

# Federal Reserve Bank of Cleveland 2003 Environmental Assessment Survey



The Federal Reserve Bank of Cleveland's Community Affairs Office conducted an environmental assessment survey in early 2003 to better understand community reinvestment and economic development conditions in the Fourth Federal Reserve District. Specifically, the Community Affairs Office wanted to learn about current trends affecting access to capital and credit in low- and moderate-income communities.

The survey results offer insights into the essential community development concerns and can be used to promote community economic development. By learning about emerging trends from those directly engaged in these activities, practitioners are in a better position to build viable and economically productive communities. The Community Affairs Office will use this information to guide its public programs, provide technical assistance, and bridge knowledge gaps through research projects.

The environmental assessment surveyed community development practitioners in the Fourth Federal Reserve District, representing community development corporations, financial institutions, grassroots organizations, government agencies, academic institutions, and foundations. The survey addressed the following topics:

- ▶ *Trends affecting financial institutions' ability to serve the credit needs of individuals and businesses*
- ▶ *Community reinvestment needs*
- ▶ *Local and regional economic conditions (both positive and negative) that are affecting community reinvestment and economic development*
- ▶ *Opportunities and threats at the grassroots level that are influencing access to credit and capital in low- and moderate-income communities*



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# Community Reinvestment and Economic Development Concerns

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► *Trends in local, state, and federal government that are affecting community economic development.*

Open-ended questions covered jobs and skills training, affordable housing, venture capital and alternative financing for small businesses, emerging leadership, immigrants and refugees, and changing demographics.

## Serving the Credit Needs of Individuals and Businesses

Survey respondents were asked to identify the top five trends affecting insured depository financial institutions' ability to serve the credit needs of individuals and businesses in the geography they serve. Respondents were asked to choose from branch closures and openings; tightening credit standards; enhanced credit programs; increased and decreased competition; improvements in technology (online bank-

ing, ATMs, electronic transfer accounts); bank-related community reinvestment; increased fees; mergers and consolidations; and too few products available. Five trends were identified by survey respondents as most important:

1. *Tightening credit standards*
2. *Increased fees*
3. *Increased competition*
4. *Improvements in technology (online banking, ATMs, electronic transfer accounts)*
5. *Bank mergers and consolidations.*

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Governor Mark W. Olson

**COMPREHENSIVE  
APPROACHES TO  
COMMUNITY  
DEVELOPMENT**

Excerpted from remarks by Federal Reserve Governor Mark W. Olson, October 22, 2002.

"While the availability of credit and capital has long been recognized as critical to fostering economic growth, many other factors contribute to the success of a market, including a skilled workforce and adequate support systems, such as educational institutions and transportation. In recognition of this, community developers came to realize that bricks-and-mortar development alone cannot revitalize distressed communities and that more comprehensive approaches are necessary to foster sustainable growth.

This more holistic approach moved community development beyond the realm of exclusively improving housing conditions and increasing home ownership. Community development now includes programs that increase residents' capacity to make economic contributions to the community by supporting entrepreneurs, providing job training, and facilitating transportation and child care. At the same time, government initiatives focused on developing markets by increasing private-sector investment in underserved communities, and by offering businesses financial incentives to locate in and employ residents of redevelopment areas. The vital importance of both human capital and private investment became apparent in the changes in community development policy and financing strategies. Initiatives became more comprehensive and partnerships, more broad based."

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- ▶ *Individuals with poor credit or reestablishing credit*
- ▶ *Start-up businesses, including technology and traditional manufacturers*
- ▶ *Those who fear banks, the unbanked, and those using cash only*
- ▶ *Working poor*
- ▶ *Uneducated*
- ▶ *People with disabilities.*

Among responding organizations, 52 percent indicated they are serving the population(s) they had identified as underserved, while 48 percent are not currently serving underserved populations or do not believe any populations to be underserved.

### Community Reinvestment Needs

Survey respondents were asked to identify the top five greatest community reinvestment needs facing the geography they serve. Respondents were asked to choose from affordable and mixed-income housing; environmental improvements and regulations; financial literacy efforts and credit counseling; financing and incentives for community economic development; financing sources for small businesses and microenterprises; government-sponsored programs; greater access to credit and capital; industrial and commercial (re)development; infrastructure improvements; local leadership; preservation and

conservation efforts; new employment opportunities and job creation; savings and IDA programs and wealth creation; training opportunities for entrepreneurs and microentrepreneurs; transportation and transit-oriented development; and workforce development and skills training.

Survey respondents identified the greatest community reinvestment needs facing the geography they serve as:

1. *New employment opportunities and job creation*
2. *Affordable and mixed-income housing*
3. *Financial literacy efforts and credit counseling*
4. *Industrial and commercial (re)development*
5. *Financing incentives for community economic development.*

The community reinvestment needs that respondents ranked lowest are preservation and conservation efforts and transportation and transit-oriented development.<sup>2</sup>

### Local and Regional Trends

Survey respondents were asked to identify the top five conditions in the local or regional economy that are having a positive affect on community reinvestment and economic development initiatives in their area. Respondents were asked to choose from demographic changes; education and schools; employment changes; environmental impacts and regulations; financing and incentives for development; housing development; industrial and commercial (re)development;

<sup>2</sup> Not including "other" responses.

