cvent.com/d/2tqgym](http://www.cvent.com/d/2tqgym)

## JUNE 2018

**24-27** **World Community Development Conference 2018 Participation, Power and Progress: Community Development towards 2030—Our Analysis, Our Actions Kildare, Ireland**  
**Sponsors:** International Association for Community Development (IACD), Community Work Ireland, Maynooth University  
**Visit:** <http://www.iacdglobal.org/event/world-community-development-conference-ireland-2018>

## New St. Louis Fed Tool Dives Deep into Community Investment

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an interactive tool. CIE aggregates over 500,000 transactions from three programs that drive investment into underserved communities—the Low-Income Housing Tax Credit (LIHTC), CDFI and NMTC programs. Collectively, these programs are responsible for several billion dollars of investment into underserved communities each year. The investments support a range of activities, from affordable housing to commercial real estate development, consumer and business lending, and more.

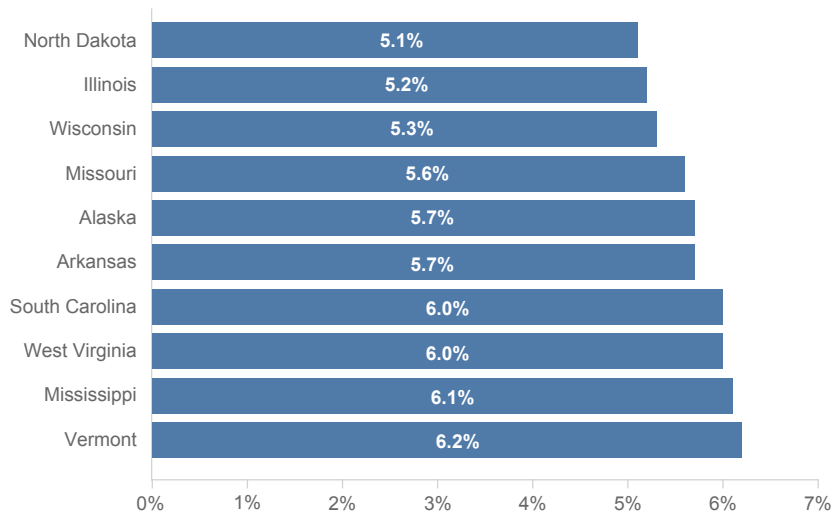
The CIE was built to show geographic comparisons and trends over time in a way that is easily customizable. For example, some users will view the full range of investment activity; others, only business and commercial real estate loans. Some users will be interested in LIHTC data only related to developments that are new construction; others will want to see the entire range of construction types. Data can be customized for time (only one or two particular years or all available years) and geography (e.g., state-level comparisons, metropolitan statistical area (MSA) comparisons, non-MSA comparisons). Within each geography type, the user may select as many or as few locations to analyze as desired.

### Affordable Housing

The CIE shows how prevalent government loans and subsidies are in the development of affordable housing that utilizes the LIHTC program, which would be of interest to public officials, affordable housing developers, policymakers and tax credit investors. Subsidy, beyond tax credits, is often necessary to build affordable housing. The CIE shows exactly what type of subsidies in different markets tend to fill financing gaps that allow deals to close and, therefore, affordable housing to be built. Also, the ability to see when a subsidy is

FIGURE 3

### Top Ten States with the Lowest Average Interest Rate on CDFI Small Business Loans, 2015



most needed can be helpful to public officials and policymakers as they take into consideration funding levels for various programs. Likewise, the CIE provides stakeholders with a good understanding of how often, in which markets, and when FHA and USDA loans are utilized to finance affordable housing.

In addition to analyzing data from LIHTC transactions, those in the affordable housing field can determine the degree to which CDFIs are engaged in financing affordable housing. The CDFI dataset allows users to see not only the total amount of CDFI investment into affordable housing, but also the terms of the investments. This information could be valuable for developers, who are responsible for arranging the financing to build affordable housing. A developer can focus solely on CDFI-financed affordable housing transactions and drill down to particular locations and years. From there, the

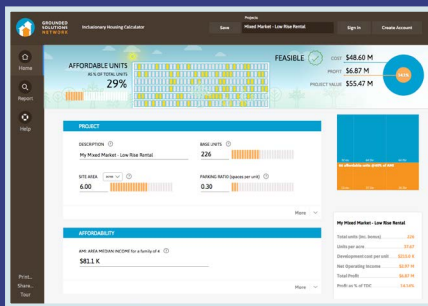
developer can learn the average interest rate, the typical guarantee, if any, that is required, the typical lien position and more. Equally as important, affordable housing developers will perhaps have a stronger understanding of the opportunity to partner with CDFIs to finance affordable housing developments in the future.

