Elizabeth A Duke: Building sustainable communities

Speech by Ms Elizabeth A Duke, Member of the Board of Governors of the Federal Reserve System, at the 2012 National Interagency Community Reinvestment Conference, Seattle, Washington (via videoconference), 27 March 2012.

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Building sustainable communities

I am pleased to participate in the ninth biennial National Interagency Community Reinvestment Conference. Since its inception in 1996, this conference has fulfilled its mission to train bankers and community development professionals on the requirements of the Community Reinvestment Act (CRA) by providing cutting-edge information about regulations, policies, and best practices in community development. In addition, it has become a source of inspiration for CRA-related community development activities. As this year’s agenda demonstrates, this interagency conference has grown to encompass all aspects of community development, including discussions of community amenities that provide both quality of life and economic resilience for low- and moderate-income residents.

Before I begin, I would like to thank the thousands of community development professionals I have met in the course of my work with the Federal Reserve for helping me to understand the breadth of the work that they do. In fact, many of you are here today. You have shown me your projects, shared your triumphs and frustrations, testified at hearings on the future of CRA, served on our Consumer Advisory Council, and actively participated in Federal Reserve conferences. Your counsel has given me a deeper appreciation of the complexities involved in creating and maintaining strong communities, particularly in times of economic stress. In my remarks today, I would like to share some of these insights.

Background

With the enactment of CRA in 1977, Congress directed financial regulators to assess each depository institution’s record of meeting the credit needs of its entire community, including its community’s low- and moderate-income neighborhoods. In the early years, even though CRA evaluations considered an institution’s provision of all types of credit in lower-income communities, most were primarily focused on mortgage credit. This was in part due to the availability of Home Mortgage Disclosure Act (HMDA) data which made robust analysis of mortgage lending possible. In addition, the focus of community development advocates on housing issues, including the redlining practices that prompted CRA’s passage, eclipsed the law’s broad scope in public perception. Only over time have community stakeholders come to appreciate the broader context of CRA.

Today, financial institutions have become partners in community development, bringing with them an important source of capital and financial expertise. By working together, bankers, community development practitioners, state and local governments, and other community stakeholders have learned a great deal, and the community development field has matured significantly.

Places and people

At one time, policy discussions revolved around whether community development was about people or places. I would argue that the debate is over and both sides won. Successful community development is based on attention to both the physical infrastructure, whether housing or commercial spaces, and the health and welfare of the residents therein.

CRA supports community development by requiring financial institutions to identify and address the financial needs of the communities they serve.

Safe and affordable housing will always be an important concern for lower-income Americans, but the recent recession and resulting damage to communities across the country make it clear that communities are more than physical structures. Sustainable communities – those that can weather economic downturns – not only provide decent housing, but also have the resources to support individuals and families and to create a dynamic business environment. For this reason, community development today is a multidisciplinary exercise that challenges us to think holistically about how housing relates to jobs, educational opportunities, transportation, healthcare, and other services and amenities.

Neighborhood stabilization

Taking a well-rounded approach is essential now, as weak national economic conditions have caused particular hardships in lower-income communities, and have stretched the federal, state, and local resources available to address neighborhood stabilization and revitalization. In some areas, high rates of vacant and abandoned properties resulting from foreclosures have depressed housing values, drained the coffers of local governments, and created breeding grounds for crime and other social ills in what were otherwise stable, albeit low-income, communities. The result has been a shift in focus in community development, from building new housing to preserving or disposing of existing housing.

In recent years, local governments and community-based organizations have struggled to counter the effects of foreclosures on neighborhoods. Some communities have found success by establishing land banks to manage low-value properties that might otherwise sit vacant if left to the private market.[1] Land banks are typically public or nonprofit entities, often with a limited lifespan and sunset provisions. The notion of a land *bank*, as opposed to a land *trust*, is that properties are brought in and moved out of a land bank's portfolio rather than permanently preserved. While part of the land bank's portfolio, foreclosed properties can be physically rehabilitated, rented, sold to new owner-occupants or responsible investors, or, in some cases, demolished. Using this kind of mechanism, a community can gain control of vacant properties and keep them from causing problems for the surrounding neighborhood until market conditions are more conducive to redevelopment or sale.

Land banks are just one example of the new approaches to housing issues that are being pursued across the country, many with the assistance of the Neighborhood Stabilization Program (NSP) administered by the Department of Housing and Urban Development. The NSP program offers some funding to tackle these issues, but it also provides a structure to bring community stakeholders together to identify the best strategies for addressing foreclosures given the particular circumstances of each community. Whether a community decides to purchase and rehabilitate homes for resale, demolish vacant homes, or create land banks to help control the destiny of these properties, the collaborative problem-solving approach used by NSP is one that can make the most of limited resources.

