

**The Federal Reserve System and Community Development:
The Why, The How, and The What**



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Introduction

Let me take this opportunity to offer my thanks to all of you for actively participating in this year's Policy Summit, and to Mary Helen Petrus and Bonnie Blankenship of the Federal Reserve Bank of Cleveland, Theresa Singleton of the Federal Reserve Bank of Philadelphia, and Michael Grover of the Federal Reserve Bank of Minneapolis for taking the lead in creating this year's program.

Over the past 14 years, the Policy Summit has brought together community development practitioners, researchers, funders, policymakers, and others interested in strengthening our communities so that all people have the opportunity to productively engage in our economy and to share in its benefits. As is clear from the many conversations we've had over the past two days – and over the past 14 years of this summit – there are no easy answers. But there are *some* answers, and I have confidence that your dedication, expertise, and collaboration will result in effective solutions being implemented more widely and even better solutions being devised. I hope that the discussions over the past two days have inspired you to continue the important work you are doing.

Today, I want to talk about the Federal Reserve's role in the community development arena. I will touch on “the why, the how, and the what” of this work: why we at the Fed see our community development efforts as important to our mission of fostering a healthy economy, how we go about doing this work, and some of what we are focusing on. As always, the views I'll present are my own and not necessarily those of the Federal Reserve System or my colleagues on the Federal Open Market Committee.

The Structure of the Fed

To begin, it helps to know a little bit about the structure of the Federal Reserve System. To say that the Fed is an “interesting” institution is an understatement. I've spent my career at the Fed, and I am still learning arcane things about the Fed's structure and history. The Federal Reserve System was established by an act of Congress that was signed into law in 1913. We like to say that the Federal Reserve is a

decentralized central bank, which is independent *within* the government but not independent *from* the government. The structure is one of balance. Congress designed the Fed to alleviate concerns that it would become dominated by financial interests in New York or political interests in Washington or by any particular individual group. The design includes representation from the entire nation, balancing public-sector and private-sector interests, and Wall Street and Main Street concerns.

The Federal Reserve System has 12 regional Reserve Banks that are distributed across the country and a seven-member Board of Governors in Washington that oversees those Banks. The governors, who serve the public, are appointed by the president of the United States and confirmed by the Senate. The Reserve Banks also operate in the public interest. Each has a nine-member board of directors whose members are chosen in a nonpolitical process to represent business, agricultural, industrial, bank, and public interests in the Districts they serve. The nonbank directors are responsible for choosing the Bank's president, who is subject to approval by the Fed's Board of Governors. Some of the Reserve Banks also have Branches with boards, and each Reserve Bank has a number of advisory councils drawing membership from various sectors and geographies in their Districts.

This regional and balanced structure has served the country well for more than 100 years. The U.S. is very diverse, encompassing large cities, small towns, and rural areas, with a mix of different industries and occupations. The Fed's structure allows decisions on monetary policy, financial system regulation and supervision, and payments to take into account the diversity of the American economy and its people. We recognize that our policy decisions affect Main Streets and communities all across the country.

As a participant at Federal Open Market Committee meetings, I can attest to the fact that the members of the Board of Governors and Reserve Bank presidents do bring different perspectives to the table. My own perspectives are informed not only by economic and financial data and models but also by the information gleaned from a diverse set of business, consumer, and labor contacts throughout the Fourth

District, which includes the state of Ohio, the western part of Pennsylvania, the eastern part of Kentucky, and the northern panhandle of West Virginia. By design, the discussions at our meetings contain a mosaic of economic information and analysis from all parts of the country. The FOMC does not suffer from group think. We come together, share our different perspectives, and work to develop a consensus to set national monetary policy in pursuit of our monetary policy goals of price stability and maximum employment, goals that Congress gave us.

Congress has also given the Fed independence in making monetary policy decisions. Neither Congress nor the U.S. president has to approve monetary policy decisions, so the decisions are insulated from short-run political considerations. At the same time, the Fed is held accountable for its decisions when it regularly communicates the rationale for its policy decisions in testimony before Congress, and in policy statements, meeting minutes, reports, and speeches. This system of accountable independence has been shown to yield better policy decisions and better economic outcomes for the country. The regional, private-public structure of the Federal Reserve System helps to reinforce this system of independence and accountability by ensuring that diverse information from all sectors of the economy and all parts of the country is brought into monetary policy discussions, with the policymakers themselves distributed across the nation and not concentrated in one location.