### Commercial Real Estate

Commercial real estate developers, community development entities, commercial real estate owners, policymakers and economic developers who are focused on and/or operating in underserved areas will find particular value in the NMTC and CDFI datasets. As previously noted, the CDFI dataset has a rich amount of information on the investment amount and terms of commercial real estate transactions. While the NMTC dataset

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# Resources . . .



## Inclusionary Housing Calculator 2.0

This tool powered by Grounded Solutions Network is designed to allow communities to explore the relationship between various local incentives and the development of mixed-income housing. To launch the new calculator, visit <https://inclusionaryhousing.org/calculator>.

## Open Vault Blog

The *Open Vault* blog explains everyday economic concepts and provides a look at the people and programs that make the St. Louis Fed central to America's economy: [www.stlouisfed.org/open-vault](http://www.stlouisfed.org/open-vault)

## On the Economy Blog

*On the Economy* features relevant commentary, analysis, research and data from St. Louis Fed economists and other experts: [www.stlouisfed.org/on-the-economy](http://www.stlouisfed.org/on-the-economy)

## FRED Blog

The FRED blog includes insight on economic themes and data: <https://fredblog.stlouisfed.org>

## New St. Louis Fed Tool Dives Deep into Community Investment

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doesn't have the same level of detail on deal terms, it does show how much investment supported commercial real estate development in underserved areas. Furthermore, the dataset shows how much of the total project cost was reliant on NMTC financing. As a result, stakeholders will perhaps have a better understanding of the opportunity and impact of the CDFI and NMTC programs as they

to the amount and terms of consumer lending by CDFIs across the U.S. Consumers and small-business owners can use this information, find a list of certified CDFIs from the Treasury Department's website and then contact CDFIs in their market to discuss how their business or personal finance needs can be met.

The CIE contains a vast amount of information on community development investment. Several different types of organizations can benefit from the ability to aggregate and

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By making this information more accessible, we hope that it becomes more efficient to raise and deploy capital in underserved communities—for affordable housing, commercial real estate development, small businesses or consumer lending.

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relate to financing commercial real estate development in underserved areas.

### Small Business and Consumer

Finally, the CDFI and NMTC programs both finance the operations of small businesses and consumers in underserved areas. Therefore, business owners in particular will find value in learning how much each program invests in small business, the terms of the investments (in the case of CDFI), and where and when those investments are taking place. As for consumers, they now have access

customize the data to meet their needs. By making this information more accessible, we hope that it becomes more efficient to raise and deploy capital in underserved communities—for affordable housing, commercial real estate development, small businesses or consumer lending.

For more information, contact Mike Eggleston at [michael.c.eggleston@stls.frb.org](mailto:michael.c.eggleston@stls.frb.org).

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Michael Eggleston is a senior community development specialist at the Federal Reserve Bank of St. Louis.

# Cash on Hand Is Critical for Avoiding Hardship

By Emily Gallagher and Jorge Sabat

Why would someone keep \$1,000 in a low-earning bank account while owing \$2,000 on a credit card that charges a double-digit percentage interest rate?

Our research suggests that keeping a cash buffer greatly reduces the risk that a family will miss a payment for rent, mortgage or a recurring bill, will be unable to afford enough food or will be forced to skip needed medical care within the next six months.

Many families struggle to make ends meet. A Federal Reserve survey estimated that almost half of U.S. households could not easily handle an emergency expense of just \$400.<sup>1</sup>

Should more families be encouraged to hold a liquidity buffer even if it means incurring more debt in the short-term?

## Linking Balance Sheets and Financial Hardship

Using a novel data set, we investigated which types of assets and liabilities predicted whether a household would experience financial hardship over a six-month period.<sup>2</sup>

The survey data that we use is particularly apt to study this question, not only because it asks the detailed financial and demographic questions that are often missing from public surveys, but also because it includes two observations for the same household.

One observation is collected at tax time and another observation is collected six months after tax time. This feature of our data set is ideal for capturing the probability that a household that is currently financially stable falls into financial hardship in the near term. Furthermore, the survey samples only from low-to-middle income households, our population of interest for understanding the antecedents of financial hardship.

We tracked families who said in the first survey that they hadn't recently experienced any of four types of financial hardship: delin-

quency on rent or mortgage payments; delinquency on regular bills, e.g., utility bills; skipped medical care; and food hardship, defined as going without needed food.

To assess whether the composition of a family's balance sheet helped predict any of these forms of hardship, we asked in the initial survey if the family had any balances in the following categories:

- Liquid assets, such as checking and saving accounts, money market funds, and prepaid cards
- Other assets, including businesses, real estate, retirement or education savings accounts
- High-interest debt, such as that from credit cards or payday loans
- Other unsecured debt, such as student loans, unpaid bills and overdrafts
- Secured debt, including mortgages or debts secured by businesses, farms or vehicles.

