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THE COST OF GRANDPARENTS RAISING GRANDCHILDREN

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Communities & Banking magazine aims to be the central forum for the sharing of information about low- and moderate-income issues in New England.

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LETTER FROM THE EDITOR

In our ongoing pursuit of insights that can strengthen New England's lower-income communities, we often check out studies from other parts of the country. We hope you will be as intrigued as we were by new research from the UCLA Center for Health Policy Research (on lower-income grandparents struggling to make ends meet when raising grandchildren) and New York's Center for an Urban Future (on the unique needs of elderly immigrants).

Research from Wisconsin shows that black-owned banks provide value to otherwise underserved minority communities. And a study from the Urban Institute parses the data on New Englanders who use payday lenders, pawnbrokers, and similar financial services.

Closer to home, three inspiring Rhode Island women describe initiatives that are quietly benefiting low-income neighborhoods and disenfranchised residents. An article on the Small Town Economic Assistance Program describes how Connecticut helps fund some communities' otherwise unattainable infrastructure projects. Coastal Enterprises Inc.'s CEO describes how the loss of a nuclear plant in Wiscasset, Maine, exposed the dangers of relying on a single employer.

In the workforce arena, an article on a woodworker credentialing program in Maine, New Hampshire, and Vermont emphasizes collaboration among multiple players. And Barry Bluestone explains why some Working Cities are able to add jobs.

Check out our map on the growth of government-backed mortgages in New England and an entertaining infographic lifting the fog that shrouds overdraft fees.

If you send us letters, we will print them. And we urge you to visit our blog, www.thecentralpremise.org, for more great information. Consider becoming a "follower" there.

Best,
Caroline Ellis
Managing Editor
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MEASURING ECONOMIC SECURITY FOR GRANDPARENTS RAISING GRANDCHILDREN

D. Imelda Padilla-Frausto and Steven P. Wallace
UCLA CENTER FOR HEALTH POLICY RESEARCH

COVER STORY

By capturing the actual costs associated with meeting basic needs, a new tool can measure the economic security of grandparents raising grandchildren.

In 2011, 7 million U.S. grandparent heads of households had a grandchild living with them. Approximately 3 million had primary responsibility for meeting their grandchildren's basic needs. In New England alone, 237,000 grandparents had grandchildren living with them, and 77,000 were the primary caregivers.[1]

But grandparents over 65 often face financial challenges supporting an additional dependent on a retirement income without financial help from the child's parents. Financial hardships can have an impact on the emotional, mental, and physical well-being of both grandparent and grandchildren.[2] Nationally, more than one in four grandparent caregivers lives in overcrowded conditions, more than one in six pays over half their income in rent, and 60 percent who qualify for rent subsidies do not receive any.[3] As for the grandchildren, although 48 percent of those living with grandparents experience some food insecurity, only about 43 percent receive food stamps.[4]

Measuring Economic Security

The Federal Poverty Guidelines (Federal Poverty Levels, FPL) are the official measure of the minimum income needed to meet the basic needs of individuals and families. The amounts are often used to set eligibility and benefits for public programs. But numerous studies have documented that the FPL is an outdated and inaccurate reflection of the actual incomes families need. It is also a poor metric to identify the economic needs of custodial grandparents.[5]

The Supplemental Poverty Measure (SPM) was developed to address FPL shortcomings, but being based on individuals' current spending, it doesn't necessarily measure actual need.[6] It includes people who spend only $100 on food per month, but that amount may represent food insecurity. A better way to measure economic security is to capture the actual costs associated with basic needs, such as shelter, food, health care, and transportation.

Enter the Elder Economic Security Standard Index, an evidence-based measure of economic security that reflects the current actual cost of basic needs at the county level for retired adults age 65 and over who receive no public assistance. The index was developed by Wider Opportunities for Women and the University of Massachusetts, Boston, Gerontology Institute to address the failings of the FPL for older adults. The UCLA Center for Health Policy Research and the Insight Center for Community Economic Development adapted the index and calculated it for California. As of September 2011, California law requires Area Agencies on Aging to use the index for program and planning purposes.[7]

The California Elder Index starts with housing costs for three different housing types in each county: renters, homeowners with a mortgage, and homeowners without one. To each of those, the index adds a county-adjusted cost of food from the U.S. Department of Agriculture's low-cost diet, health-care costs from local insurance data and national out-of-pocket cost data, car transportation costs, and an additional percentage of total costs for miscellaneous expenses. Driving the high cost of living for older adults are housing and health care.[8]

The California Elder Index for Grandparents builds on the basic living expenses of older singles and couples to include additional expenses for grandchildren: housing, food, transportation, school supplies, clothing, and personal care.[9] The estimates are conservative and based on two assumptions: that child care is not needed if grandparents are retired and that their grandchildren's health insurance is covered through no-cost Medicaid. The calculations reveal that the average California grandparent who rents and is the primary caregiver of a grandchild needs twice the FPL to maintain a basic standard of living. Even older adults who own their own home with a paid-off mortgage—and who incur no additional housing costs for the grandchild—face expenses over 1.5 times the FPL. (See "Income Needed to Raise Grandchildren.")

If we use 200 percent FPL as an approximate measure of basic economic security for this group, about 43 percent of older grandparents responsible for grandchildren in California do not have enough income to make ends meet. Twenty-nine percent are among the hidden poor—people whose incomes are above the FPL but not enough to meet basic living expenses. Such individuals, often overlooked in policy, are found disproportionally among racial and ethnic minorities. (See "The Hidden Poor.")

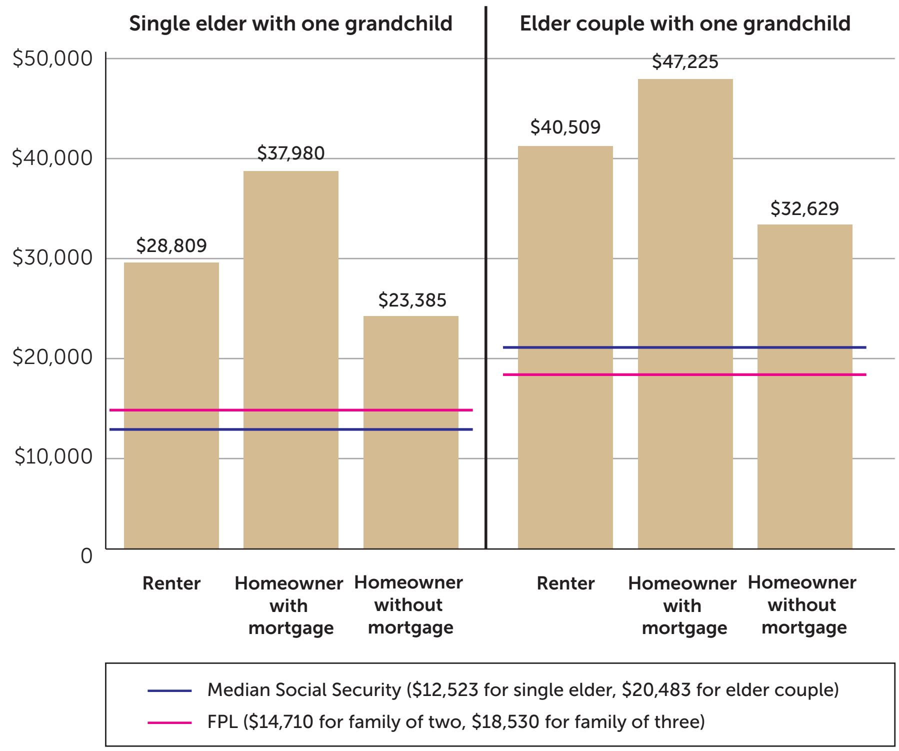
Addressing the Financial Gap

Access to stable and sufficient financial resources can help grandparents provide a basic living for themselves and their grandchildren. The Elder Index's more accurate reflection of the cost of living can help policymakers better target this population's basic needs.

Some minor children are placed with grandparents through the foster care system. At a national level, in order to receive federal foster care aid, a grandchild must meet narrow and complex eligibility rules, and an increasing number don't qualify.[10] In California, not all grandparents are eligible for state foster care benefits or the Kinship Guardianship Assistance Payment Program (Kin-

Income Needed to Raise Grandchildren, According to the Elder Index

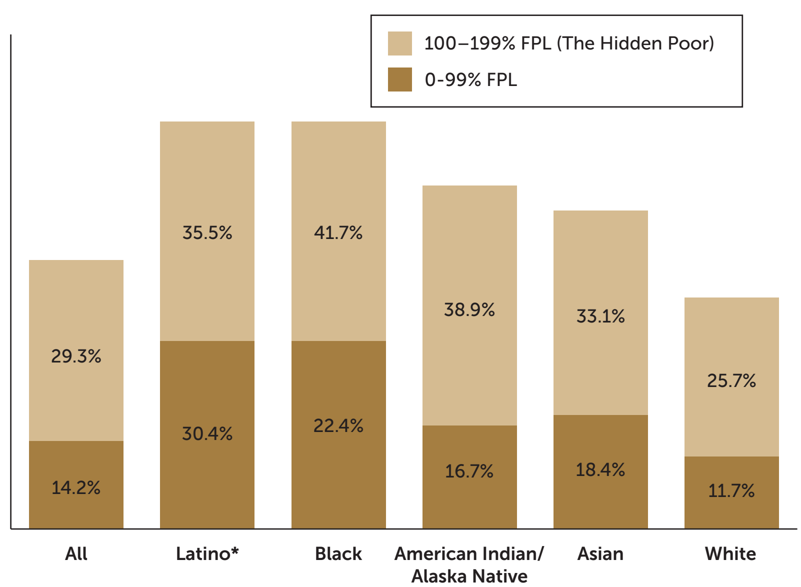
Compared with the Federal Poverty Level and Median Social Security Income (California averages, 2011)



Source: UCLA Center for Health Policy Research calculations of 2009–2011 U.S. Census American Community Survey data.

The Hidden Poor

Rates among grandparents age 65+ with primary responsibility for grandchildren without children's parents present, California, 2009–2011



Source: American Community Survey 2009–2011
* Latino may be of any race. All other groups are non-Latino.

Gap).[11] Providing financial assistance to grandparents costs less than placing the children in foster care, which can cost up to $9,419 per month per child in group-home settings.[12] Policies that support grandparent-headed households could include extending foster-care benefits and Kin-Gap or other state-related support to all low-income grandparents and updating the federal eligibility rules for federal foster-care funding.[13]

Another concern is housing. When grandchildren are placed with grandparents, there is often little forewarning. Grandparents in senior housing where minors are not allowed risk eviction, but it's hard for multigenerational families to find affordable housing quickly. To reduce housing difficulties, policymakers also could prioritize giving housing subsidies to low-income grandparent caregivers.