Federal Reserve System and Community Development: The Why

In addition to aiding monetary policymaking, the Fed's structure allows us to perform our other functions more effectively, too. Of course, one of those is near and dear to everyone in this room: the Federal Reserve System's role in identifying effective community development policies and best practices for promoting economic progress and access to credit in low- and moderate-income neighborhoods.

The origin of the Fed's community development work lies with the passage of the Community Reinvestment Act (CRA) in 1977. At the time, many people thought that limited access to credit and

illegal practices such as redlining contributed to the deterioration in low- and moderate-income neighborhoods throughout the U.S. The CRA was meant to help ensure equitable access to credit for all individuals and neighborhoods by reaffirming that insured depository institutions must serve the communities in which they are chartered to do business.¹ In 1981, the Board of Governors asked each Reserve Bank to appoint a Community Affairs Officer, and from there, the Fed built a function to provide technical training and support to depository institutions to help bolster compliance with the CRA.

Over time, the Fed's interest and activities in community development have grown. Partly this reflects the desire to promote consistent implementation of the CRA across the nation, recognizing that, to do this, we need a good understanding of all of the interrelated challenges facing lower-income communities. But another motivation is the fact that our community development activities at the local level, facilitated by the Fed's regional structure, have allowed us to gain valuable reconnaissance on the economic health of people and communities across our Districts. Even if the Federal Reserve, along with other federal regulators, were not charged with implementing the CRA, our community development activities would remain an important component of the Fed's work because they help us monitor the health of the economy across various segments of the population and geographies, which is an important component of setting appropriate monetary policy.

The financial crisis and ensuing recession provide a vivid illustration of this interconnectedness and the importance of local engagement. As the housing market slowed and the number of subprime mortgage delinquencies and foreclosures began to rise, the Federal Reserve began monitoring these developments more intensively. No doubt, at the beginning, we underestimated the negative effects that problems initially centered in the subprime mortgage market would ultimately have on the broader economy.

¹ For more on the historical context of the CRA, see Sandra F. Braunstein, "[The Community Reinvestment Act](#)," testimony before the Committee on Financial Services, U.S. House of Representatives, February 13, 2008.

However, members of the Fed's community development staff were already engaged with industry and consumer advocates who were focused on helping troubled borrowers. These staff members were able to provide first-hand knowledge and objective information to Fed policymakers, raising their awareness that the problems were not insignificant. Fed staff with expertise in mortgage markets and housing in the community development, economic research, and bank supervision functions were mobilized. Our regular contact with local organizations across the country indicated that a lack of data on delinquencies and foreclosures was impeding progress. So Federal Reserve staffs across the country began collecting data; they analyzed delinquency and foreclosure trends and helped to evaluate policies and programs aimed at aiding troubled borrowers and addressing the growing problem of foreclosures. Ohio had one of the highest foreclosure rates in the country, coupled with high numbers of vacant and abandoned properties, so the Cleveland Fed was particularly active in this analysis, working with government agencies, financial institutions, and community-based organizations – perhaps with many of you in this room.²

While our community development work gives us insights into the economic health of communities, which helps inform our monetary policy, monetary policy is not the right tool to address the many challenges facing lower-income households and neighborhoods. What monetary policy can do is promote greater economic stability overall by focusing on price stability and maximum employment, and thereby lower the risk of recessions, which disproportionately harm the more vulnerable parts of our society. But an interconnected set of factors determines the economic vitality of households and neighborhoods, including access to credit, capital, and financial services, affordable housing, workforce development, job training and education, health and wellness services, and infrastructure, including transportation and broadband services. While monetary policy cannot address issues such as income inequality, the longer-

² The Cleveland Fed's 2008 annual report essay, "[Breaking the Housing Crisis Cycle](#)," focused on the magnitude of the housing crisis in the region and the nation and discussed potential policy responses.

run issues of workforce development, or the distributional effects of globalization and technological change, other government policies and private-public programs, if they are well-designed, can. This is where the Federal Reserve's community development work comes in.

Federal Reserve System and Community Development: The How

The Fed is not the entity that can set these policies or implement these programs, but the Fed is committed to increasing knowledge about the economic challenges facing low- and moderate-income households and communities and helping to identify effective policies and best practices to address these challenges. I believe the structure of the Federal Reserve System gives us some advantages in doing this work. In particular, our regional structure insulates us from political influence, so we are viewed as a trusted and objective party. We hold that public trust very dearly, and always strive to maintain our credibility. That is why we aim to conduct our research with the utmost rigor and the highest quality standards, looking objectively at all sides of an issue and potential solutions. Our reputation for objectivity helps us play an important role as a "convener" and, I would add, as a "catalyst." We all know that the issues facing lower-income regions in a dynamic economy such as ours are complex ones. Many of the solutions will be complex as well. At the very least, they will take committed and collaborative actions from various stakeholders, and probably some compromises, too.