More details on the categories can be found in the methodology.

We controlled for factors such as income and demographics and tracked whether the roughly 5,000 families had suffered a financial shock that would affect the results.

## Results: Balance Sheets Matter

Our results are summarized in the figure, which displays the estimated effects of variations in each balance-sheet category on the risk of encountering financial hardship. Point estimates (and confidence bands around them) above zero indicate that the presence of a particular balance-sheet item increased the risk of encountering a given hardship in the next six months. Estimates below zero indicate that having the particular balance-sheet item reduced the risk of encountering hardship.

The most striking finding is how similar the balance-sheet patterns of estimated effects are across the four measures of hardship. For example, having liquid assets or other assets always predicted lower risk of encountering hardship of any kind. Having debts generally increased the risk of hardship. Among all categories, secured debt was the closest to having no predictive relationship, positive or negative.

## Cash on Hand Matters Most of All

Liquid assets had the most predictive power: Having cash on hand predicted a significantly lower risk of all four types of hardship. A \$100 increase from the mean in the logarithm of liquid assets (equivalent to a \$100 increase from a mean of \$6) is associated with a 4.6 percentage point reduction in a household's probability of rent or mortgage delinquency. This effect is sizable, considering the probability of falling into rent or mortgage delinquency within six months was 4.5 percent.

Liquid assets also significantly reduced the likelihood of entering into more common forms of hardship. The estimates shown in panels B, C and D signal that a \$100 increase in liquidity is associated with a decline in the rate of regular bill delinquency, skipped medical care, and food hardship of 8.3 percentage points, 6.3 percentage points, and 5.2 percentage points, respectively. These estimated effects are substantial relative to the probability of encountering each hardship. In our sample, 7.3 percent of households fell behind on regular bills, 10.8 percent began skipping medical care and 8.4 percent began to experience food hardship in the six-month period after the initial survey. Other assets, comprising mainly vehicles and housing, had less predictive power for hardship.

Compared to liquid assets, an increase in high-interest debt made less of a difference in

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## Cash on Hand is Critical for Avoiding Hardship

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the likelihood of falling into sudden hardship. A possible explanation is that high-interest debt exacerbates financial problems but access to it also helps households absorb expense shocks. The estimate of 2.0 in Panel A implies a \$100 increase from a mean of \$85 boosts the likelihood of rent or mortgage delinquency by 2 percentage points. This equates to a 45 percent increase in the probability of falling into rent or mortgage delinquency within six months.

The effect of other unsecured debt is slightly less than that of high-interest debt. Student debt makes up 69 percent of the average household's "other unsecured debt." The rest is mostly medical debt. The estimates in the figure indicate that a \$100 increase from the mean in the logarithm of other unsecured debt (equivalent to a \$100 increase on a mean of \$652) is associated with a 1.8 percentage point (or relative 40 percent) increase in the probability of falling into rent or mortgage delinquency. This effect is similar for the other forms of hardship measured. Finally, secured debt, which is primarily

mortgages and car loans, appears to have no consistent association with hardship.

### Holding Cash Beats Paying Debt

Our findings suggest that households should be encouraged to maintain at least a small buffer of liquid savings, even if the cash in that buffer is not being used to pay down high-interest debt.

The importance of liquidity buffers in preventing hardship suggests that households are still subject to expense shocks that cannot always be put on credit. Rent payments, for example, typically cannot be put on credit cards. There is also reason to suspect that some of the effects we document are driven by borrowing constraints. Indeed, 67 percent of households in our sample reported owning a credit card. Among those with a credit card, 50 percent reported being more than 30 days late on their payments, with a mean balance of \$3,990, and 17 percent reported a declined card transaction in the last six months.

In sum, our analysis highlights the importance of emergency savings to the financial stability of struggling households. It also suggests that households should maintain a liquidity buffer that can be drawn down when households are confronted with financial shocks.

Emily Gallagher is a visiting scholar at the Center for Household Financial Stability at the St. Louis Fed and an assistant professor of finance and real estate at the University of Colorado at Boulder. Jorge Sabat is a research fellow at the Center for Social Development at Washington University in St. Louis.