Meanwhile, eligibility for food stamps (Supplemental Nutrition Assistance Program, or SNAP) is not, unlike Medicaid, based solely on the grandchild's income, and grandparents receiving Supplemental Security Income are not eligible either.[14] Furthermore, SNAP eligibility is set at or below 100 percent FPL and excludes the hidden poor. Increasing SNAP income eligibility to be consistent with the Elder Index and extending eligibility to children being raised by low-income grandparents would help with basic needs.

The Elder Index for Grandparents accurately measures economic security and the income grandparents need to meet unexpected basic-living expenses. Grandchildren and the grandparents who take on the responsibility of raising them deserve the help.

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Endnotes

1 American Community Survey, 2011.

2 "Grandparents Raising Grandchildren: A Call to Action" (report, Administration for Children and Families, Region IV), http://www.statelibrary.sc.gov/docs/grandfamilies/grc_overview_call_to_action.pdf.

3 Generations United, "Grandfamilies," http://www2.gu.org/OURWORK/Grandfamilies.aspx. Grandparents may not know how to get rent assistance or have the mobility to go to an office and apply. They may encounter long waiting lists or a current landlord who doesn't accept subsidies.

4 J.E. Macomber and R. Geen, "Children Cared for by Relatives: What Services Do They Need?" (report, Urban Institute, Washington, DC, 2002).

5 *Measuring Poverty: A New Approach*, C. Citro and R. Michaels, eds. (Washington, DC: National Academies Press, 1995); and D.I. Padilla-Frausto and S.P. Wallace, "The Federal Poverty Level Does Not Meet the Data Needs of the California Legislature" (policy brief, UCLA Center for Health Policy Research, Los Angeles, 2012), http://healthpolicy.ucla.edu/publications/search/pages/detail.aspx?PubID=849.

6 U.S. Census Bureau, "Poverty: Experimental Measures," http://www.census.gov/hhes/povmeas/.

7 California Assembly Bill No. 138, http://www.leginfo.ca.gov/pub/11-12/bill/asm/ab_0101-0150/ab_138_bill_20110909_enrolled.pdf.

8 See Wider Opportunities for Women, http://www.wowonline.org/.

9 D.I. Padilla-Frausto and S.P. Wallace, "The High Cost of Caring: Grandparents Raising Grandchildren" (policy brief, UCLA Center for Health Policy Research, Los Angeles, 2013), http://healthpolicy.ucla.edu/publications/search/pages/detail.aspx?PubID=1200.

10 While Aid to Families with Dependent Children (AFDC) ceased to exist in 1996, income eligibility criteria for the child's home of removal for federal foster-care funding (Title IV-E) continues to be linked to 1996 AFDC criteria and the old income threshold. This requires youth to have been eligible for the outdated 1996 AFDC benefits at the time of removal from the home or within six months of the petition.

11 See California Welfare and Institutions Code 11405, http://codes.lp.findlaw.com/cacode/WIC/1/d9/3/2/5/s11405; and California Department of Social Services Kin-Gap, a payment program for relative caregivers who are unable or unwilling to adopt a child in foster care. It offers another option for exiting the child welfare system and permanent placement for the child, http://www.childsworld.ca.gov/PG1354.htm.

12 California Department of Social Services Children and Family Services Division, Group Home Standard Schedule of Rates.

13 Programs in New England can be found state by state in AARP's GrandFacts. See http://www.aarp.org/relationships/friends-family/grandfacts-sheets.

14 Social Security Administration Supplemental Security Income (SSI) in California, http://www.ssa.gov/pubs/EN-05-11125.pdf.

OLDER IMMIGRANTS in New York City

Christian González-Rivera
CENTER FOR AN URBAN FUTURE

The experience of New York City, where nearly half the elderly population are foreign-born, highlights the importance of planning ahead to help vulnerable immigrant seniors.

New York City's population is aging rapidly. In the next two decades, demographers expect the number of city residents 65 and older to increase by 35 percent, from approximately 998,000 today to 1.3 million in 2030. And according to a recent study by the Center for an Urban Future, a New York City–based think tank, immigrants comprise 46 percent of all seniors in New York, and 65 percent of New York seniors live in poverty. Immigrant seniors, however, tend to be poorer, to have significantly less money saved for retirement than their native-born counterparts, and to experience more difficulty accessing support services. As a result, many are poised not only to strain the social safety net but to fall through it entirely.

These findings should be a wake-up call for other parts of the country where older immigrants are disadvantaged.

Immigrant Seniors Are Poorer

Immigrant seniors in New York have a median income of only $9,900, compared with $18,300 for native-born seniors. They tend to receive significantly less than their native-born counterparts from wages, Social Security, private retirement accounts, and other income sources. For example, the average immigrant in New York City who is between the ages of 55 and 64 earns $23,000 less than the average native-born resident in the same age range. The ages 55 to 64 are significant because people are at or near the end of their careers, when they can expect to have their highest earned income.

Federal regulations require that a person have 40 quarters of covered earnings—to work for 10 years in formal employment where paychecks are subject to Social Security taxes—before becoming eligible to receive federally funded benefits like Social Security, Supplementary Security Income (SSI), Temporary Assistance for Needy Families (TANF), Medicare, and Medicaid (except emergency Medicaid). Many immigrants don't meet the eligibility requirements because they haven't worked in the United States long enough or because they worked "off the books."

Lower educational attainment among immigrants in general, and particularly immigrant seniors, contributes to their higher poverty rates. The study chose the educational attainment of the family members of seniors as a proxy for their earnings potential, the ability of the family to navigate the social services system on behalf of the senior, and the likelihood that the family would be able to provide resources to ensure that older members age with dignity.

Even among seniors who achieved high levels of education in their home countries, many find that their degrees and experience are worth little in their adopted home. That applies especially to doctors, lawyers, engineers, and other professionals who may lack the licenses required in the United States. While younger immigrants may choose to obtain licenses or additional training after arriving here, older workers are less likely to do so.

Barriers

New York City has the most extensive array of resources for seniors in the country. On top of federal benefits like Social Security and Medicare, older New Yorkers have access to senior centers in almost every neighborhood, senior socialization programs, walkable neighborhoods, and the most comprehensive health-care and transportation systems in the nation. Despite that, immigrant seniors are less likely than the native-born to take advantage of what is available. Not only are immigrant seniors and their communities less likely to be aware of services they are eligible to receive, but mistrust of government or fear of jeopardizing their residency keep many from getting help.

Overall, immigrant seniors' eligibility for government benefits, their ability to speak English, the amount of time they have spent in this country, their level of educational attainment, the kind of job they held during their working years, and the socioeconomic status of their family have important implications for the standard of living that they can enjoy here.

By far the biggest barrier preventing older immigrants from accessing essential services is their inability to communicate with service providers in their own language. More than three out of every five immigrant seniors in New York City are Limited English Proficient (LEP), which means that they reported to the census that they speak English “less than very well" or not at all. Moreover, 37 percent of older immigrant seniors live in households that are linguistically isolated, meaning that nobody in their household over the age of 14 can speak English very well. Seniors in such households are among the most vulnerable, because it is difficult for them to find anyone who can translate important information. They are also more likely to be socially isolated.

But making information available in the appropriate languages is only part of the equation. Cultural barriers are a crucial and often overlooked aspect of why immigrant seniors are less likely to avail themselves of existing services. Different cultural groups have different ways of acculturating their elders, different cultural mores related to a family’s responsibility to take care of their elders, and different attitudes with respect to government services. Service providers must be creative in finding culturally sensitive ways to reach populations in need and go beyond merely translating brochures and flyers into various languages.

In many immigrant communities, children are expected to take care of aging parents. Seeking help from the outside, whether the government, a nonprofit service agency, or a senior center, can be socially shameful. For some seniors, negative associations with government services in home countries increase their reluctance to seek government aid.

Family is the first and most central source of support and care for older immigrants in New York City, as elsewhere, but close-knit immigrant communities and senior-services agencies still have an important role to play.

Lack of Funds

Ensuring that senior services are provided in a linguistically and culturally competent fashion will require both creating opportunities for newer organizations that serve specific immigrant groups and increasing the capacity of existing organizations to deliver services to an increasingly diverse senior population. Organizations that specifically serve immigrant seniors tend to be smaller than those that serve seniors in general. In New York, many such groups lack city contracts for senior services and also the capacity to compete with other organizations for private funding. Furthermore, limited city funding makes it difficult for the Department for the Aging to extend contracts to more agencies than it already has.

The City Council provides about 19 percent of all city dollars that go to senior services, yet limited English and lack of political representation presents a barrier to immigrant-senior-service leaders seeking a piece of that pie. Moreover, immigrant seniors have much lower rates of voting, and do not always benefit from the largesse that can come through active political participation. Although 70 percent of native-born New York City voters over the age of 65 voted in the November 2010 election, only 43 percent of naturalized foreign-born citizens did. Moreover, many foreign-born seniors are not U.S. citizens and so not eligible to vote. Their lack of political pull is especially difficult for smaller, newer, poorer, or more linguistically isolated groups.

New York’s existing senior resources and services aren’t keeping up with the rising demand. Funding for Section 202, the federal government’s primary subsidized housing program for seniors, has plummeted by 42 percent nationwide since 2007. The city’s share of funding through the Older Americans Act, the country’s primary source of funding for senior services, has declined by 16 percent since 2005. Local funding for senior services has dropped 20 percent since 2009.

Planning for the Future

Policymakers will need to start planning for the rapid aging of the immigrant population. The situation will create both challenges and opportunities, from workforce development and housing to transportation and health-care delivery. Policymakers would be wise, for instance, to develop strategies for increasing access to government benefits, expanding the supply of larger apartments for extended families, ensuring that more of the centers offering meals for older adults provide ethnic food options (not “just franks and beans,” as one immigrant advocate told researchers), improving access to translators, and taking advantage of technology to help older adults access services. They should also develop stronger relationships with the community-based organizations that have the trust of immigrants in the neighborhoods and are well-positioned to help get more government services to older immigrants.

New York has already taken some important steps, like starting up Age Friendly New York City, a cross-agency initiative created by the Bloomberg administration to begin planning for the aging of the city’s population. Still, much more needs to be done to make a city not only a great place for immigrants, but also a great place for immigrants to grow old.