The Fed plays a useful role here by convening forums and workshops with the groups needed to effect change. Such forums foster a common understanding of the magnitude and breadth of the issues, allow best practices to be shared, spur quicker dissemination of insights, and can catalyze action that ultimately leads to more effective economic policies and programs. The Fed values the relationships we have built with key organizations working to improve the economic outcomes of people in communities across the country. I have had the privilege of meeting with many dedicated community development practitioners and engaging with people who live and work in lower-income areas in our region. I have seen first-hand that the information my Fed colleagues and I glean from such interactions has informed our research and

has helped us learn about the promising programs many of you lead throughout the country. For example, the Atlanta, Cleveland, and Philadelphia Reserve Banks' project to identify "opportunity occupations," those occupations that pay higher than the median wage but don't require a bachelor's degree, grew out of our hearing repeatedly from various parties of the need for these types of jobs.³ We have also seen that practitioners and policymakers have used Federal Reserve research, so there are important synergies to be gained by actionable research coupled with convening meetings and workshops.

Just as getting all stakeholders together can help yield more effective solutions, the Federal Reserve System recognizes that Reserve Banks and the Board of Governors can achieve more by working together on community development issues without sacrificing the focus each Reserve Bank has on particular issues affecting its individual District. The System-wide approach allows us to deploy resources more efficiently, to develop more in-depth expertise that can be shared, to identify those issues that loom large in many parts of the country, and to track emerging economic developments in a way that we couldn't if we weren't regionally distributed and didn't work together.

Federal Reserve System and Community Development: The What

I would like to spend the remainder of my time discussing some of the Fed's community development work. As I mentioned earlier, many factors influence the economic vitality of households and neighborhoods, including access to credit and capital workforce development, affordable housing, infrastructure, and health services. There is ongoing research and engagement across the Federal Reserve System in each of these topic areas – far too much work to summarize in my remaining time. One focus has been on areas of concentrated poverty, which exist in both urban and rural settings. The Minneapolis Fed's Center for Indian Country Development; the Dallas Fed's Colonias project on neighborhoods along

³ "[Identifying Opportunity Occupations in the Nation's Largest Metropolitan Economies](#)," Federal Reserve Banks of Philadelphia, Cleveland, and Atlanta, September 2015.

the U.S.-Mexico border; the St. Louis Fed's Delta Communities Initiative, which is working with distressed communities across the Arkansas and Mississippi Delta regions; the efforts of the Atlanta, Cleveland, and Richmond Feds in Appalachia; and the joint efforts among several Reserve Banks in the industrial heartland and older cities have pointed to some key issues affecting the economic vitality of the people and communities in these areas. Workforce development is one of those issues that span regions, and so considerable efforts are underway across the Federal Reserve System and with our community partners to find solutions to ensure that people have access to the education and skill-development programs needed to ensure that they can be productive members of the modern workforce.⁴ Our activities focused on workforce development have improved our understanding of the labor market outcomes of different groups and communities and of labor markets more broadly; this work has obvious spillovers to the Fed's need to understand labor market conditions when setting monetary policy.

Of course, to make progress on any of the issues facing distressed communities you need to be able to measure the scale of the problems. In addition, you need to ensure that those with funds and an interest in effecting solutions are brought together with those with effective programs in need of financing. Let me discuss some of the contributions the Fed is making in these two areas.

Providing data and data tools

As was clear during the foreclosure crisis, inadequate data can be a sizable impediment to understanding challenges and finding solutions. So the Fed's community development function is providing data and analytical tools to the public. These disaggregated data help us understand emerging issues that can be masked by looking only at aggregate statistics. The Fed's Small Business Credit Survey is a good

⁴ For a description of some of the community development efforts underway in the Federal Reserve System, see Janet L. Yellen, "[Addressing Workforce Development Challenges in Low-Income Communities](#)," remarks at Creating a Just Economy, the 2017 annual conference of the National Community Reinvestment Coalition, Washington, D.C., March 28, 2017, and Lael Brainard, "[Why Opportunity and Inclusion Matter to America's Economic Strength](#)," remarks at the Opportunity and Inclusive Growth Institute Conference, sponsored by the Federal Reserve Bank of Minneapolis, Minneapolis, MN, May 22, 2017.

example.⁵ This survey started as individual surveys conducted by a few Reserve Banks, but under the New York Fed's leadership, it became a common national survey in 2016, with more than 15,000 small business respondents. This survey could not have been carried out without the 400 organizations, including chambers of commerce and economic development agencies, that partnered with the Fed to gather responses. The results allow us to track access to credit from several individual segments of the small business population, including minority-owned businesses, women-owned businesses, startups, microenterprises, and the self-employed.