### ENDNOTES

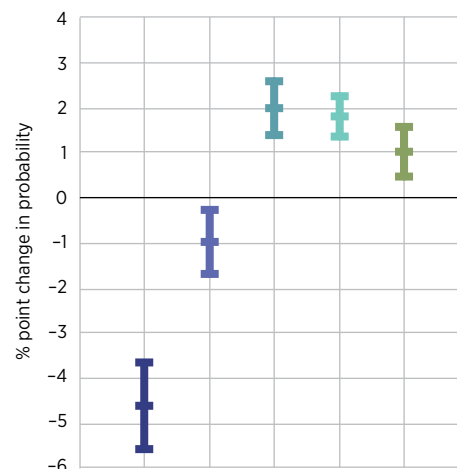
- 1 Board of Governors of the Federal Reserve System, "Report on the Economic Well-Being of U.S. Households in 2016," May 2017. See [www.federalreserve.gov/publications/files/2016-report-economic-well-being-us-households-201705.pdf](http://www.federalreserve.gov/publications/files/2016-report-economic-well-being-us-households-201705.pdf).
- 2 Gallagher, Emily; and Sabat, Jorge. "Tipping Points and the Size of Household Liquidity Buffers," Center for Household Financial Stability working paper, September 2017. The data set was made available by the Center for Social Development within Washington University's Brown School of Social Work and Public Health and are collected as part of the Refund to Savings Initiative, an ongoing partnership among Washington University in St. Louis, Duke University and Intuit Inc.
- 3 Statistical compilations disclosed in this document relate directly to the bona fide research of, and public policy discussions concerning savings behavior as it relates to tax compliance. Compilations are anonymous and reflect taxpayer-level data with the prior explicit consent from taxpayers, or do not disclose information containing data from fewer than 10 tax returns. Compilations follow Intuit's protocols to help ensure the privacy and confidentiality of customer tax data.

FIGURE 1  
Balance-Sheet Items' Effect on Risk of Hardship

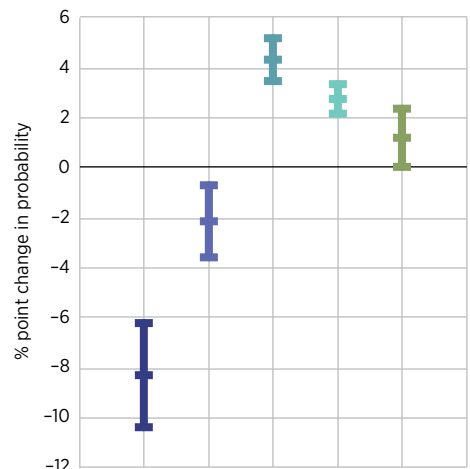
#### KEY

- Liquid Assets
- Other Assets
- High Interest Debt
- Other Unsecured Debt
- Secured debt

A. Rent/mortgage delinquency (4.5%)



B. Regular bill delinquency (7.3%)



## Methodology

Data used in this paper come from survey responses of households that used an online tax-preparation software (which is part of the [IRS Free File Alliance](#)) when filing their taxes in 2013-2017.<sup>3</sup> These households consented to their anonymized data being used for research on financial well-being. The software was offered at no cost to tax filers who had adjusted gross income of less than \$31,000, who qualified for the Earned Income Tax Credit, and/or who were active-duty members of the military with adjusted gross income of less than \$62,000. Participants responded to two surveys, one at tax-time and one six months later.

We restricted our analysis to households headed by someone aged 19-64 and who had reported at tax-time that they had not experienced one of four particular types of recent financial hardship. The follow-up survey asked about those same types of financial hardship: (1) rent or mortgage delinquency, (2) regular bill (e.g., utilities) delinquency, (3) skipped medical care, and (4) food hardship, defined as skipping needed food. To assess whether the composition of a family's bal-

ance sheet helped predict any of these forms of hardship, the initial survey asked if the family had any balances in the following categories:

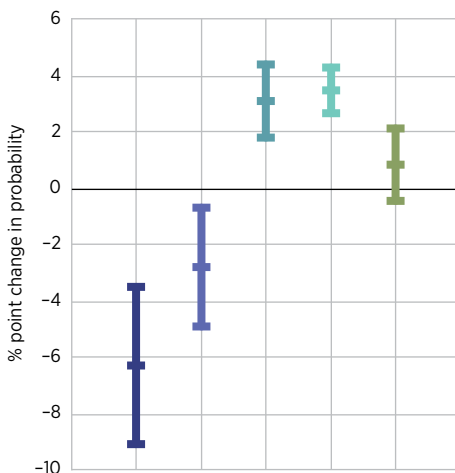
- Liquid assets (checking and saving accounts, money market funds, and pre-paid cards)
- Other assets (businesses, real estate, vehicles, retirement accounts, certificates of deposit, mutual funds, stocks, education savings accounts, loans to friends and family)
- High-interest debt (credit cards and payday loans)
- Other unsecured debt (student loans, bank loans, medical debt, unpaid bills, negative balances, and money borrowed from friends and family)
- Secured debt (mortgages, debts on property, businesses, and farms, and vehicle loans).