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Building a Highly Skilled Workforce

Wood-Products Manufacturing in Northern New England

Rob Riley
NORTHERN FOREST CENTER

A new skills-development and credentialing program aims to benefit workers and employers while bolstering an important part of the rural New England economy.

Wood-products manufacturing has been important to the northern New England economy for centuries. In this century, however, foreign competition and the recession, among other factors, have squeezed the industry—and the employment prospects for woodworkers.

Nevertheless, the region still includes many hundreds of small to midsize wood-products manufacturers, employing more than 13,000 people.[1] In the heavily forested states of Maine, New Hampshire, and Vermont, with 75–85 percent timberland, these companies have an important role to play. (See "Wood-Products Manufacturing Jobs in Northern New England.")

U.S. manufacturing overall is experiencing a skills gap. The 2011 report "Boiling Point? The Skills Gap in U.S. Manufacturing" provided insight into just how seriously manufacturers are viewing the challenge.[2] Respondents to a survey of 1,123 manufacturing executives indicated that a "highly skilled, flexible workforce" was the most important element in business success. More than two-thirds of those surveyed expected the shortage of skilled production workers to get worse over the next three to five years.

Leaders of wood-products companies in Maine, New Hampshire, and Vermont believe a skills gap is partly the result of an aging workforce and a dearth of younger workers. Federal Reserve

photo Northern Forest Center

top Henry Kober, right, of DCI, discusses the training initiative with Scott Nelson, Woodwork Career Alliance.

bottom Making furniture at DCI Lisbon, New Hampshire.

Wood-Products Manufacturing Jobs in Northern New England
Maine, New Hampshire, and Vermont

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
2003	12112	11863	11967	11943	11891	11894	11959	12059	11932	11813	11802	11901	11928
2004	11873	11792	11931	12140	12248	12386	12315	12474	12466	12298	12181	12213	12193
2005	11912	11847	11951	12112	12117	12236	12047	12104	11942	11801	11740	11734	11962
2006	11285	11312	11398	11516	11585	11552	11344	11387	11169	10974	10762	10768	11254
2007	10368	10353	10540	10764	10885	11067	10849	10952	10812	10794	10773	10777	10744
2008	10199	9992	9784	9831	9789	9929	9907	9823	9605	9240	8971	8669	9645
2009	7897	7560	7492	7580	7683	7800	7823	7694	7647	7660	7654	7502	7667
2010	7237	7168	7330	7480	7669	7685	7681	7674	7649	7543	7479	7492	7507
2011	7454	7535	7626	7506	7562	7589	7582	7584	7498	7462	7472	7476	7529
2012	7246	7283	7426	7485	7597	7687	7616	7668	7681	7646	7598	7574	7542
2013	7464	7558	7623	7757	7952	8048							

Source: Quarterly Census of Employment and Wages, Bureau of Labor Statistics, United States Department of Labor.

Bank of Boston research predicts nearly stagnant population growth among working-age people (25–64) in New England between 2009 and 2019, with northern New England's worker population growing by only 1.3 percent.[3] Unfortunately, although some manufacturing industries have active skills-certification systems, there is as yet no industry-accepted system with significant experience in credentialing employees of wood-products companies.

Standards and Credentialing

A new program aims to change that with a training and credentialing program that will help the industry improve the overall quality of its workforce and position wood manufacturing as a promising career path.

The Northern Forest Center, a nonprofit organization that advocates for the region and helps its communities benefit from forest-based economic and conservation initiatives, has partnered with the nonprofit Woodwork Career Alliance of North America (WCA) to pioneer the Woodwork Passport program.[4]

In addition to working closely with educational and training institutions at the secondary and postsecondary levels to help align their programs with the needs of the wood-products manufacturing industry, the Center's Skilled Workforce Initiative for Wood Manufacturing is breaking new ground by collaborating one-on-one with manufacturers.[5] (See "Goals of the Skilled Workforce Initiative for Wood Manufacturing.") It is also partnering with several industry trade associations, including the Vermont Wood Manufacturers Association, the Maine Wood Products Association, and the Architectural Woodwork Institute.

The Skilled Workforce Initiative is designed to benefit both workers and employers. By helping the industry to build the highly skilled workforce that is essential to compete successfully in the global marketplace, the program expects to provide jobs that are crucial to a rural economy and expand the role of the sector in the region.

Workers in the wood-products manufacturing industry generally don't have a four-year degree, and many don't have any postsecondary education. For them, employment opportunities in northern New England are often in retail or in leisure and hospitality services. Average weekly wages in the wood-products manufacturing industry in the three states are more than 40 percent higher than for retail, and about double the average weekly wage in leisure and hospitality. Yet the industry lags well behind the average for manufacturing in these states.[6] The hope is that the credentialing program will help elevate the status of woodworking from a job to a profession, while enhancing industry competitiveness, and ultimately increasing wages.

Sanding a seat at Newport Furniture Parts in northern Vermont.

Training the Next Generation

As workers advance through the credentialing and training program—which covers skill standards on 55 machines and essential tools for today's wood-products manufacturing industry—evaluators will document their proficiency in a Woodwork Passport, a portable and permanent record that stays with woodworkers throughout their career. The passport is the result of WCA's work with industry professionals to develop a skills-testing system that could certify woodworkers at basic, intermediate, or advanced levels on each machine.

Wood-products companies are continually being encouraged to join the program. They must first prepare a detailed company profile identifying specific credentialing and training needs. The Center and WCA will aggregate the information from the profiles to help educational institutions tailor their training programs to align with industry demand.

Initial response from northern New England educational and training institutions has been positive. In the secondary education system, a key focus will be the Career and Technical Education Centers in each state. In the postsecondary world, partner institutions will include Eastern Maine Community College, White Mountains Community College, and the Vermont Woodworking School. The institutions plan to meet the demand for state-of-the-art training equipment in various ways, some by purchasing equipment and others by partnering with local manufacturers.

Over the next three years, the skills initiative aims to work with more than 30 companies and more than 300 employees and students, issuing Woodwork Passports and evaluating participants for competence with machine and tool operations. If successful, this initiative will demonstrate the practical value of the program and lead to more implementation by the industry and the educational community.

Several wood-products manufacturers have taken the initial step of signing up for a detailed company profile. Their willingness to be the first New England manufacturers to work with the new program speaks to the challenges they face in hiring.

"The work is out there, but if we can't recruit, train, and retain a skilled workforce, our opportunities for growth are more limited," says Kevin Hastings, owner and president of Colchester Vermont's Amoskeag Woodworking, producer of

The Skilled Workforce Initiative for Wood Manufacturing: Goals

- Assist wood products companies in hiring, training, retaining, and promoting workers with needed skills.
- Enable education and training institutions to better connect training opportunities with the needs of wood-products companies, thereby better targeting training dollars and increasing job placements.
- Create a better career path for workers in a recognized and valued profession that will provide incentives for training, increase opportunities for well-paying jobs, and attract new talent to the wood-products industry.
- Help position the industry to remain vibrant and economically competitive for the future, thus sustaining and creating thousands of jobs.

Touring corporate-furniture company WallGoldfinger in Randolph, Vermont.

custom paneling, flooring, molding, and the like. "This program will significantly advance the woodworking sector in our area, and we're looking forward to the possibilities it brings us."

If successful, the Skilled Workforce Initiative will send positive economic ripples through the wood-products manufacturing sector and the region's economy. Participating companies will see improvement in the quality of their workforce, their products, and their financial viability. Vibrant wood-products companies will enable the growth and retention of quality job opportunities in the region, which will stimulate the economy, help to stabilize rural communities, and enhance the health of the forest.

Rob Riley *is the president of the Northern Forest Center. Contact him at rriley@northernforest.org.*

Endnotes

[1] For information on. public and private land with harvest-size timber that is not designated as undevelopable wilderness, see http://www.minneapolisfed.org/Research/data/specmap/us02-11.cfm. The employment number is based on aggregated data from three reports published by the North East State Foresters Association. See *The Economic Importance of Maine's Forest-Based Economy 2013*; *The Economic Importance of New Hampshire's Forest-Based Economy 2013*; and *The Economic Importance of Vermont's Forest-Based Economy 2013*, http://www.nefainfo.org. Wood-products manufacturers tend to fall into North American Industry Classification codes 321 (wood-products manufacturing) and 337 (furniture and related product manufacturing). The Skilled Workforce Initiative serves a subset of all wood-products companies, known as secondary wood-products manufacturing. See http://www.northernforest.org/skilled_workforce_initiative.html.

[2] Tom Morrison et al, "Boiling Point? The Skills Gap in U.S. Manufacturing" (white paper, Deloitte and the Manufacturing Institute, September 2011), http://www.themanufacturinginstitute.org/~/media/A07730B2A798437D98501E798C2E13AA.ashx.

[3] Julia Dennett and Alicia Sasser Modestino, "The Middle-Skills Gap: Ensuring an Adequate Supply of Skilled Labor in Northern and Southern New England" (Federal Reserve Bank of Boston Policy Brief 11-1, April 2011).

[4] The Northern Forest stretches nearly 400 miles from New York's Tug Hill Plateau and Adirondack Mountains, across Lake Champlain and Vermont's northern Green Mountains and Northeast Kingdom, New Hampshire's North Country and White Mountains, and Maine's Western Mountains, Highlands, St. John Valley, and Downeast Lakes to the border with Canada. The region is home to 2 million people. See http://www.northernforest.org/about_the_northern_forest.html.

[5] The Skilled Workforce Initiative for Wood Manufacturing is delivered through the Regional Wood Products Consortium, a collaboration between the Northern Forest Center and the wood-products manufacturing industry in Maine, New Hampshire, Vermont, and northern New York. It is supported by funding from Vermont's Working Lands Enterprise Initiative, the Canaday Family Charitable Trust, Citizens Bank, the U.S. Department of Commerce Economic Development Administration (as part of the Rural Jobs and Innovation Accelerator Challenge), and the U.S. Department of Agriculture Rural Development through a Rural Business Opportunity Grant. The Architectural Woodwork Institute is providing a substantial in-kind contribution.

[6] Data compiled from the Quarterly Census of Employment and Wages, published by the Bureau of Labor Statistics, United States Department of Labor.

We would love to get more letters. If you send them, we will print them.

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Nuclear Plant Closes, Life Goes On

Small Town Resilience in Lincoln County, Maine

Ron Phillips
COASTAL ENTERPRISES INC.

When a major employer leaves town, the importance of a diversified economic base becomes more apparent.

