Community Development and the Federal Reserve

Loretta J. Mester
President and Chief Executive Officer
Federal Reserve Bank of Cleveland

Opening Remarks at the
Collaboration for Inclusive Economic Development:
A Forum for Philanthropies, Policymakers, and Practitioners
Federal Reserve Bank of Boston
Boston, MA

November 29, 2018
Introduction

I thank Eric Rosengren, the Federal Reserve Bank of Boston, and the Living Cities Collaborative for organizing this public forum exploring new opportunities for advancing economic opportunity and economic mobility. Based on every event I have attended at the Boston Fed over many years, I know that I will come away with new insights and I look forward to our conversation.

Fed governance is arcane and I’m not planning to talk about it today except to say that I chair the committee across the Reserve Banks that focuses on the Fed’s community development work. I have been asked to present some opening remarks on these efforts, why they are important to our mission of fostering a healthy economy, and what the Fed is doing to encourage more inclusive growth. My remarks will reflect my own views and not necessarily those of the Federal Reserve System or my colleagues on the Federal Open Market Committee.

The Fed in the Community

The origin of the Fed’s community development work lies with the passage of the Community Reinvestment Act (CRA) in 1977. The CRA was intended 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. To help these institutions comply with the CRA, the Fed built a function to provide technical training and other support.

Over time, the Fed’s interest and activities in community development have grown: today, community development is one of the Fed’s core business functions. The financial health and access to economic opportunity of consumers and communities is a key component of the country’s overall economic health and resiliency. The Fed recognizes that in order to perform our various duties, we need to have a good understanding of all of the interrelated challenges facing lower-income communities as well as more affluent areas. This understanding helps ensure that we are taking a consistent approach to advancing the
CRA and promoting access to credit, investment, and financial services across low- and moderate-income households, small businesses, and communities. Our relationships with community development organizations and philanthropies at the local level provide us with valuable sources of information about the economic health of people across various segments of the population and across the communities in our Districts, and this helps us gauge the effectiveness of our monetary policy. Our community development work also helps us gather information on developing trends in financial services and markets that could raise risks to bank safety and soundness or to financial stability more broadly.

Many factors determine 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. Over the next several years, our Community Development staffs across the Federal Reserve System will be focusing their efforts on advancing the economic resiliency and mobility of low- and moderate-income and underserved households and communities. What factors make certain individuals and communities better able to recover from economic setbacks, and how can those factors be promoted broadly? Why are some places and households mired in persistent poverty, and what can be done to turn around those bad outcomes? What factors allow people to move up the economic ladder regardless of where they live or their racial or gender makeup? What policies can ensure broad access to economic opportunity for all people and places?

These are hard questions. The Fed is committed not only to increasing knowledge about the economic challenges facing low- and moderate-income households and communities, but also to helping to identify effective policies and best practices to address these challenges. We aim to do that by gathering and disseminating data; conducting applied, action-focused research; and holding forums such as this one. We strive to conduct our data gathering and research with the utmost rigor and the highest standards of quality, looking objectively at all sides of an issue and potential solutions. Our engagement with
committed stakeholders like you is critical to ensuring that our research hits the mark, that it contributes to the public discourse, and that it informs public policy and yields concrete and positive outcomes. The people in this room know very well that the issues facing lower-income households and communities in a dynamic economy such as ours are complex ones. Many of the solutions will be complex as well and will take committed and collaborative actions from all of us.

The Fed’s Community Development Work in Action

I’d like to conclude my opening remarks by highlighting just a few examples of the Federal Reserve’s efforts in community development.

On the access-to-credit front, the Kansas City Fed’s Investment Connection program allows community and economic development organizations in the District to have project proposals pre-screened by Kansas City Fed staffers to determine whether the project is CRA-eligible. The organizations then get a chance to pitch their proposals to potential funders, including financial institutions and community foundations. Since 2011, Investment Connection has facilitated more than $30 million in loans, investments, grants, and services to community economic development organizations. And because the program has been such a success, other Federal Reserve Districts, including Minneapolis, St. Louis, New York, and Cleveland, have either started or are considering piloting programs of their own.

An example of the Fed’s data gathering, dissemination, and analysis, our annual Small Business Credit Survey, has become a trusted source of information on the conditions of firms with fewer than 500 employees. This survey and the associated analysis, which is a collaboration among all 12 Reserve Banks, are used by a wide range of stakeholders seeking to understand the financing needs of the small business sector, an important driver of the economy.
In terms of our collaborative efforts, workforce development is a key issue that affects economic vitality across all regions. 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. The Federal Reserve System is engaged with the Heldrich Center at Rutgers University, the Ray Marshall Center at the University of Texas at Austin, and the Upjohn Institute in an effort called Investing in America’s Workforce. This initiative seeks to align the skills of the workforce with employers’ needs by reframing the discussion of workforce development efforts as investments rather than costly social services. Earlier this month, the initiative released a three-volume set presenting workforce development programs and policies that are considered to be best-practice in terms of delivering positive returns to society, employers, workers, and job seekers. The volumes were a culmination of many listening sessions and engagement with a vast number of practitioners and academics from across the country.

In addition to these collaborative efforts across the Federal Reserve System, each Reserve Bank also does work on the issues and needs of low- and moderate-income households and communities that are especially relevant to their individual Districts. An excellent example of this is the Boston Fed’s Working Cities Challenge, which began in 2013. Informed by the Boston Fed’s research and designed in partnership with its 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 and households in the Northeast in an enduring way.

Another example is the Cleveland Fed’s work on the opioid crisis, an issue that disproportionately affects the people in our District and their ability to productively engage in the economy. Cleveland Fed research has documented the effects of opioids on different segments of the population, in terms of race and gender, and across geographic areas. In addition to research, the Cleveland staff has engaged our community contacts and advisory councils to provide insights into this public-health problem, which is
having significant economic consequences in terms of workforce attachment.

As I said, this is just a taste of the type of work being undertaken by the Federal Reserve to better understand and help to provide workable solutions to these complex community development challenges. These problems are not going to solve themselves. Determining viable solutions will take collaboration among all stakeholders, as underscored by the title of today’s program, Collaboration for Inclusive Economic Development. As I am certain you are too, I am looking forward to today’s panel sessions featuring leaders from philanthropic foundations and some of my Fed colleagues. They will discuss the barriers to inclusive economic progress, what responses are being brought to bear, and where the Federal Reserve System, philanthropies, and others can collaborate to foster further innovative approaches and solutions. Thank you all for being here today to participate in this important dialog.