# report

industry and business composition; infrastructure; local leadership; preservation and conservation efforts; tightening of credit and capital; and transportation and transit-oriented development.

Survey respondents identified the top five conditions positively affecting community reinvestment and economic development initiatives as:

1. *Housing development (affordable, mixed-income, etc.)*
2. *Education and schools*
3. *Local leadership*
4. *Financing and incentives for community economic development*
5. *Industrial and commercial (re)development.*

Notably, the community reinvestment *needs* identified by respondents overlap with the *positive conditions* affecting community reinvestment and economic development. The areas of overlap between needs and positive conditions

include affordable housing development, financing and incentives for community economic development, and industrial and commercial (re)development.

Survey respondents were given an opportunity to elaborate on their responses to this question. Several respondents commented on education and schools, including the emergence of strong schools with national recognition, a strong university community with growing involvement in the area, technical schools expanding, and new inner-city schools. Others cited improved infrastructure in rural areas, including water, sewer, roads, and bypasses; the return of middle-income families to the city; older economies beginning to diversify; city incentives and public-private partnerships stimulating distressed economies; and industrial and commercial (re)development following the housing market.

The local and regional conditions that respondents ranked as having the *least* positive impact on community reinvestment and economic development are tightening of credit and capital, and environmental impacts and regulations.<sup>3</sup>

The survey also asked respondents to comment on local and regional economic conditions that are having a *negative* effect on community reinvestment and economic development initiatives in their service area. Many respondents indicated that employment changes—due to manufacturing, coal mine, and plant closings—had resulted in job losses and retail suffering, especially in urban cores. Another response reflected changing demographics, including a declining and aging population, population outflows from the region, a rising low-income population in need of social services, the skilled labor force leaving the

region, and urban sprawl. Poorly performing schools and academic results were cited as one reason for increased neighborhood disinvestment and new families being discouraged from moving into certain communities.

## Opportunities and Threats

Survey respondents were asked to identify the two greatest opportunities and threats at the grassroots level that are influencing community reinvestment and access to credit and capital in low- and moderate-income communities. Respondents were asked to choose from affordable and mixed-income housing availability; environmental impacts and regulations; financial literacy efforts and credit counseling; financing incentives for development; financing sources for small businesses; gentrification; government-sponsored pro-

<sup>3</sup> Not including “other” responses.

grams; high unemployment rates; increase in the rate of foreclosures; industrial and commercial (re)development; new employment opportunities; predatory lending; savings and IDA programs; small business development; training opportunities for entrepreneurs; and workforce development and skills training.

Survey respondents identified the top opportunities and threats as:

#### **Opportunities**

1. *Affordable and mixed-income housing availability*
2. *Financial literacy efforts and credit counseling*
3. *Financing incentives for community economic development*
4. *Small business development*
5. *Industrial and commercial (re)development*

#### **Threats**

1. *High unemployment rates*
2. *Predatory lending*
3. *Increase in foreclosure rates*
4. *Environmental impacts and regulations*
5. *New employment opportunities.*

Survey respondents had the opportunity to elaborate on their responses to this question. Respondents noted the availability of land for

new housing and new housing development in first-ring suburbs; the Appalachian Highway bringing new business to the region; individuals starting businesses in small towns and rural areas, who were then likely to stay in the area and employ more residents; environment and quality of life; and bank-related reinvestment efforts.

Threats identified included the need for affordable housing because waiting lists take years for good units; the necessity of home ownership to stabilize communities; the economic downturn and lack of economic diversification; the perceived difficulties of brownfield redevelopment; not enough support or financing for small businesses; budget cuts for government-sponsored programs; and the unbanked using check cashers, rent-to-own arrangements, and pawnshops.

#### **Trends in Local, State, and Federal Government**

Survey respondents were asked to identify the top three positive and negative trends in government affecting community economic development in their service area. Choices included new elected officials; budget and

Positive government trends included new elected officials taking a great interest in community development and a new willingness to make good things happen; private foundation support replacing or supplementing government programs; foundations supporting the arts and community development; and a variety of tax incentive and tax credit programs in use, such as the New Markets Tax Credit, empowerment zones, Federal Renewal Communities, Low-Income Housing and Historic Preservation Tax Credits; and tax-increment financing.

program cuts; new funding sources; new legislation; new government-sponsored programs; and tax incentives and credits for community economic development.