Neighborhood stabilization is doubtless the precursor to community development in some communities and, in recognition of this, the federal banking agencies amended CRA regulations to specifically recognize neighborhood stabilization activities in designated NSP

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1 See Thomas J. Fitzpatrick IV (2010), "How Modern Land Banking Can Be Used to Solve REO Acquisition Problems," in REO and Vacant Properties: Strategies for Neighborhood Stabilization (PDF), proceedings of the conference, REO and Vacant Properties: Strategies for Neighborhood Stabilization, cosponsored by the Federal Reserve Banks of Boston and Cleveland and the Federal Reserve Board (Washington: Federal Reserve Board of Governors), pp. 145–50.

areas as appropriate for CRA consideration.[2] In addition, the Federal Reserve has identified and shared a number of promising practices for dealing with foreclosed and vacant homes.[3] While some cities are pioneering with land banks, others, such as Cleveland, Detroit, and Baltimore, are using data to plan for the future in ways that city governments wouldn't have imagined just a few years ago. Partnering with local foundations, universities, and community organizations, these cities are collecting extensive property data to identify neighborhood assets and build on those strengths.[4] In Phoenix, local officials and non-profits are partnering with local realtors to match families with affordable homes for sale.

Unemployment

The foreclosure crisis that resulted from unsustainable subprime lending has persisted largely because of high unemployment rates. Thus, in order to be successful, any effort to stabilize and revitalize lower-income neighborhoods will need to consider housing through the lens of access to jobs and educational opportunities. The Federal Reserve System currently has an initiative underway to better understand the relationship between community development activities and successful workforce development strategies. We anticipate that this research will provide valuable information for bankers and their community partners as they address the needs of their communities.

Of course, having a job is one thing. Getting to it is another. With good reason, transportation considerations have become more common in community development plans in recent years. More communities are taking public transportation into account when planning residential projects. Given the high cost of owning and operating a car, transportation options are a significant factor in a neighborhood's overall affordability. Demographic shifts over the last decade have resulted in the suburbanization of poverty, and now dictate that communities work together to create transportation options, including buses, light rail, and even car-sharing arrangements.

Even so, as the Federal Reserve Bank of Richmond has discovered in its work on car ownership for low-income workers, public transportation is not always sufficient to solve the transportation problems of the poor. Some jobs, such as construction work, require that workers report to different locations. Shift workers, whether security guards, airport baggage handlers, or hospital workers, may not have easy access to public transportation at night. Supporting nonprofit organizations, such as Vehicles for Change, which takes donated cars and refurbishes them for sale to low-income workers for a very small fee, may be the most effective means for some communities to overcome the barriers to car ownership.[5]

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2 See, 75 FR 79278 (Dec 15, 2010) amending the CRA regulations by revising the term "community development" to include loans, investments, and services that support, enable, or facilitate projects or activities that meet the "eligible uses" criteria in the Housing and Economic Recovery Act of 2008 and are conducted in designated target areas identified in NSP plans approved by the Department of Housing and Urban Development.

3 See Federal Reserve Banks of Boston and Cleveland and the Federal Reserve Board of Governors (2010), REO and Vacant Properties: Strategies for Neighborhood Stabilization (PDF), proceedings of the conference, REO and Vacant Properties: Strategies for Neighborhood Stabilization (Washington: Federal Reserve Board of Governors).

In addition, the Federal Reserve System created a series of video reports that highlight promising stabilization work being done in Cleveland, Detroit, and Phoenix. These videos and related data tools can be found at www.federalreserve.gov/communitydev/neighborhoodrevitalization/stablecommunities.htm.

4 See Board of Governors of the Federal Reserve System (2011), Putting Data to Work: Data-Driven Approaches to Strengthening Neighborhoods (PDF) (Washington: Board of Governors of the Federal Reserve System, December).

5 More information about Vehicles for Change is available at www.vehiclesforchange.org.

One of the more innovative solutions to this issue that I have seen was developed by an organization in Dallas that aims to move the jobs to the workers, rather than vice versa. Lone Star Investment Advisors LLC is a private equity fund that invests in Texas companies located in, or willing to move to, low-income census tracts. The fund's managers have focused on manufacturing and distribution companies that can create jobs in the state's lower-income communities. One of the businesses in the fund's portfolio, PrimeSource Food Service Equipment, moved from an affluent northern Dallas suburb to South Dallas, where the poverty rate was higher than 40 percent, relocating more than 100 employees and hiring new employees from South Dallas. I raise this example because it demonstrates what a little imagination can do to solve the problem of connecting people with jobs. Moreover, this double bottom-line approach to investments – making a profit while benefitting the community – makes this kind of activity attractive to bankers with CRA obligations and other socially-minded investors.