"When one door closes, another opens." That expresses the experience of Maine's Lincoln County after a nuclear plant closed in 1997. The resilience of the rural county's 35,000 people, the town of Wiscasset, and Maine's midcoast region overall—their ability to deal with a dramatic change and bounce back—was severely tested but has emerged stronger than ever. The key? Being able to recognize the "other doors" and collaborate to open them.

The Backstory

The Maine Yankee nuclear plant, which for 24 years produced electricity and shipped it out of state, provided jobs for 600 area residents, and about $6 million in taxes to the town—90 percent of the local tax revenue in its last year of operation. The decision to close the area's only large employer was based on safety and economic concerns but was nevertheless a shock.

The county is not wealthy. The official poverty rate in Wiscasset, for example, is 13.6 percent of the 3,700 residents. With the exception of the nuclear plant, Lincoln County's economy has been mainly a small business economy, well known for fisheries, boat building, and tourism. Understandably, the loss of such a large employer in Wiscasset was felt throughout the region.

Although the town and county no longer have the level of tax revenue that supported the schools, the recreation center, and other community and infrastructure projects, residents are reminded daily of Maine Yankee's residual effects as they pass signs for evacuation routes. They have to be prepared if an accident occurs with the remaining low-level radioactive waste. The company pays taxes on that waste, but the lack of expected federal waste storage has posed a redevelopment hurdle for the community.

Downsizings and closings are not new for Maine. In the Millinocket region, which once employed 5,000 people in pulp and paper jobs, the wood-products industry is now down to a few hundred workers. And the 2011 closing of the Brunswick Naval Air Base saw the loss of 2,700 active-duty military positions and the loss or relocation of roughly 700 civilian workers (and additional workers outside the base).[1] The closure of Maine Yankee occurred in that context.

Infrastructure for Economic Vitality

The announcement that Maine Yankee would be closed came in 1995 and alarmed residents, businesses, and local organizations. But as sometimes happens in a case like this, the various parties began to zero in on economic studies and local development initiatives that might otherwise have been overlooked.

With the leadership of Lincoln County's economic development office, which had been emphasizing public-private partnerships since the early 2000s (leveraging federal resources, attracting new businesses to diversify the economy, and helping existing businesses move toward sustainable economic growth), an innovative partnership emerged.

In 2003, the Wiscasset Regional Development Corporation (WRDC) brought together the Town of Wiscasset, the Lincoln County Commissioners, the Chewonki Foundation, and Coastal Enterprises Inc. (CEI), all based in Wiscasset. With the help of both federal and private dollars, the group created a development plan and strategy to begin the long trek toward economic revitalization.[2]

photo Rick Scanlan

Among other constructive moves, Wiscasset adopted a town-manager form of government in 2002 and brought in a new town planner and economic development staff a couple years after. And in 2003, the first federally recognized economic development district was authorized for midcoast Maine, based in nearby Damariscotta.[3]

CEI has actually been working for decades to diversify the economic base—and since 2003, it has done so with the backing of WRDC. Over time, the organization has mobilized $40 million in loans and investment for 190 small businesses, child care, and affordable housing projects, which together have created or sustained more than 3,800 jobs. And since the plant closing, an increasing number of people are recognizing why that diversification is important.

Diversification efforts have included a robust revitalization of waterfront and tourist facilities, agriculture and small farm projects, aquaculture, lobster and fin fisheries, light manufacturing, and a world-class sailing and motor-yacht-building operation in Boothbay.[4] The coming together of 20 fishermen to create the North End Lobster Co-op almost on the day that Maine Yankee closed was a small but hopeful sign that new doors can open and that it is possible to create jobs that won't leave town. With 90 percent of the county's business establishments employing fewer than 20 people each, a vibrant small business sector continues to be essential.

An entrepreneurial spirit often abounds in small communities and leads not only to start-ups but to expansion and additional jobs. Consider Rynel Inc., a small, innovative, locally owned manufacturing enterprise making specialty foams for the medical field. Founded in 1989 as Twin Rivers Engineering, Rynel was initially in the coastal village of Boothbay but decided to tap some excess land belonging to Maine Yankee. Now a subsidiary of Swedish firm Mölnlycke Health, Rynel employs 50 workers. And with a recent revision in the town's tax increment finance agreement, the company will expand its facility to house additional manufacturing operations and more space for research and development.

The redevelopment of the Wiscasset and Lincoln County economies is occurring as a result of clear municipal, county, and regional goals, engaged residents, town and county leadership, and the improved capacity of economic development staff to advocate for and reinforce private- and public-sector investment.

In the last several years, Lincoln County has formalized its economic development, land use, and transportation planning efforts in the Lincoln County Regional Planning Commission. Wiscasset's local officials, town manager, and town planner have increasingly focused on major economic development. Recent initiatives link to the area's assets, which include municipally owned piers along the Sheepscot River waterfront, a railroad and airport, and the Wiscasset downtown—a National Historic District since the early 1970s. The community also has updated its comprehensive plan, reinvigorated popular local events, and tightened its spending.

In fact, the town and county have worked with state agencies to tackle many key priorities:

- improving multimodal transit facilities,
- investing local tax dollars in rebuilding the fishery pier,
- teaming up with U.S. Fish and Wildlife Services on projects of mutual interest,
- improving the recreational boating pier,
- working with U.S. Department of Agriculture Rural Development on water- and sewer-infrastructure projects,
- creating a new Chamber of Commerce to promote the area,
- conducting market research to attract a pharmacy,
- developing a guide for doing business in town, and
- completing a land use and transportation plan for the Route 1 commercial area supported by the county's economic development and land use services.

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Many communities learn the hard way about dependence on a single, major employer. Diversification is essential. Even though not every enterprising small business idea comes to fruition—and even though one could argue that small businesses lack the replacement value of a new big-ticket industry—local and regional officials and citizens are smart to give heightened attention to diversified development plans that may have more resilience and lasting benefit than a large company. Wiscasset has seen the truth of that and is turning itself around just as Brunswick and Millinocket did.

This is not to say that anyone should ignore the potential benefits of large-scale industry, but having a dual strategy, with a generous measure of grassroots economic development, should not be ignored. As longtime Burlington, Vermont, economic development director and expert on sustainable community development Bruce Seifer has said, local ownership matters.[5]

"From the beginning," says Seifer when advising communities, "we encouraged local ownership, businesses that would reinvest their profits in the community, businesses that would take root here and not pull out when times got tough."[6]

Those words could be the mantra for communities that are resilient, communities that learn to identify the door that is opening as another door closes.

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Acknowledgment
The author wishes to acknowledge the contributions of Mary Ellen Barnes, economic and community development director of the Lincoln County Regional Planning Commission in Maine.

Endnotes

1 See John A. Moore, "Giving a Decommissioned Military Base New Life," *Communities & Banking* 24, no. 2 (spring 2013): 22.

2 CEI is a nationally known community development corporation and community development financial institution. The Chewonki Foundation is a nature-based growth-experience and summer camp for young people from around the world.

3 The Midcoast Economic Development District includes Lincoln and Sagadahoc counties and the towns of Brunswick and Harpswell in northern Cumberland County.

4 Hodgdon Yachts, a fifth-generation, two-centuries-old boat-building company.

5 Rhonda Phillips, Bruce Seifer, and Ed Antczak, *Sustainable Communities: Creating a Durable Local Economy* (Florence, Kentucky: Earthscan/Routledge, 2013).

6 See http://www.burlingtonfreepress.com/article/20121010/NEWS02/310100026/Spreading-vision-Bruce-Seifer-share-Burlington-development-model-world.

Connecticut's Small Town Economic Assistance Program

Meagan Occhiogrosso
CONNECTICUT OFFICE OF POLICY AND MANAGEMENT

Connecticut's Small Town Economic Assistance Program provides financial assistance for capital-improvement projects that might otherwise be financially unattainable.

The effects of the Great Recession spanned the globe, but arguably the most devastating impact took place on the micro level, on Main Street. With skyrocketing unemployment and home foreclosures on the rise, towns found themselves looking at a dwindling tax base and struggling to make ends meet.

When forced to tighten their belts, towns typically forgo costly capital-improvement projects like bridge repairs, road improvements, and upgrades to buildings. Such projects directly impact public safety, however, and whether there is a recession or not, municipalities count on their state government to help finance infrastructure and economic development.

In 2001, as a way to offer financial relief to small towns, the Connecticut legislature adopted, and the then-governor signed into law, the Small Town Economic Assistance Program (STEAP).[1] The program is administered by the Office of Policy and Management (OPM), the governor's budget office. There are about 130 towns that are eligible to receive grants, which can be as high as $500,000 per fiscal year.

Towns are considered eligible as long as they don't have an urban center and aren't labeled a distressed municipality. Larger towns and cities have their own program, the Urban Action grant program. STEAP is like Urban Action (commonly referred to as Urban Act) in that it funds projects that involve economic development, environmental protection, infrastructure repair, and other capital-improvement projects. The difference is that Urban Act is geared toward larger, more developed municipalities, such as Bridgeport or Hartford, and the awards are not capped.

At its inception, STEAP had a population requirement of 30,000 residents or fewer for the municipal applicant, but that threshold was removed after some towns were inadvertently shut out of both programs or were found to be better suited for a different program.

Twenty million dollars is allotted for STEAP each year through the State Bond Commission. To protect the state's interests, towns are required to formally accept their award with the Office of Policy and Management and sign a detailed contract before any work is performed. Among other matters, towns must comply with state contracting standards and the federal Davis-Bacon Act, which requires localities to use the prevailing wage and a competitive bidding process to ensure fairness.

Towns are welcome to submit applications for as many projects as they wish as long as the projects are capital in nature—think bricks and mortar—and as long as the municipalities can demonstrate that the community as a whole will benefit. The most common project requests are for road repairs, town-building restoration, and town-park renovations.

There are times when towns find themselves coming up short or under budget. In such cases, they may be granted the opportunity to change the scope of the project to stay within their budget or to use the balance of the money for another eligible project. As long as the town shows good cause, the state makes every effort to be flexible about granting the requests in those circumstances.

How It Works

Since STEAP is administered by the governor's budget office, whoever is governor has discretion over how the program will run. This means that deadlines and themes can change on a yearly basis. Prior administrations adhered to one hard deadline for towns to submit applications. But Governor Dannel Malloy, having previously served as a mayor, was sensitive to the fact that towns often have constrained budgets and that the availability of staff to go through a time-consuming application process may vary. As a way to offer towns more breathing room, Governor Malloy instituted a rolling deadline for applications, lengthening by months the time towns have to complete their applications.