In the second part of the survey, we measured the probability of falling into each of the types of hardship within the next six months. This left us with between 4,423 and 7,589 observations, depending on the form of hardship considered.

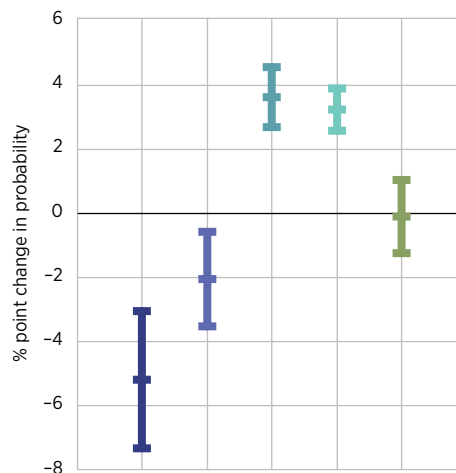
To reduce the influence of extreme responses in each of the asset and liability categories, we take the logarithm of each balance sheet variable. We controlled for each household's income; health insurance status; and demographic information, including race, age, age squared, education, parental and marital status and whether family members were students. To reduce the impact of bad luck, we kept track of whether the household reported an unexpected financial shock (car or house repair, job loss or switch, legal problem, large medical expense, natural disaster, crime and life change) in the six months following tax time. Finally, we included control variables for the state of residence of the household and for the year of the observation.

The figure shows regression coefficients on balance sheet measures and their 95 percent confidence intervals. The dependent variables, listed in the graph titles, are binary measures of financial hardship. Coefficients may be interpreted as the marginal effect on the probability of hardship of increasing in the balance sheet measure from its mean by the logarithm of \$100.

**C. Skipped medical care (10.8%)**



**D. Food hardship (8.4%)**



NOTE: The figure displays the estimated percentage point effects of an additional \$100 in each balance-sheet category, starting from its mean, on the probability of encountering financial hardship. For context, the share of the sample that encounters each form of hardship is reported in parentheses above each graph. Point estimates (and confidence bands around them) above zero indicate that the presence of a particular balance-sheet item increased the risk of encountering a given hardship in the next six months. Estimates below zero indicate that having the particular balance-sheet item reduced the risk of encountering hardship.

SOURCES: Center for Social Development and authors' analysis

Reprinted from *In the Balance*: Gallagher, Emily; and Sabat, Jorge (Issue 18, 2017). "Cash on Hand Is Critical for Avoiding Hardship." Retrieved from [www.stlouisfed.org/publications/in-the-balance/issue18-2017/cash-on-hand-is-critical-for-avoiding-hardship](http://www.stlouisfed.org/publications/in-the-balance/issue18-2017/cash-on-hand-is-critical-for-avoiding-hardship).

# Connecting a Memphis Community to the Built Environment through Equity

By Deveney Perry and John Paul Shaffer

In a typical online search for “North Memphis, Tenn.,” the web results headline stories of shootings and breaking news about police investigations. Extending this online search to images, the results illustrate a local homicide tracker and many police cars. These search results give few details to identify North Memphis as a significant community of Memphis, Tenn.—both historically and culturally, as well as being a safe, healthy and attractive place for citizens.

During the last half-century in Memphis and Shelby County, policies and infrastructure investments necessary to keep existing communities livable have not been recognized or implemented equitably throughout the region’s neighborhoods of color. In North Memphis, businesses and residents—many of whom are African-American and lifelong residents—have experienced racially inequitable investment and disinvestment for decades. Factories shuttered in the nation’s shift away from a manufacturing economy have left behind contamination, blight and an unemployed workforce in North Memphis. The decades-long incremental disinvestment in the area is mirrored in North Memphis’ population statistics—39 percent of residents live below the poverty level.<sup>1</sup>

What do residents have to say about the disinvestment in their neighborhoods? Who engages with them to hear and act on this community’s need for access to public transportation, healthy foods, and safe and weatherized housing? The consequences of ignoring

the North Memphis community’s need to level the playing field are very real and result in disparities in the health and well-being of its residents. As the people of North Memphis watch the reinvestment and expansion of structures and green spaces around them, they are recognizing that they have not had sufficient and intentional opportunities to be included in development decisions made around this community.