Community development: an entrepreneurial enterprise

This innovative example serves as a reminder that successful community development is an entrepreneurial enterprise. Thinking about community development this way reminds me of a presentation made at a recent Federal Reserve research conference on small business and entrepreneurship.[6] Amy Wilkinson, Senior Fellow at Harvard's Kennedy School Center for Business and Government, has conducted research to identify the skill sets of high-impact entrepreneurs and small business leaders. The skills she identified are, not surprisingly, applicable to community development. They include being able to spot opportunities that others don't see, managing complexity, reiterating ideas and revamping plans repeatedly, experimenting and failing wisely, networking to create solutions, and, as Amy put it, "unleashing generosity" in ways that create reciprocity within the network.

No doubt these sound familiar. Community development is an ongoing process of identifying and understanding the complicated interaction of people and places. Solutions are found through the cycle of experimentation and adjustment. Successes look easy but they mask hard work and, often, failed attempts. Transformational changes in communities rarely happen without the involvement and support of a network that includes residents, business owners, community organizations, financial institutions, and local government. Sustained interaction among these stakeholders is what makes the opportunity known and the solution successful.

The city of Rochester, New York, put these principles to work and managed to weather the bankruptcy of the city's largest employer. Eastman Kodak once employed some 61,000 Rochester residents and invested significantly in the city's educational and cultural institutions; three decades later, it employs fewer than 7,000 people and recently filed for bankruptcy protection.[7] This is not an uncommon story, except for the fact that Rochester managed to gain a net of 90,000 jobs during the three decades of employment decline at Kodak.

How did Rochester manage this transition so successfully? The city recognized early on the need to diversify its economic base and, some 20 years ago, created a network of private and nonprofit partnerships to leverage the city's assets, the same universities and cultural institutions Kodak had supported. Together with local government, this network trained entrepreneurs and supported new business ventures, many of which are in optics and

6 Wilkinson, Amy (2011). Keynote address (PDF), delivered at the Small Business and Entrepreneurship during an Economic Recovery Conference, Federal Reserve Board of Governors, November 10.

7 Applebome, Peter (2012). "Despite Long Slide by Kodak, Company Town Avoids Decay," New York Times, January 16, www.nytimes.com/2012/01/17/nyregion/despite-long-slide-by-kodak-rochester-avoids-decay.html.

photonics. Through foresight and the collaboration of government, private and nonprofit partners, and committed citizens, Rochester was able to build on the Kodak legacy, effectively turning lost jobs at Kodak into new local opportunities.

Healthy communities

In addition to housing and employment, residents need communities that support their health and well-being in a variety of ways. Community developers play a critical role in supporting healthy lifestyles by planning for sidewalks, parks, and other open spaces connecting housing and commercial areas in ways that also provide places for people to meet and children to play. Renovation and new construction plans increasingly adhere to standards that incorporate "green" materials and technologies not only because they lower utility costs, which is important, but also because they improve health results, such as asthma rates, among residents.

One of the most obvious ways to support healthy lifestyles in lower-income neighborhoods is by making healthy food accessible. In the face of increasing rates of obesity, low-income neighborhoods are notably underserved by grocery stores. This is beginning to change because of programs like The Pennsylvania Fresh Food Financing Initiative, which is supported by a partnership between The Reinvestment Fund, a nonprofit developer, and two community organizations, The Food Trust and the Greater Philadelphia Urban Affairs Coalition. This partnership stepped in to fill a financing need where infrastructure costs were not met by conventional financial institutions. Their original objective was to make fresh food available in low-income neighborhoods. But they have achieved much more. The grocery stores the partnership helped to establish create an anchor for other retail needs in the area. Moreover, the stores hire local workers and train them in both the required job skills and in the workplace etiquette necessary to succeed in any job. One of the original groceries financed under the program has also added in-store financial services and a health clinic. As this grocery operator discovered, access to healthcare is another critical need in many low-income communities.

In Chicago, residents have taken it upon themselves to fill the need for primary and specialty healthcare by establishing the Lawndale Christian Health Center. Ownership in the Center is retained by residents to ensure that it continues to meet the needs of its neighborhood. In another example of a community facility meeting more than one need, the Center has expanded over time to provide leadership development and organizational capacity building services to its members in addition to health services.

Conclusion

I could go on to recite more examples of programs that respond to community needs, but I think you get my point: Taking an entrepreneurial approach to community development results in innovative and effective programs, making communities more desirable places to live and more resilient in hard times. The CRA regulations encourage banks and thrifts to invest in activities that provide affordable housing or financial services for individuals, promote economic development, or revitalize or stabilize low- or moderate-income areas.

At a time when the needs of these communities are so great and the resources available to meet those needs are so scarce, it behooves financial institutions to think broadly about their CRA obligations. By partnering with other community stakeholders, these institutions can help address existing community needs and lay the groundwork for stronger credit demand in the future.

I don't want to underestimate the difficulty of the task. The recession damaged communities of all types, but particularly lower-income neighborhoods, and economic recovery has been stubbornly slow. Nonetheless, the commitment and innovation demonstrated in communities all across the country is encouraging. Taking an entrepreneurial approach to community development and thinking about the needs of both people and places will, I believe, make for stronger, more resilient communities in the future.