STEAP themes change from year to year, usually taking their impetus from the current governor's priorities. After the October 2011 snowstorm left most of the state without power for days—and in some cases, weeks—towns recognized they needed to take immediate steps to improve preparedness. Even with advanced warning, many had lacked strong emergency processes and were caught off guard. To address the problem, Governor Malloy declared emergency preparedness and storm-related repairs as a theme for two years. The response from towns has been overwhelming. Many applied for generators for public buildings or funding to build or update Emergency Operation Centers.

The quaint, rural town of Killingworth is one example. The town has roughly 70 miles of tree-lined roads and is situated about photo Tim Gannon

Thanks to a STEAP grant and volunteer labor, the once unused Parmelee Farm has been transformed. Now on the Connecticut Register of Historic Places, it houses the Killingworth Historical Society and is an active community center.

five miles inland from Long Island Sound, making it an escape destination during coastal evacuations. Killingworth previously had an inadequate emergency-operations center, which it ran out of a small, inefficient 19th century schoolhouse. The town applied for and won the maximum award of $500,000 to build an addition on its town hall for an updated, efficient center.

The town of Barkhamsted is another example. During the October 2011 snowstorm, the Barkhamsted School, which served as the town's designated emergency shelter, could not be opened because its generator failed. A $230,000 STEAP grant went to Barkhamsted to replace two emergency generators, one at the school and the other at the Barkhamsted Highway Garage, where a new emergency operations center had been relying on a 1976 generator.

Making a Successful Application

What makes a STEAP application successful? STEAP doesn't adhere to a one-size-fits-all vetting process but instead takes into account a wide array of factors. When applications are submitted to OPM, they undergo a rigorous review process. The proposed project is first scrutinized for consistency with Connecticut's Conservation and Development Plan and the Environmental Protection Act. It is then graded on eligibility, usefulness to the community, and the feasibility of its being completed on time and within budget.

Applications for large-scale, long-term projects are common but not necessarily encouraged. STEAP awards are intended to be used as a one-time stimulus to fund smaller, shovel-ready projects. Nowadays, many towns try to tap it to finance larger, multiphase projects that can take years to complete. Multiphase projects have been awarded from time to time, but it's the smaller ones that tie most closely to the intent of the program—small road reconstruction projects, replacement of culverts, and installation of sidewalks and street lights.

Supplemental funding sources are also taken into consideration. Is the town asking the state to foot the entire bill, or does it have other available resources? Applications that indicate other funding sources are looked upon favorably as they show a town's willingness to pitch in and get the project off the ground. That does not mean that towns should be discouraged from applying for the entire amount. After all, the program is intended to assist municipalities that have little to no extra revenue on hand.

The projects themselves can range from construction of affordable housing to the dredging of a pond to making public facilities compliant with the federal Americans with Disabilities Act of 1990. Preference is given to proposals that correspond to a given year's chosen theme or themes, but towns are not required to fit into them.

By far the most common requests are for streetscape improvements and road repairs. Many towns request financial assistance to beautify their Main Street centers in hopes of spurring economic development. Such streetscape projects typically involve façade improvements, decorative lighting, and sidewalk repair or installation. STEAP has also helped towns rebuild local roads to make them safer for both drivers and pedestrians.

Since its inception, STEAP has been credited with helping Connecticut towns carry out their economic development plans, revitalize their town centers, and complete initiatives that would otherwise have been financially out of reach. In New England, we think of small towns as part of our identity. It's our responsibility to preserve their historical integrity and their well-being. STEAP does just that.

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Endnote

[1] See http://www.ct.gov/opm/cwp/view.asp?a=2965&q=382970.

High-Cost Borrowing

Patterns of Credit Use in the Alternative Market

Gregory Mills
URBAN INSTITUTE

Certain household demographics and regulatory policies are associated with greater use of high-cost credit sources. In New England, the states where people use alternative financial services the most are Maine and Rhode Island.

One indicator of the severity of losses in income and wealth during the Great Recession is the extent to which households have turned to high-cost loans in the alternative financial services (AFS) market: mainly payday loans, pawnshop loans, rent-to-own agreements, and refund-anticipation loans. (See "Alternative Financial Services.")

Alternative Financial Services

Payday loans are unsecured short-term loans representing an advance on the borrower's next paycheck. They are typically $250 to $350, with a two- or four-week payback period. The customer writes a check for the advance plus a fee averaging $15 to $20 for each $100 borrowed. The lender holds the check until the borrower's payday. Most borrowers roll over such loans (at an additional fee) in multiple transactions.

Pawnshop loans are short-term loans secured by property, often jewelry or electronics. The loan term is usually one month for amounts under $100. If the customer repays the loan and fee on time, the pawnbroker returns the item. If not, the item is forfeited and the pawnbroker can sell it.

Rent-to-own agreements are self-renewing weekly or monthly leases for merchandise—typically, furniture, appliances, home electronics, or jewelry. A customer making regular payments acquires the item at the end of a 12- to 24-month contract but relinquishes it upon nonpayment.

Refund-anticipation loans are unsecured short-term loans constituting advances on borrowers' anticipated income tax refunds. Customers receive the amount (minus a fee) before they would otherwise receive their federal or state refund. The loans have been largely discontinued.

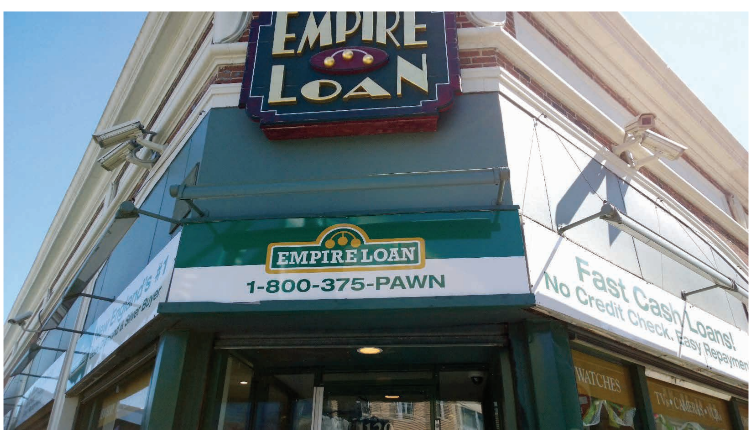
Use of Alternative Credit Products, 2011

		Used one or more AFS credit products in last 12 months		Used payday loan in last 12 months		Used pawnshop loan in last 12 months		Used rent-to-own agreement in last 12 months		Used refund anticipation loan in last 12 months	
	All households (1,000s)	Households (1,000s)	Usage rate (%)	Households (1,000s)	Usage rate (%)	Households (1,000s)	Usage rate (%)	Households (1,000s)	Usage rate (%)	Households (1,000s)	Usage rate (%)
Connecticut	1,365	49	3.6	2	0.1	27	2.0	18	1.3	9	0.7
Maine	546	41	7.5	2	0.4	16	2.9	26	4.8	5	0.9
Massachusetts	2,614	85	3.3	10	0.4	37	1.4	15	0.6	29	1.1
New Hampshire	526	13	2.5	6	1.1	7	1.3	4	0.8	4	0.8
Rhode Island	423	22	5.1	4	0.9	13	3.1	6	1.4	2	0.5
Vermont	269	10	3.8	4	1.5	2	0.7	5	1.9	3	1.1
New England Region	5,743	220	3.9	28	0.5	102	1.8	74	1.3	52	0.9
U.S. Total	120,408	7,243	6.0	2,063	1.7	3,520	2.9	1,814	1.5	1,449	1.2

Source: 2011 FDIC National Survey of Unbanked and Underbanked Households. See FDIC, September 2012, Table A-33; and FDIC, June 2013, Tables C-26, C-78, C-118, C-158, and C-182.

The increasing use of nonbank credit products is a public policy concern. The interest rates (for payday loans, typically 400 percent annually or higher) make such products expensive. Additionally, borrowers are often using them to meet basic living expenses, not one-time needs, suggesting financial distress that would be better addressed through income support.[1]

Between 2009 and 2011, the percentage of households with one or more members having ever borrowed funds from a nonbank source increased in all six New England states, with the percentage rising from 7.4 percent to 9.7 percent. In proportional terms, the New England rise exceeded the national increase (going from 11.8 percent to 14.2 percent). Maine's proportional rise was 50 percent (from 12.7 percent to 19.0 percent).



Across New England, 220,000 households (3.9 percent) were estimated to have used at least one of the alternative products between July 2010 and June 2011. Although that was well below the national rate of 6.0 percent, the top-ranking New England state—Maine (at 7.5 percent)—was not. Rhode Island was above the regional average at 5.1 percent. The least likely to use alternative services were New Hampshire (2.5 percent usage) and Massachusetts (3.3 percent), with Vermont (3.8 percent) and Connecticut (3.6 percent) somewhat higher. (See "Use of Alternative Credit Products, 2011.")

The Role of Demographics

Why do Maine and Rhode Island households use nonbank credit products so much? A possible answer may be found in a 2013 Urban Institute analysis using data from the 2009 National Financial Capability State-by-State Survey. The analysis identified demand-side factors (household demographics) and supply-side factors (policy) as significant correlates of product use.[2]

Households without a bank account are three times as likely to use nonbank credit, which may partly explain Rhode Island's high usage (highest unbanked rate in New England at 7.0 percent), but not Maine's. Maine actually has a lower rate of unbanked households (3.7 percent) than either the national average (8.2 percent) or the regional average (4.7 percent).

Households whose head was younger than 45 were generally more likely to use AFS credit products than those aged 45 to 54, but that, too, fails to explain Maine's high rate. Maine ranks lowest in New England in the percentage of householders under age 45 (at 33.4 percent). The percentage for Rhode Island is higher (at 36.1 percent) but not as high as for Massachusetts (at 38.4 percent) or Vermont (at 37.4 percent).[3]

Another risk factor is low educational attainment. Maine is again surprising, as the percentage of householders without a high school diploma (8.4 percent) is second lowest in New England. But low education may be contributing to AFS use in Rhode Island, which has New England's highest rate for lacking a high school diploma (16.0 percent).

The Urban Institute found that African Americans are significantly more likely than whites to use AFS credit products, adjusting for other factors. That pattern is relevant to Rhode Island, with the region's second-highest share of African American householders (7.0 percent). But race does not provide an explanation for Maine, with the region's second-lowest percentage of African Americans (1.5 percent).

