

Alan Greenspan: Empowering communities, attracting development capital and creating opportunities

Remarks by Mr Alan Greenspan, Chairman of the Board of Governors of the US Federal Reserve System, at the 2005 National Community Reinvestment Coalition Conference, Washington DC, 18 March 2005.

* * *

It is a pleasure to join this group that is dedicated to developing strategies for ensuring that opportunities for economic advancement are available to all Americans, including members of lower-income families and communities. In a couple of years, we will celebrate the thirtieth anniversary of the Community Reinvestment Act (CRA). To date, this act has brought many successes, but much remains to be accomplished. Before passage of the CRA, lending to underserved populations was often considered an act of goodwill, not good business. I do not disparage benevolence, but I believe that one of the most enduring achievements of the CRA has been that lenders, often to their surprise, have found low-income community lending to be a normal extension of their outreach for profitable business.

Mortgage and consumer lending is driven by credit analysis, and for small-business lending, also by a belief in the potential success of the business venture. Because it is critical that low- and moderate-income lending be, and be perceived as, an extension of regular business practice, we have been building a substantial database on low-income credit experience and business opportunities. This information has been critical to the successes in low-income lending. But information collection and analysis must reach further. If communities are going to be empowered, they need hard evidence of their successes and, yes, hard evidence of their failures, which, as you know, can point the way toward success. Accordingly, I would like to emphasize the important role of program assessment in the community development process. Success of these programs can be understood only through measurement and critical analysis. To date, systematic research on community economic development programs has been limited. One of your challenges then is to expand the information about the impact of your activities so that you can demonstrate the viability of your efforts and replicate local models of success for the benefit of other communities and families.

Measuring the impact of community economic development programs

The overarching objective of community economic development and empowerment is to help underserved populations accumulate assets and improve their economic well-being. Measuring the results of programs dedicated to this objective is essential to effectively managing scarce resources and maximizing the impact of these programs. Achieving the objective, particularly in areas and among populations where biases and negative perceptions may have contributed to market failures, helps people improve their financial standing, regardless of their current economic status.

For nearly four decades, numerous policies and programs have been implemented with the intent of increasing economic opportunity. A variety of management and funding strategies have been implemented, ranging from federal government appropriations to debt and equity financing from private sources. Despite the broad spectrum of programs, the length of time they have been in place, and the array of funding participants, empirical research quantifying their impact is rare, regardless of whether government agencies, nonprofit organizations, or private entities sponsor the programs.

The lack of empirical data is particularly regrettable in the case of government-sponsored programs, because quantifying the impact of these programs is crucial to the legislative process. When a bill is proposed in Congress, the nature of the problem and the factors presumed to be contributing to that problem typically are explicitly stated. And generally included is a projection of the outcomes that would indicate success. This process of problem diagnosis, program justification, and projection of results, if fully embraced, provides a framework for assessing a program's value. The program can be judged worthwhile when the data demonstrate that the benefits exceed the costs, including the opportunity costs of any investment.

Even with such a framework, conducting research on community development and economic empowerment programs can be challenging, in part because the effects these programs intend to achieve are often quite difficult to measure and may not become apparent for relatively long periods of

time. Initiatives aimed at addressing complex economic and social problems that were decades in the making most likely require many years to achieve their goals. Also, virtually no specifically defined standards exist for monitoring the value of social and economic improvement programs.

For community development researchers, the challenge is to develop parameters for objectively assessing the value of their programs. For example, the measures that affordable-housing organizations use could illustrate the extent to which their programs have, or have not, increased homeownership rates and property values, reduced crime, improved school performance, or spurred new private-sector investment in a disadvantaged neighborhood.

Research must isolate the variables that best convey the impact of a program, define the specific data that must be collected, and develop a system for maintaining and retrieving the data over time. In other words, the challenge is to quantify the marginal effect of a program. The value of such a system is clear. So too, however, is the complexity of creating it. Consider, for example, the difficulty of measuring the marginal impact of a financial education program. It requires unique data collection techniques and unconventional tracking systems to gauge the benefit that an individual derives from making informed financial decisions that resulted from that educational program.

Socioeconomic trends for underserved populations and communities

The relative paucity of data and research on community development programs has limited the ability to fully demonstrate the programs' impact and to credibly differentiate those that are effective from those that are not. Undeniably, impressive local community development initiatives have been undertaken, and individual testimonials reveal advances in the economic well-being of many of the beneficiaries. However, the absence of formal data collection and research for the numerous neighborhood revitalization efforts over the past several decades has resulted in a reliance on mostly anecdotal reporting at a neighborhood or individual level. Anecdotal information is not without value. It offers clues to the construction of a more-formal statistical analysis. But, as I am sure all of you know from experience, anecdotes are selective and can convey a false message about the success or failure of a program.

Given the lack of data that can be used to measure the success of new initiatives, the inclination is to examine the data that does exist to identify trends in areas where community development organizations have been a consistent presence for some time. When broad positive trends cannot be completely attributed to conventional market forces, perhaps community development is at least a partial explanation. Since community development initiatives focus on traditionally underserved populations - lower-income families and communities - economic indicators relating to these markets may offer some insight into the influence of local economic and social programs. For example, according to a 2003 study by the Brookings Institution, the number of people living in high-poverty neighborhoods decreased 24 percent between 1990 and 2000. Much more dramatic improvements occurred in some cities, such as Detroit, where the decrease was 75 percent. In addition, the report found that concentrated poverty decreased among all racial and ethnic groups, with the percentage of African-Americans living in high-poverty neighborhoods declining from 30 percent in 1990 to 19 percent in 2000. These data present an encouraging picture of improvement in the economic condition of very low-income families and communities.