Another example of data gathering is the Board of Governors' Survey of Household Economics and Decisionmaking, which has been conducted since 2013 and provides data to help track the economic well-being of households.⁶ The survey contains information on access to credit, retirement savings, student loans, and other evidence on how households are faring financially.

A third example is the data provided by the Dallas Fed and Cleveland Fed on broadband access. Broadband internet access has become a necessity in our connected world, allowing for higher income growth rates and lower unemployment rates in areas with higher adoption rates.⁷ But both access and adoption rates vary with household income levels, with a considerably smaller proportion of lower-

⁵ For the 2016 results and further information on the survey, see the [Federal Reserve Small Business Credit Survey](#).

⁶ For further information about the survey and the 2016 results, see the Board of Governors' [Survey of Household Economics and Decisionmaking](#).

⁷ A recent report issued by Cornell University found that nonmetropolitan counties that have had a high rate of broadband adoption have also experienced higher growth in median household income and lower rates of job loss than similarly situated counties that have had low broadband adoption. (See Brian Whitacre, Roberto Gallardo, and Sharon Strover, "[Broadband's Contribution to Economic Health in Rural Areas](#)," Issue Number 64, Research and Policy Brief Series, Community and Regional Development Institute, Department of Development Sociology, Cornell University, February 2015.)

income households using broadband at home compared to higher-income households.⁸ There is also wide disparity in broadband access, especially access to higher-speed broadband, between rural and urban areas, putting the growth prospects of rural areas at a disadvantage. Recent revisions to the CRA rules recognize that a reliable communications infrastructure, such as broadband internet service, can help to revitalize or stabilize underserved nonmetropolitan middle-income areas. So depository institutions now receive credit for investing in this infrastructure for the purposes of meeting the CRA requirement of serving the needs of low- and moderate-income communities.⁹ The Dallas Fed produced a comprehensive guide for financial institutions to help them understand how broadband can benefit the communities they serve and how their planned investments could qualify for CRA credit. The guide includes several tables and maps, based on U.S. Census bureau data, measuring broadband access at the national level and in the Dallas Fed's District.¹⁰ The Cleveland Fed has provided similar data from the Federal Communications Commission for the Fourth District.¹¹

In addition to data, the Federal Reserve is providing tools to help the public use the data. Let me mention three of these. Last month, the Philadelphia and Cleveland Feds released the Home Mortgage Explorer tool.¹² Based on Home Mortgage Disclosure Act data, this tool allows users to track trends in mortgage lending at the national, state, metropolitan, and nonmetropolitan levels, by purpose and type of loan.

⁸ A 2013 federal government report indicated that fewer than half of households with incomes below \$25,000 a year use broadband at home, compared with over 90 percent of households with annual incomes exceeding \$100,000. (See "[Four Years of Broadband Growth](#)," Office of Science and Technology Policy and the National Economic Council, The White House, Washington, D.C., June 2013.)

⁹ See page 48510 of the *Federal Register* notice, "[Community Reinvestment Act: Interagency Questions and Answers Regarding Community Reinvestment; Guidance](#)," *Federal Register*, vol. 81, no. 142, Monday, July 25, 2016, Rules and Regulations.

¹⁰ See Federal Reserve Bank of Dallas, "[Closing the Digital Divide: A Framework for Meeting CRA Obligations](#)," July 2016, Revised December 2016.

¹¹ See Shruthi Arvind and Kyle Fee, "[Broadband and High-speed Internet Access in the Fourth District](#)," Federal Reserve Bank of Cleveland, December 8, 2016.

¹² For further information, see the [Home Mortgage Explorer](#).

Information is provided on the reasons a loan application was denied and on applicant and neighborhood income.

Recently, the Chicago Fed launched the Peer City Identification Tool. This tool allows a user to easily determine which cities, among the 300 included in the data set, are experiencing similar trends or challenges along four key themes: racial and socioeconomic composition; economic change and labor market conditions; demographic and economic outlook; and housing affordability, tenure, and housing-stock age.¹³ The themes were determined based on areas of concern cited by city leaders in more than 200 interviews across 10 cities. Users of the tool can determine which cities among the 300 are considered peers with respect to the particular theme, and the values of the theme's indicators for each of the peer cities. The underlying data on the 28 indicators for all 300 cities are downloadable so people can use the data in other analyses as well.