Household income also was associated with AFS credit use. Households most at risk were those with incomes of $15,000 to $50,000. Income seems clearly related to both Maine's and Rhode Island's high AFS usage rates. Regionwide, Maine had the highest percentage of households in the $15,000 to $30,000 range (at 44.5 percent). The next in rank were Vermont (38.6 percent) and Rhode Island (35.4 percent). One policy implication is that households with limited incomes should be encouraged to access all forms of income support for which they qualify. Participation in programs such as food stamps is low in qualifying income ranges above the poverty level, where the monthly benefit amount may be limited but where households nonetheless need assistance.[4]

The Role of Policy

The Urban Institute found that less restrictive state policies on payday loans, pawnshop loans, and rent-to-own agreements also were associated with greater AFS use. States regulate those three options through prohibitions, interest-rate caps, maximum loan amounts, required disclosures of the terms, and the like.

Maine and Rhode Island's high AFS usage results primarily from pawnshop loans and rent-to-own agreements. Both states have fairly lenient policies on pawnshop loans. Although New Hampshire has no cap, Maine's policy is the second least restrictive in the region, with an interest rate cap of 25 percent. Rhode Island has a rate cap of 5 percent.

The influence of policy is less clear for rent-to-own. The study found lower usage rates among states with rent-to-own price caps. Maine's high usage runs counter to the pattern, as Maine has a price cap. Consistent with Rhode Island's high rent-to-own usage rate, the state's policy is relatively lenient, with no rent-to-own disclosures of any type.

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New England households tend to use high-cost nonbank credit products at lower rates than elsewhere in the nation, but regionwide, Maine and Rhode Island have high usage rates. Among the most significant demand-side factors suggested by the Urban Institute analysis is the share of households in the income range $15,000 to $50,000. On the supply side, Maine and Rhode Island's somewhat less restrictive pawnshop loans and rent-to-own policies may explain the prevalence of such loans in those states.

The use of these high-cost credit products has policy implications. To the extent that consumers may be making ill-informed choices, greater transparency may be achievable by requiring stricter product disclosures. And if customers are more creditworthy than such high pricing suggests, they should be able to get loans from mainstream financial institutions. Regulatory policies for such institutions should seek to encourage innovation in risk pricing within the small-dollar credit market.

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Endnotes

1 This article examines the patterns of use of alternative financial services products as measured in the Federal Deposit Insurance Corporation (FDIC) surveys of unbanked and underbanked households. The findings are from the January 2009 and June 2011 Current Population Survey supplements. For the 2011 survey, see Susan Burhouse and Yazmin Ozaki, "2011 FDIC National Survey of Unbanked and Underbanked Households" (report, FDIC, Washington, DC, 2012) and Susan Burhouse, Yazmin Ozaki, and Anirudh Sarna, "Addendum to the 2011 National Survey of Unbanked and Underbanked Households: Use of Alternative Financial Services" (report, FDIC, Washington, DC, 2013). For the 2009 survey and addendum, see "FDIC National Survey of Unbanked and Underbanked Households" (report, FDIC, Washington, DC, 2009) and "Addendum to the 2009 FDIC National Survey of Unbanked and Underbanked Households: Use of Alternative Financial Services" (report, FDIC, Washington, DC, 2010).

2 Signe-Mary McKernan, Caroline Ratcliffe, and Daniel Kuehn, "Prohibitions, Price Caps, and Disclosures: A Look at State Policies and Alternative Financial Product Use" (report, Urban Institute, Washington, DC, 2010). See also the data documentation in Nancy Pindus, Daniel Kuehn, and Rachel Brash, "State Restrictions on Small-Dollar Loans and Financial Services, 2004–2009: Summary, Documentation, and Data" (report, Urban Institute, Washington, DC, 2010).

3 The state-by-state economic and demographic characteristics of households are tabulated from Burhouse and Ozaki, "2011 FDIC National Survey of Unbanked and Underbanked Households," http://www.fdic.gov/householdsurvey/2012_unbankedreport.pdf.

4 For the most recent analysis of participation in the Supplemental Nutrition Assistance Program, which shows lower participation rates among eligible households with above-poverty income, see Esa Eslami, Joshua Leftin, and Mark Strayer, "Supplemental Nutrition Assistance Program Participation Rates: Fiscal Year 2010" (report, Mathematica Policy Research, Washington, DC, 2010).

Mapping New England

Government-Backed Mortgage Originations, by County

Kseniya Benderskaya
FEDERAL RESERVE BANK OF BOSTON

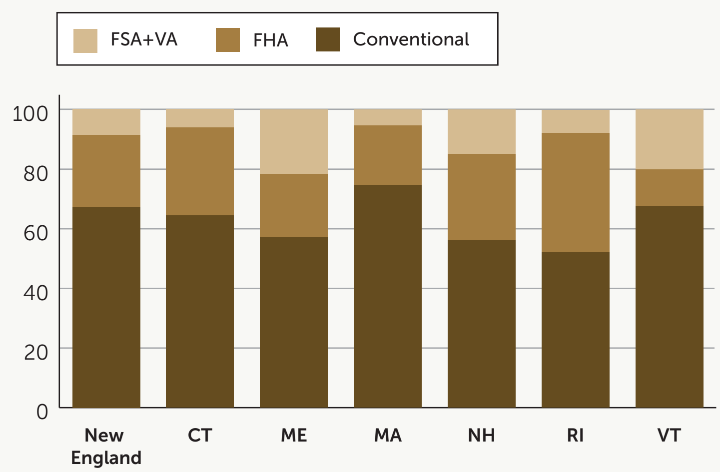
The virtual disappearance of subprime mortgages from New England's housing credit market in the wake of the 2008 financial crisis has sparked the proliferation of other products for borrowers who may not be able to afford the 20 percent down payment of conventional loans. Government-insured financing by the Federal Housing Administration (FHA), the Department of Veterans Affairs (VA), and the Farm Service Agency (FSA) provide homeowners with underwriting standards that set lower minimum credit scores and typically require only a 3 percent down payment. Since such loans carry a greater risk of default, their insurance premiums, interest rates, and contract fees are also higher.

From the end of 2007 to the end of 2012, the share of government-backed mortgage originations in New England more than quadrupled, from 2.9 percent to 13.6 percent. In 2012, 10 of the region's 68 counties reported that over a quarter of their borrowers received one of the government-insured loans. It is also notable that about 32 percent of borrowers in the home purchase category obtained FHA, VA, and FSA mortgages, while less than 9 percent of people refinancing existing homes did. Maine and New Hampshire have the most counties with high rates of government-backed home loans.

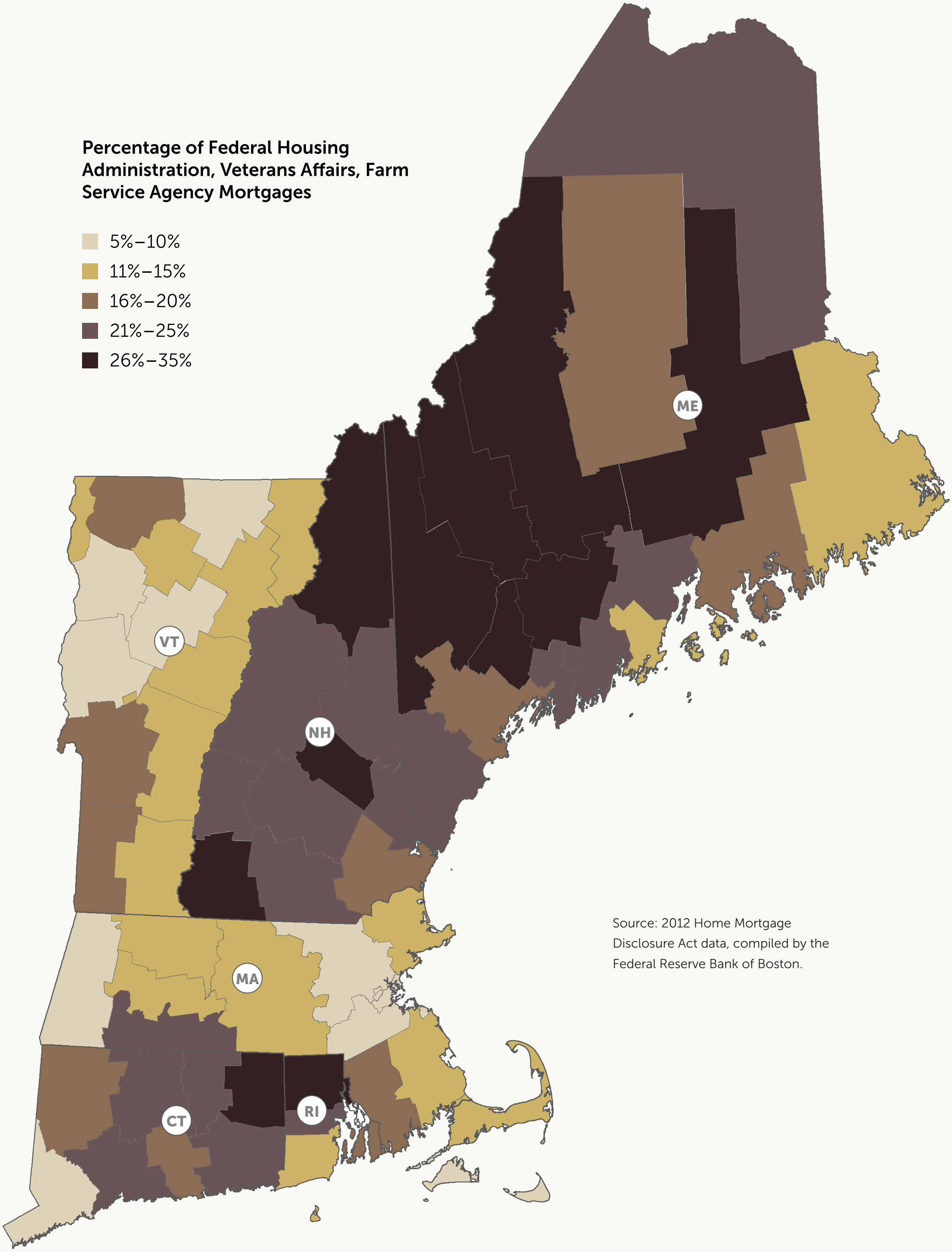
New England Home-Purchase Loan Originations by State

The chart highlights significant geographic variation in the proportion of borrowers getting FHA, FSA, and VA home purchase loans. At 25.3 percent, Massachusetts has the lowest proportion of government-backed purchase originations, and Vermont the second lowest rate, 32.4 percent. Conversely, Rhode Island's financial institutions report a high prevalence of such loan products, amounting to nearly 48 percent of the state's total home-purchase mortgages.