The data also reveal gains in homeownership among low-income and minority populations. The Federal Reserve Board's 2001 Survey of Consumer Finances (SCF) concluded that, between 1998 and 2001, families in the lowest quintile of the income distribution increased their rate of homeownership nearly 5 percent. Although results from the 2004 SCF are not available, data reported under the Home Mortgage Disclosure Act indicate that home-purchase lending to lower-income families increased 11 percent between 2001 and 2003. These data also reveal a 17 percent increase in home mortgage loans to African-Americans and a 30 percent increase in home mortgage loans to Hispanics. Further, HMDA data for the same period show a 45 percent increase in home mortgage loans in low-income tracts, while lending in higher-income tracts rose by only 19 percent.

In weighing the implications of the trends reflected by the data, it is important to consider the presence of changes in external market influences. For example, advances in mortgage underwriting and delivery systems have resulted in increased availability of funding for homeownership, which has resulted in increased efficiencies in extending credit in harder-to-reach markets. However, despite the difficulty of distinguishing between outcomes attributable to macroeconomic conditions and those attributable to localized community interventions, we must attempt to make this differentiation. Indeed,

understanding the effects of the multiple influences on the economic conditions of a market is the only means of achieving the highest possible use of public funding and establishing appropriate expectations for private-sector participation in redevelopment activities.

Information gains in community development

Despite the lack of empirical data about the effectiveness of specific community development programs, many community development corporations (CDCs) have modified their strategies and their structures to enhance their efficiency and impact. Most notably, CDCs have realized the necessity of diversifying their funding sources and reducing their reliance on government support, which is vulnerable to the vagaries of shifting political priorities. In expanding the range of financing for their programs, community development leaders have gained a better understanding of the risk tolerance and return requirements of their various capital providers.

In addition to diversifying sources of funding, community developers have sought to broaden the types of financing they use. They once viewed debt as the primary, if not the sole, vehicle available for capitalizing community development efforts, but now they recognize the vital role of equity investment in helping communities withstand economic downturns. New sources of equity - community development venture capital funds and secondary markets that securitize community development loan pools - have become available to energize market forces in economically distressed neighborhoods.

Technological advances have significantly improved the development of new financing strategies. With increased information-processing capacity, loan portfolio managers can better assess risk and monitor credit performance. Additionally, the ever-increasing availability of data facilitates the development of neighborhood profiles that can be useful in understanding and tracking community socioeconomic trends. For example, cross-referencing data sets on mortgage lending patterns, business start-ups, and employment against crime statistics and property values can provide a valuable perspective.

Community developers have made important strides in establishing performance parameters and developing information systems to promote rigorous evaluation of programs and organizations. Data collection programs have produced insights into the markets that community economic development lenders serve and the characteristics and financial performance of the institutions providing these services. For example, the Department of Treasury's Community Development Financial Institutions (CDFI) Fund launched its Community Investment Impact System in mid-2004, with the goal of establishing a comprehensive repository of data on community development finance institutions and activities. The systematic collection and standardization of information on these institutions' customers, transactions, and markets holds promise for increasing understanding of the institutions' impact on the communities and populations they serve.

Other information collection systems have been launched within the community development field in an attempt to assess organizations' effectiveness in fulfilling their expressed mission. These data collection programs underscore the importance of identifying the organizational structures and policies characteristic of effective enterprises. For example, the Neighborhood Reinvestment Corporation has adopted a data system that defines and tracks success measures of its member organizations. The Success Measures Data System is a participatory evaluation model designed to document the outcomes and measure the impact of community development programs, using parameters defined by the leaders and stakeholders in the field. Another program, the CDFI Assessment and Rating System, was developed by the National Community Capital Association to help investors and donors assess the social impact and financial strength of community development finance organizations. While these systems are in the early stages, they are a critical step in advancing understanding of the community economic development finance field and in designing policies and practices that can improve economic opportunity for low-income families and neighborhoods.

Benefits of research

Undoubtedly, we have learned many valuable lessons over the years, and it is essential to disseminate and apply these lessons to improve program effectiveness. Only through a comprehensive understanding of the outcomes of a program can success be emulated and failures reduced.

By consistently and reliably measuring outcomes, and thus helping current and prospective investors better assess their risks and predict their returns, community development organizations can attract more funding. Such accountability is crucial for any organization, regardless of its size.

In addition to increasing funding options, research can also increase the scope and scale of programs. As effective strategies are identified, they can be replicated and incorporated into efforts in other communities, as well as by organizations seeking to develop programs to address related issues.

In conclusion, I want to emphasize the importance of the role of those who interpret the research. Analysts must be scrupulous in characterizing research results, or their work becomes advocacy rather than research. Objectivity is paramount because research findings from previous efforts become the basis for subsequent efforts to target scarce resources as effectively as possible. Objectivity requires great discipline and integrity; it requires that researchers resist any innate desire to characterize results in the most- or least-favorable light possible. The failure of a program is not a research failure; it is a source of information. And acknowledgment of the research findings, regardless of how disappointing, contributes to a foundation of knowledge upon which future successes can be built.

In the quest to do good for our society's most-vulnerable populations and communities - the objective compelling the work of this group - analysts must embrace the challenge to develop objective and quantifiable standards for assessing community development programs. Ultimately, research is the only means for determining whether we are making advances in distressed neighborhoods by improving access to economic opportunities for traditionally underserved populations. I applaud your efforts and look forward to learning of your future progress.