In 2017, Memphis was accepted to the Strong, Prosperous, And Resilient Communities Challenge (SPARCC). SPARCC is a

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**By centering community engagement and leadership, this effort aims to produce plans and projects that truly reflect the needs, vision and goals of the community.**

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collaboration between a number of national funders and technical partners, including Enterprise Community Partners, Low Income Investment Fund, Natural Resources Defense Council and the Federal Reserve Bank of San Francisco. The collaboration provides resources to support Memphis in understanding the underlying causes of economic and racial disparities, and in empowering people and leaders to invest in more effective models for systems change to remedy these disparities. Through SPARCC, Memphis joins a cohort of five other regions—Atlanta, Chicago, Denver, Los Angeles and the San Francisco Bay Area—seeking to build a healthy, resilient and equitable future for their communities.

Memphis was selected in part because SPARCC seeks to support regional systems changes to benefit low-income communities and communities of color in places where catalytic regional investment is occurring. Following the adoption of the Mid-South Regional Greenprint, which addresses regional challenges like climate change vulnerabilities, health, transportation and equity, North Memphis has begun to see several catalytic investments: A \$60 million HUD National Disaster Resilience Competition (NDRC) grant was awarded to

Shelby County to address unmet needs from 2011 flooding; the Crosstown Concourse is a \$200 million redevelopment of a 1.5 million-square-foot blighted building into a new vertical mixed-use urban village; and the \$9 billion expansion of St. Jude Children’s Research Hospital campus and ALSAC, its fund-

raising organization, and growth of St. Jude’s workforce has ignited new investment in the infrastructure and housing options nearby. (See Figure 1.)

As these catalytic moments and substantial investments in the built environment are implemented, a positive and intentional connection with adjacent North Memphis neighborhoods has yet to be clearly drawn. But these investments made just outside the neighborhoods of greater North Memphis will profoundly affect those communities.

While working with North Memphis leaders and stakeholders, it becomes apparent that this confluence of planning and investment, while considered by some long overdue, is not seen in such a positive light by all those who



stand to be impacted. This skepticism has manifested in growing fears of gentrification, displacement and the location of unwanted or unneeded developments within communities that have little to no say in those decisions. Through SPARCC, North Memphis residents, leaders and partners seek to ensure that the communities in which these investments are made directly benefit from them and have a say in how future investments in the built environment are made.

The SPARCC initiative seeks not only to leverage decision-making power but also to align capital investments in its six selected regions. In addition, this is an opportunity to access new capital funding sources, encouraging each site to develop a pipeline of projects that improve equity, climate and health outcomes.

Memphis' approach through SPARCC is to have a collaborative effort led by the residents of North Memphis as they develop strategies for investments in the built environment, healthy housing and better connectivity, alongside funders, developers and institutions. By centering community engagement and leadership, this effort aims to produce plans and projects that truly reflect the needs, vision and goals of the community in a model that can serve as a regional example for more equitable decision-making in community development.

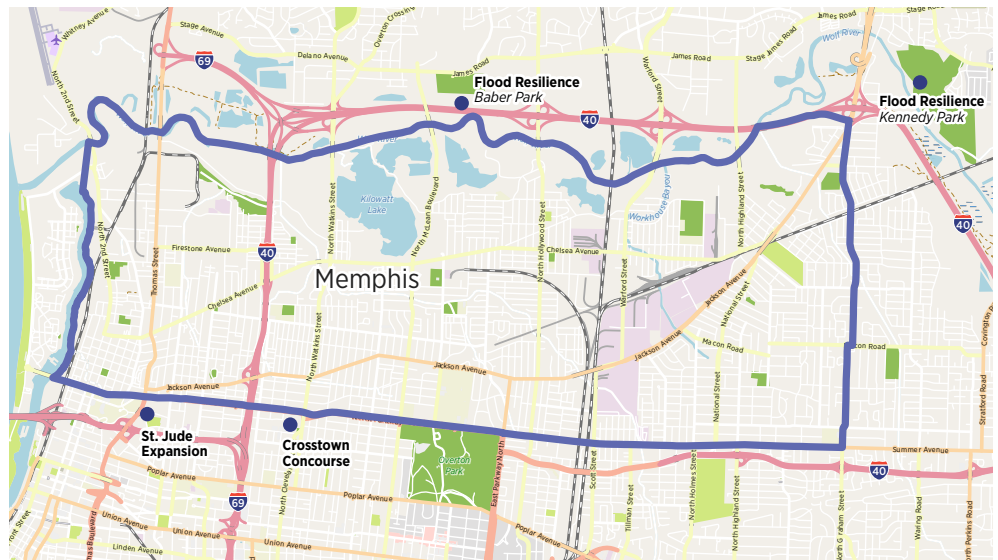
SPARCC has identified the collaborative table as the structure in which leaders from a range of sectors and disciplines come together to address complex social issues, recognizing that no single sector can solve such challenges on its own. In carrying out the SPARCC initiative in Memphis, the emerging collaborative has heightened the priority of community leadership. Memphis' table—Neighborhood Collaborative for Resilience (NCR)—positions residents as the focal point, guiding and helping to implement the local work plan through the lenses of racial equity, climate resilience and health.