New England Home-Purchase Loan Originations by State and Type of Loan (as a Percentage of Total Originations), 2012



Source: 2012 Home Mortgage Disclosure Act data, compiled by the Federal Reserve Bank of Boston.



Source: 2012 Home Mortgage Disclosure Act data, compiled by the Federal Reserve Bank of Boston.

The Afterlife of Overdrafts

Claire Greene
FEDERAL RESERVE BANK OF BOSTON

Overdrafting to pay the dental bill

Fang cleaning bill: $40.53

Edward

$50.53

Fee to transfer from savings

Bella

$76.35

Bounced check fee to bank
&
Late fee to dentist

Jacob

$40.73

Interest on line of credit

Alice

$41.35

Late fee to dentist

Edward linked his savings account for overdraft coverage. He pays at the dentist's website using his bank account number. $10 transfer fee: $50.53.

Bella turned down overdraft coverage. Her check bounces. $35 NSF (bounced check) fee to the bank, 2 percent late fee to the dentist: $76.35.

Jacob has a linked line of credit. He pays using the bill-pay service at his bank's website. He pays interest on the loan but no fees (15 days, 12%): $40.73.

Alice opted out of one-time overdraft coverage. She uses her debit card at the dentist's website, and payment is rejected. 2 percent late fee to the dentist: $41.35.

Whether you get charged a lot or almost nothing for overdrafts depends on the arrangement you have with your bank and the bank's fine print.

Two views of overdraft protection:

1. Overdraft protection ensures that important bills are paid, no matter how much is in your bank account.

2. Overdraft protection could cost you a lot in fees.

Since 2010, banks and credit unions have been required to get consumers' permission before they provide overdraft coverage for debit card purchases and ATM withdrawals.

The regulation does not require that financial institutions get permission to cover payments by check, by automatic bill pay, or by using your bank account number—although some might ask your permission anyway.

In 2012, 70 percent of those with bank accounts reported on the Boston Fed's Survey of Consumer Payment Choice that they had some type of overdraft coverage.

Everyone should understand what his or her financial institution offers and what it costs. Otherwise overdrafts can come back to bite you.

Note: These hypothetical examples are based on typical pricing in winter and spring 2014. Other scenarios could result in different charges.

What Makes Working Cities Work?

Barry Bluestone
NORTHEASTERN UNIVERSITY

As some Massachusetts "working cities" are beginning to regain their economic momentum, new evidence highlights important factors contributing to their renaissance.

Cities and towns that fail to retain and attract business are prone to decline, distress, and poverty. Detroit is today's most familiar example, but some formerly prosperous industrial cities in New England also are struggling with disinvestment and job loss. What can such communities do to boost their chances of an economic renaissance?

Regions with rich mineral deposits, a warmer climate, or highly educated workers tend to be more prosperous than cities without such advantages—insights of little comfort to New England's older cities. But a new analysis developed at the Dukakis Center for Urban and Regional Policy at Northeastern University suggests that municipal leaders have several ways to influence their community's economic destiny.

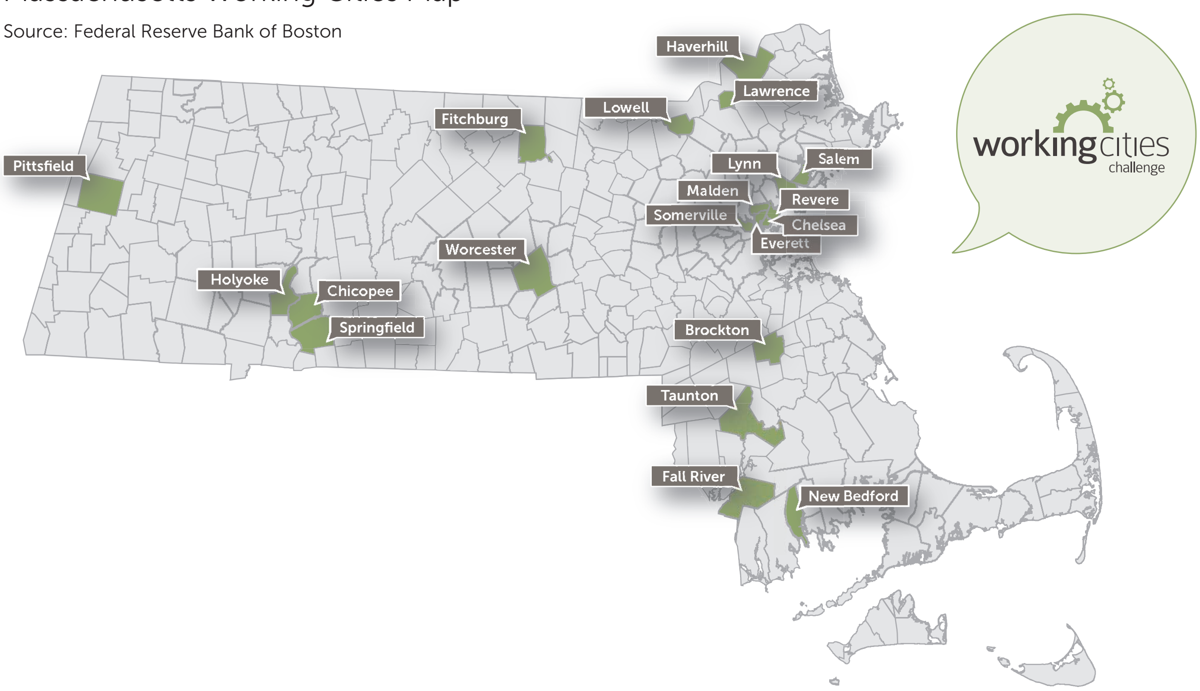
Massachusetts Working Cities

The "working cities" of Massachusetts, as defined by the Boston Fed's Working Cities Challenge, are those with a population greater than 35,000 (excluding Boston), median family income below the median for all Massachusetts cities, and a poverty rate above the statewide city median. Most also have an older industrial base, and the vast majority are "gateway" centers for new immigrants.

All the Working Cities have suffered periods of disinvestment since World War II, but between 2001 and the second quarter of 2013, employment growth rates have differed markedly among them. (See "Change in Employment.") With less than a 1 percent increase in employment statewide during this period, one might

Massachusetts Working Cities Map

Source: Federal Reserve Bank of Boston



More Working Cities photos at www.bostonfed.org/workingcities

Photos Federal Reserve Bank of Boston

have expected to see steep job losses in many of these cities. Surprisingly, six of the Working Cities experienced positive employment growth, with growth rates that exceeded the statewide average.[1]

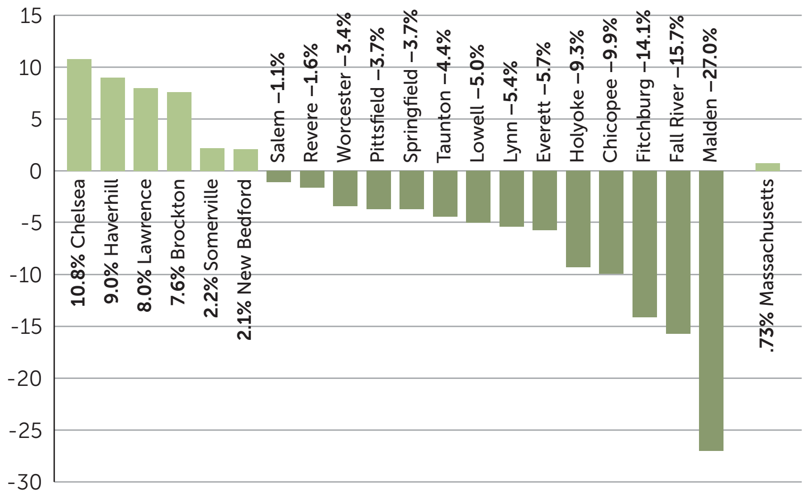
Economic Development Self-Assessment Tool (EDSAT)

What can explain the divergence in employment success across the different Working Cities? In 2005, Dukakis Center research staff began developing a software tool for local government leaders to assess a community's capacity to attract business investment and create jobs. Using survey and focus-group data collected from experts who help companies make location decisions, the Center learned about business-location *deal breakers* and *deal makers*.

Available parking and commercial rents were seen as critical in assessing a site for a new or expanding operation. Experts also frequently mentioned "time to market," and most said that in the globalized, high-speed economy, companies need assurance that they can "get up and running quickly." Processes that slow approvals for development can be deal breakers. Despite conventional wisdom, property tax rates and local tax incentives were considered less important as deal makers.

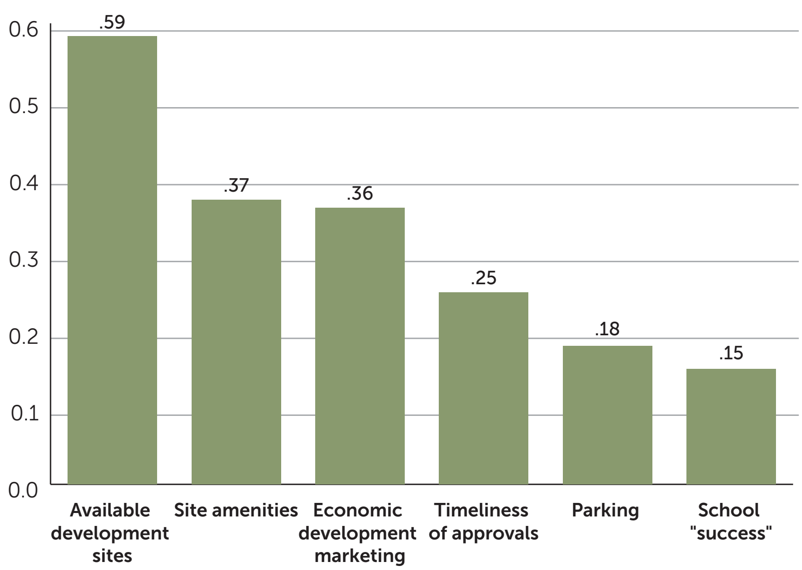
On the basis of a long list of location factors identified in the research, the Dukakis Center developed a questionnaire for municipal officials. The process was enhanced when municipal leaders invited business and civic leaders to join them in the effort. From the questionnaire, the Center created 26 measures that rank each city and town on a broad range of location factors.