A third data tool, *Following the Money*, was created by the Atlanta and Philadelphia Feds, based on data from the Foundation Center.¹⁴ Foundation grants are becoming a more important source of funding for community development, and this tool allows the user to see the distribution of foundation grants across 366 metropolitan areas across the U.S., or for a user-defined selection from among these metro areas. Data on the grant volume per capita, on the types of activities the grants are funding, and on the number of community and economic development nonprofits in the metro areas are provided.

¹³ The 300 cities included in the tool's data set are those that had a population of at least 50,000 in 1960. City peer groups are determined using cluster analysis based on a set of indicators for each theme. For example, according to the tool, Trenton, New Jersey, and East St. Louis, Illinois, among other cities, are housing peers of Cleveland. The three cities are similar in that a large share of their housing stock was built pre-1980, and they share similar vacancy rates, home value to income ratios, homeownership rates, and share of renter households that spend more than 30 percent of their gross monthly income on rent each month. For further information on the tool and its construction, see the Federal Reserve Bank of Chicago's [Peer City Identification Tool](#).

¹⁴ For more information on this tool, see [Following the Money](#).

Improving access to funding

As the Following the Money tool reminds us, once potential solutions for challenges affecting lower-income communities are found, those solutions need to secure funding. While the Federal Reserve cannot make those investments, the Fed's community development function has been working to improve access to credit and capital by helping to match funders to those programs and projects that research has shown to be effective in helping low- and moderate-income households and communities. The Dallas Fed's work on broadband and the CRA fits this theme by giving banks guidance in determining which broadband projects are CRA-eligible.

Another very good example is the Boston Fed's Working Cities Challenge, which began in 2013.¹⁵ Boston Fed research on small and mid-sized cities that lost manufacturing employment found that "resurgent cities," meaning those that successfully reinvigorated their economies, exhibited a high degree of leadership and collaboration among key institutions and individuals, including nonprofits, private citizens, corporations, and government.¹⁶ Informed by this research and designed in partnership with the Boston Fed's network of community development stakeholders, the Working Cities Challenge is a grant competition aimed at strengthening civic collaboration and partnerships to help low-income areas. Eligible cities can make one proposal for an idea or program that will unite the public, private, and nonprofit sectors, and community members in improving the lives of low- and moderate-income people in an enduring way. There are four rounds underway – two in Massachusetts, one in Rhode Island, and one in Connecticut – with \$10 million in funding to be awarded. In a related effort, the San Francisco Fed is now engaged with the Strong, Prosperous, and Resilient Communities Challenge (SPARCC), which is modeled on the Working Cities Challenge.

¹⁵ Further information on the Boston Fed's [Working Cities Challenge](#) is available on its website.

¹⁶ "[Reinvigorating Springfield's Economy: Lessons from Resurgent Cities](#)," Public Policy Discussion Paper No. 09-6, Federal Reserve Bank of Boston, October 1, 2009.

My last example of a successful Federal Reserve effort enabling better access to funding is the Kansas City Fed's Investment Connection program.¹⁷ In their discussions with the Kansas City Fed, banks had indicated they were having trouble identifying CRA-eligible investment opportunities in their service areas, and community leaders were saying they were having trouble getting funding. Seeing a potential opportunity to improve the situation, the Kansas City Fed created the Investment Connection program. Under the program, community and economic development organizations in the District can have project proposals pre-screened by Kansas City Fed staffers to determine whether they are CRA-eligible, and then get a chance to pitch their proposals to potential funders, including banks and foundations. So far, the Kansas City Fed has facilitated connections between nearly 60 community organizations and almost 100 funders. Given the regional structure of the Federal Reserve System, a successful program like this one can now potentially be expanded into other regions.

Conclusion

I hope that this review of “the why, the how, and the what” of the Federal Reserve System's community development efforts has been helpful. I have the privilege of chairing the committee that oversees the community development efforts at the Federal Reserve Banks. I can assure you that the professionals in the community development function at the Fed are dedicated to this work and realize that little could be accomplished without the productive relationships and partnerships they have with the many groups represented in this room, including government agencies, financial institutions, foundations, academia, research centers, and community-based organizations. Going forward, the Fed will continue to leverage the benefits from its regional structure. This structure allows the Reserve Banks and the Board of Governors to uncover common issues and find solutions for the challenges facing low- and moderate-income communities and individuals across the country while allowing each Reserve Bank to remain

¹⁷ Further information on the Kansas City Fed's [Investment Connection program](#) is available on its website.

focused on the particular needs in its specific region. We look forward to our continued collaboration with you to make the economy work well for all.