FIGURE 1

## Target Areas for the Neighborhood Collaborative for Resilience

### KEY

■ NCR focus area    ● NCR catalytic moments    ■ NCR focus area parks



NCR's governance structure is comprised of six components carrying out different phases of the Memphis SPARCC work plan. A community advisory board of residents representing the more than 20 individual North Memphis neighborhoods will identify the strategy and goals. Through three work groups representative of the three SPARCC lenses, residents and technical experts will craft the work to meet the goals. A steering committee will guide the implementation of the work plan alongside funders and strategic partners, which include institutions, policy professionals, data partners and developers. And BLDG (Build. Live. Develop. Grow.) Memphis—a supporter of this NCR table and the Memphis SPARCC initiative—will provide project management, administrative support, financial reporting and operational data.

As NCR moves along in this process, the hope is that policymakers, practitioners and

developers will use data to make the case for equitable development and champion decision-making opportunities for North Memphis residents. In defining a new model for community inclusion, NCR will spur much-needed systems change in addressing racial inequity throughout the Memphis region for healthier, more resilient futures. NCR seeks to amplify the identity of the North Memphis community and improve its connections to the surrounding environment. The greatest achievements of these efforts will be seen as future search results for “North Memphis” include a strong depiction of its culture, community and attractiveness.

Deveney Perry is the SPARCC project manager and John Paul Shaffer is the executive director at BLDG Memphis—Build. Live. Develop. Grow.

### ENDNOTES

- 1 SPARCC Focus Area North Memphis Social Demography, [WHEREweLIVEmidSouth.org](http://WHEREweLIVEmidSouth.org) 2016

# Investment Connection: The St. Louis Fed's New Approach to CRA

By Caleb Bobo

The Federal Reserve Bank of St. Louis is working to bridge the gap between community organizations and financial institutions to increase understanding of the Community Reinvestment Act (CRA). The CRA is legislation that ensures financial institutions lend and make/provide qualified investments and financial services in areas where they receive deposits through branches based on the institution size, capacity and strategy. Special designation under the CRA includes low- and moderate-income (families and individuals), small businesses and small farms, distressed and underserved communities (low-, moderate- and middle-income), and communities designated as disaster areas. Investment Connection—pioneered by the Kansas City Fed\* and now being replicated by the St. Louis Fed—brings together the talent and skills of community development staff with the expertise of consumer affairs examiners.

Often communities—both rural and urban—suffer from resource scarcity and/or a lack of knowledge about or access to opportunities for investment and partnership. Both are necessary to support innovation, the creation of new projects and growth of established programs to meet community needs. Simply put, in order for community development organizations to respond to the needs of their communities and further their mission, they need access to a variety of funding sources and partners.

Investment Connection is a new approach to sharing information about community development needs in all parts of the Eighth Federal Reserve District, bringing together community and economic development



## INVESTMENT CONNECTION

COMMUNITY DEVELOPMENT INVESTMENT AND LENDING PARTNERSHIP

organizations with financial institutions and others who seek to be responsive to those needs. Based loosely on the “Shark Tank” concept, the process and events provide community/economic development organizations the opportunity to pitch their programs to multiple financial institutions and other funders at one time.

After a successful pilot event in 2017, the St. Louis Fed is expanding Investment Connection in the Eighth District, with 2018 events planned in St. Louis, Springfield, Mo., Memphis, Tenn., Little Rock, Ark., and Louisville, Ky.

The process starts several weeks before an Investment Connection event with the release of a request for proposals to community development organizations for projects that are potentially CRA-eligible. Eligible activities include:

- small-business development,
- community development finance,
- financial access and empowerment,
- affordable housing,
- economic and workforce development,
- and community facilities and services.

St. Louis Fed community development and examination staff review the proposals for organizational capacity and potential CRA eligibility. Selection of presenters is on

a first-come, first-served basis for completed proposals that meet capacity and CRA-eligibility criteria.

Simultaneously, St. Louis Fed community development staff extend invitations to participate in the Investment Connection event to banks, foundations, government entities and others throughout the region with the capacity to invest, lend or provide services in support of those activities.

The goal for Investment Connection is that it becomes a catalyst that leads to more lending to low- and moderate-income families, individuals, small businesses and small farms; the making of more qualified community development investments; and the sharing of financial expertise to strengthen these communities.

Specifics regarding 2018 Investment Connection events will be available soon. For more information about Investment Connection, please contact Teresa Cheeks Wilson at [teresa.cheeks.wilson@stls.frb.org](mailto:teresa.cheeks.wilson@stls.frb.org).