Survey respondents identified the top positive and negative trends as:

#### **Positive Trends**

1. *Tax incentives and credits for community economic development*
2. *New elected officials*
3. *New government-sponsored programs*

#### **Negative Trends**

1. *Budget and program cuts*
2. *New elected officials*
3. *New legislation.*

Because new elected officials ranked as both the second most negative and the second most positive trend, we can assume that new officials are sometimes viewed as an opportunity for government to affect community economic development, perhaps with a more progressive or aggressive agenda. However, a similar percentage of respondents view new officials as unable or unwilling to enhance community economic development initiatives.

Survey respondents were given an opportunity to elaborate on their responses to this question. Positive government trends included new elected officials taking a great interest in community development and a new willingness to make good things happen; private foundation support replacing or supplementing government programs; foundations supporting the arts and community development; and a variety of tax incentive and tax credit programs in use, such as the New Markets Tax Credit, empowerment zones, Federal Renewal Communities, Low-Income Housing and Historic Preservation Tax Credits; and tax-increment financing.

Negative government trends focused on budget cuts at all levels of government and the dearth of new economic development funding sources or legislation supporting these efforts. Government-sponsored programs are limited and have too many restrictions, and new elected officials lack the knowledge and experience to address local issues.

## Where Do We Go From Here?

The Community Affairs Office will continue to collaborate with community economic development practitioners to improve access to credit and capital and to promote economic self-sufficiency in low- and moderate-income areas. The trends that respondents reported confirmed many of the outreach plans, public programs, and research initiatives that are already under way in the Community Affairs Office to address community reinvestment needs. In 2003 and 2004, the Federal Reserve Bank of Cleveland will use the results of this environmental assessment to address our constituents' critical community development concerns. In order to (re)build low- and moderate-income communities throughout the Fourth Federal Reserve District, several issues are most vital for practitioners to tackle:

According to respondents, the two *least* important trends that are affecting the availability of credit for individuals and small businesses are branch openings and decreased competition.

Most survey respondents (71 percent) believe some segments of the population are underserved by financial institutions.<sup>1</sup> Respondents identified the following underserved populations in the Fourth Federal Reserve District:

- ▶ *Urban poor and inner-city residents*
- ▶ *Rural residents*
- ▶ *Hispanic immigrants and residents*
- ▶ *First-time home buyers*
- ▶ *Low- and moderate-income individuals*
- ▶ *Senior citizens*

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## SURVEY RESPONDENTS

The survey was mailed to approximately 1,500 organizations; 158 responses were received, representing a diverse group of community economic development practitioners. Aggregate data only is presented here to ensure confidentiality.

Financial institutions	51
Large	25
Small	23
Credit unions	2
Community development corporations	23
Government agencies	21
Federal	1
State	5
Regional	1
Local	11
CDFIs	11
Social service organizations	11
Academic institutions	10
Elected officials	8
State	6
Local	2
Grassroots organizations	4
Faith-based organizations	3
Trade associations	2
Developers	1
Foundations	0
Other organizations*	13

\* Includes settlement houses, government councils, local development districts, economic development districts, venture capital companies, and government-sponsored enterprises.

## THE MISSION OF COMMUNITY AFFAIRS AT THE FEDERAL RESERVE

The mission of the Community Affairs function of the Federal Reserve System is to support the System's economic growth objectives by promoting community development and fair and impartial access to credit.

This environmental assessment helps the Community Affairs Office design effective public programs, conduct timely research, and develop products and services to meet community development needs during 2003 and 2004.

<sup>1</sup> 25 percent of respondents answered no, and 4 percent did not respond.

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- ▶ *Development of affordable housing*
- ▶ *New employment opportunities and job creation*
- ▶ *Financial education and remedies to predatory lending*
- ▶ *Industrial and commercial (re)development*
- ▶ *Financing incentives for community economic development.*

Respondents identified many positive conditions that are paving the way for community reinvestment initiatives, such as tax incentives to encourage development and the emergence of new leadership in some areas. However, the current economic climate—both nationwide and in the Fourth District—has been transitional and not conducive to wealth building in the communities that need it most. Cuts in federal, state, and local budgets have curtailed the role of government participation in some community development initiatives because of funding, program, and staff reductions, as well as competing legislative interests.

Access to credit in low- and moderate-income areas has been negatively affected by tightening credit standards and increased fees, although

improvements in technology are ameliorating credit availability in some communities. New populations migrating to the region, while not great in number, present opportunities for economic growth and community development ventures. This trend is occurring in some regions of the country, but not significantly affecting the Fourth District.

The Community Affairs Office will continue to provide research and analysis on the trends identified in the assessment, develop partnerships with community economic development practitioners, help to inform public policy through increased communication with elected officials, and conduct ongoing outreach.

To stay abreast of such concerns, the Federal Reserve Bank will hold roundtable discussions with community development practitioners and financial institutions throughout the District, which are a vital source of information. In addition, The Community Affairs Office will continue to assess the community development environment to gauge how trends are evolving over time and to learn what factors may be influencing the landscape.

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