Caleb Bobo is an assistant community affairs examiner at the Federal Reserve Bank of St. Louis.

\*Since 2011, the Federal Reserve Bank of Kansas City has used Investment Connection to connect community organizations with more than \$29 million in funding. Visit [www.kansascityfed.org/community/investmentconnection](http://www.kansascityfed.org/community/investmentconnection) for more information.

# Questions to Ask Workforce Development Partners

*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 S. Yarwood

Workforce development is a topic that arises often these days in community contacts conducted by examiners in both rural and metropolitan areas of the Federal Reserve's Eighth District. Workforce development includes systems of training, educating and providing social services to working-age individuals that enable them to succeed in the labor force while also meeting employers' demands for quality talent. When documenting workforce development activities (loans, investments and services), four questions should be routinely addressed: Who will the activity benefit? What is the intent of the activity? How is the activity structured? How will it be accomplished?

When determining the group that will receive the benefit (target group) in a project, it is important to ensure that there is a direct connection to target groups in the CRA. In many cases, the target group is indicated as veterans, minorities or individuals with disabilities, which does not always equate to the CRA definitions of low- and moderate-income (LMI) geographies or individuals, or distressed, underserved or designated disaster areas. In cases where activities are indicated to benefit women- and/or minority-owned businesses, there may not be a direct relation to the guidance if they do not also indicate that the recipient is a women- and/or

minority-owned financial institution or that these businesses will meet the CRA definition of a small business.

Once the target group is identified, activities should clearly reflect the intent of the activity. Activities such as internships, apprenticeships, summer employment opportunities for youth, college work-study

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**Since many workforce development activities occur over a longer period of time, it is important to identify the structure; in doing so, examiners will be able to better understand how the activity will be accomplished.**

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positions, job shadowing and transitional jobs programs may be considered under different purposes, depending on their intent. For example, if an activity results in permanent employment with a current small-business partner, it may qualify as economic development. Alternatively, if there is no permanent

job creation at the end of training, the activity might count as community development services. Additionally, activities that increase the number of local middle-skill/middle-wage jobs, or increase the availability of technology or equipment, with the intent of attracting or retaining residents, businesses or small farms may count as revitalization and stabilization for distressed and underserved LMI or rural middle-income census tracts.

Since many workforce development activities occur over a longer period of time, it is important to identify the structure; in doing so, examiners will be able to better understand how the activity will be accomplished. Descriptions of structure should include activity partners and their role as well as information related to the success rate of any partner in the past with similar activities. Examples of partners may include state and local workforce development boards, educational institutions, business and industry associations, community-based groups, labor groups, and philanthropic and community organizations. The structure should also identify the strategies that will be pursued to assure accomplishment. These may include sector strategies or industry partnerships that may entail work-based training, career pathways or matrices for determining success in basic skills improvement.

By including answers to these four questions in descriptions of CRA activities, the examiner will more fully understand the workforce needs of the community and the bank's level of responsiveness in meeting those needs.

For more information on questions related to workforce development activities, please visit [Engaging Workforce Development: A Framework for Meeting CRA Obligations](http://www.dallasfed.org/cd/EconDev/workforce/2017/workforceCRA.aspx) at [www.dallasfed.org/cd/EconDev/workforce/2017/workforceCRA.aspx](http://www.dallasfed.org/cd/EconDev/workforce/2017/workforceCRA.aspx).

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



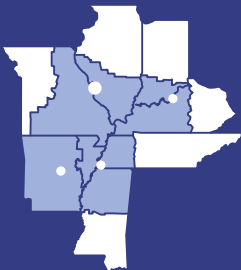
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## S P A N N I N G the Region

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.



### Apply Now for Opportunity Zone Designation

The Opportunity Zones community development program was established by Congress in the Tax Cuts and Jobs Act of 2017. The goal of this new federal program is to revitalize distressed communities across the nation with incentives that encourage long-term investment and job creation. It provides a tax incentive for investors to re-invest unrealized capital gains into Opportunity Funds that are dedicated to investing into Opportunity Zones designated by the chief executives of every U.S. state and territory. The program allows up to 25 percent of a state's low-income census

tracts to be designated Opportunity Zones. The designation remains in place for 10 years, allowing time to spur investment in these communities through capital gains tax incentives.

The U.S. Department of the Treasury has established procedures for nominating qualified Opportunity Zones and a mapping tool with eligible census tracts. Recommendations must be submitted no later than **March 21, 2018**; states may request a single 30-day extension. For more information, please visit <https://home.treasury.gov/news/press-release/sm0283> or <http://eig.org/opportunityzones>.