Change in Employment, All Private-Sector Industries 2001–2013



Source: Massachusetts Department of Labor, ES-202 data.

Factors Most Highly Correlated with Percentage Change in Employment, All Private-Sector Industries 2001–2013



Source: EDSAT analysis.

Correlation Analysis

The nearly 80 communities that have already completed EDSAT include 19 of the 20 in the Working Cities Challenge—all but Fall River. Given the small sample size, researchers used simple correlation coefficients to indicate any possible link between city-specific location factors on the one hand and the city's employment growth rate on the other. We arbitrarily selected a correlation coefficient of +.15 or greater to signify a positive relationship between a given EDSAT measure and the 2001–2013 percentage change in employment. Of the 26 location measures, only six met the correlation criterion. (See "Factors Most Highly Correlated with Percentage Change in Employment.")

By far, the measure most highly correlated with employment growth is *available development sites*, with a correlation coefficient of +.59. The Working Cities that are successful at attracting new employment are those with publicly owned sites available for economic development, industrial land protected from residential encroachment, an active strategy for reclaiming vacant shopping centers and taxing delinquent properties, and either up-to-date lists of existing commercial and industrial sites or active partnerships with property brokers and developers to identify appropriate properties.

Lower local tax rates, if anything, contributed to slower employment growth.

The *site amenities* factor is second in importance, with a correlation coefficient of +.37. Businesses are more likely to opt for sites with nearby fast-food restaurants for their employees, fine-dining options, retail shops, and day-care centers.

In third place is *economic development marketing*, with a correlation coefficient of +.36. Working Cities with more comprehensive marketing campaigns appear to attract more business investment and jobs. Such campaigns may help change what location experts call the negative *cognitive maps* employers often have of these older cities.

Timeliness of the municipal approval process for new or expanding firms has the fourth highest correlation coefficient (+.25). This correlation seems to confirm the importance of "time to market."

Available parking for employees and customers also appears to be important (+.18), consistent with the location-specialist survey results.

Finally, *school "success"* met the +.15 cutoff. Those Working Cities that spend more on their public schools and have more successful students appear to have a slight advantage in creating a business environment conducive to greater job growth.

Other factors that come close to meeting our correlation threshold are *adequate electric, gas, water, and communications infrastructure* (+.14), *fast-track permitting* (+.14), the *cross-marketing* of the community to prospective firms by a coordinated effort of both municipal and business leaders (+.13), the use of *marketing follow-up* to learn why firms either decided to settle in the municipality or chose to move elsewhere (+.13), and *labor force quality* as measured by the number of local professionals and well-trained workers (+.13). Each of those was positively correlated with employment growth, suggesting they might have at least a marginal impact on location decisions.

What was unanticipated is the apparent absence of a strong statistical correlation between employment growth and such variables as *crime rates* (+.07), *complementary business services* such as law firms and accounting firms (+.07), *public transit* (+.04) and nearby *highway access* (–.03). Moreover, within the Working Cities, there turned out to be no variance in *labor cost* in the EDSAT measure and therefore zero correlation with employment growth.

Even more surprising were factors with relatively large *negative* coefficients: *high traffic congestion* (–.23), *low local tax rates* (–.27), reputed *low citizen opposition to development* (–.35), and the city's apparent *physical attractiveness* (–.35). Despite their appearance, less attractive municipalities among the Working Cities appear to have no disadvantage in job creation. Also, lower local tax rates, if anything, contributed to slower employment growth, suggesting the possibility that higher tax levies provide for better public services that companies enjoy.

Three other factors might have something to do with job growth. Proximity to Boston is weakly correlated with employment growth (+.16). Improving access to and from Boston for employees and customers through better transit may be one way to improve the employment prospects of these Working Cities. Cities with the poorest populations among the Working Cities do not appear to be at any special disadvantage when it comes to their ability to retain and attract establishments that provide employment opportunity (+.17). Interestingly, having a higher concentration of manufacturing employment is at least somewhat correlated (+.13) with experiencing faster employment growth over the period under consideration, a finding consistent with evidence from other research by this author that manufacturing is making a comeback in the Commonwealth.

§

Even though there is nothing definitive that we can claim from this analysis given the limited statistical value that we obtain from simple correlation analysis, the results point to factors that appear to be connected to employment growth.

Most intriguing are the relatively high positive correlations we find for measures over which municipal leaders actually have some control. City governments can improve the timeliness of approvals. They can improve economic development marketing. Making development sites available for business and ensuring those sites have a range of amenities appear to be steps cities can take to enhance prosperity. Many of the Working Cities are home to abandoned mills that can and are being converted to new commercial and industrial uses. Providing adequate parking near development sites also can help.

In short, even cities that have experienced severe deindustrialization and are struggling to provide good schools can affect their own economic destiny by improving municipal processes and working to change obsolete impressions through effective marketing. The key seems to be strong municipal leadership, especially when there is a healthy working relationship with the business community.

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Endnote

[1] The percentage change in employment for each Working City is derived from the ES-202 data set compiled from unemployment insurance records filed by companies with the Massachusetts Department of Labor and Workforce Development each quarter. The data refer to the number of employees working in companies in each city regardless of where the workers themselves reside. Therefore, increased employment does not necessarily benefit residents of the Working Cities where the companies are physically located.

Under the Radar

Three Rhode Island Women Creating Positive Change

Caroline Ellis
FEDERAL RESERVE BANK OF BOSTON

Grassroots collaboration and a focus on common interests rather than differences can move a state forward.

A drumbeat of headlines about Rhode Island's dropout rate, unemployment, and the like can get residents feeling down. But under the radar, positive energy is building, as three recent interviews prove.

Nancy Whit, "Collaboration Really Works"

Nancy Whit, Pawtucket Citizens Development Corporation (PCDC) executive director, believes in collaboration. As one example of how it creates positive change, she cites RENEW (Revitalizing & Engaging Neighborhoods by Empowering Women).

"In 1995, PCDC began creating affordable housing in Pawtucket's Barton Street Neighborhood," says Whit. "The properties had problems like lead paint contamination, drugs, and prostitution. But in collaboration with Rhode Island Housing, the City of Pawtucket, and neighborhood organizations, PCDC developed and implemented a Neighborhood Revitalization Plan with a Public Safety/Quality of Life action plan that launched a turnaround."

Neighborhood-empowerment outreach helped identify needs. Initially, residents discussed problems that seemed possible to improve, like street lighting and trash pickup. But soon they zeroed in on prostitution. To address prostitution, stakeholders who hadn't always worked together—PCDC, residents, the YWCA, the mental health association, the police—formed RENEW. Each organization had its own priorities but emphasized common goals.

"The focus of outreach to the women," says Whit, "was on trying to understand the why—what had happened that led them to this. If a woman was willing, we'd develop a case-management plan to combat the reasons she started in the first place. We weren't interested in punitive approaches."

In the first three years, arrests were reduced by 90 percent. Police complaints and stings (which once cost up to $10,000 each) have continued to be low, the neighborhood has improved, and some of the women have gotten out of that life entirely.

RENEW director Colleen Daley Ndoye says that the key was a combination of the outreach and PCDC's success in stabilizing the neighborhood with 100-plus renovated and new affordable homes.[1]

"People who collaborated on RENEW," adds Whit, "have kept working together—on after-school programs, small business assistance, and promotion of Blackstone River Valley assets."

Collaboration continues as PCDC applies its recent TD Bank grant to renovating a historic Pawtucket building for 13 affordable-housing units and a ground-floor nonprofit tenant. It continues as PCDC partners both with NeighborWorks Blackstone River Valley (on first-time homebuyer education) and with the Blackstone Valley Community Action Program (on a Youth Build project to create permanent supportive housing for 11 youth aging out of foster care).

Whit sums it up: "You have to be creative in this economy and be open to new ideas and partnerships with those who have a mission like yours to improve people's lives."

Jean Johnson, "Inside Everyone There's Good"

Warwick's House of Hope Community Development Corporation (House of Hope CDC) is a service provider and housing developer for the homeless. For 25 years, a deeply held philosophy about people and a commitment to getting neighbors involved has led to successful rehabilitation of neglected historic buildings for homeless housing. No one else is doing that with historic buildings, and possibly no other homeless housing has such good community relationships.

"We're a different kind of CDC," says founder Jean Johnson. "We have no large tax-credit projects. We reach out to the chronically homeless and gradually integrate them into our quiet suburb. We brought millions of federal dollars into neighborhoods that for-profit developers wouldn't touch. We're a rare CDC that the city council applauds when we show up."

The House of Hope started out as a shelter. But once families were stabilized, there was no place for them to go. So for the past 14 years, the House of Hope has been building housing.

"We always make sure the neighbors have a say. The historic buildings were neglected eyesores. We asked neighbors, 'What would you like to see here?' We even asked if they had skills they could apply to helping us."

Johnson explains the process of moving someone up from destitution. "One service is an 88-bed facility that's the last resort for chronically homeless men. They don't always go directly into housing from there. We help them get ready. They might go first to a less residential part of town. When they're ready for independent living, caseworkers keep in touch—just checking in, not supervising. We've created our community based on trust. Housing residents know if they get off track, we'll help them."

Lives do improve. Today, formerly homeless clients may work in the House of Hope boutique, selling products made with a mission and learning retail skills. In another example, a former addict underwent a remarkable and heartening transformation.

Johnson loves his story. Now an independent-living resident, he was originally referred to the House of Hope by a hospital where he'd been treated for injuries from a bizarre accident. He'd fallen asleep in a dumpster and almost died when the garbage truck dumped him out. "Today neighbors fondly call him the Mayor of Apponaug," says Johnson. "He helps an elderly neighbor with chores, puts up Christmas lights, runs errands for neighbors who fall ill."[2]

Johnson has a theory about why her nonprofit is both successful and popular. "It's our philosophy that there's inherent good in every human being. If you give people the opportunity to find that in themselves, you enable them to be who they were meant to be."

"We're at the point that neighbors think of our residents as just neighbors. In fact, after we rehabbed our last historic property, members of the village association and the local historic commission asked the mayor to help us purchase the house next door. One of the commissioners lives next to that property and the mayor around the corner. Having such support from city government and neighbors enables us to be successful."

Armeather Gibbs, "Bringing New People to the Table"

Armeather Gibbs, manager of Urban Finance and Business Development at the quasipublic Rhode Island Commerce Corporation, has been working closely with the Rhode Island Division of Planning to launch an initiative called RhodeMap RI. The effort is funded by a $2.3 million U.S. Department of Housing and Urban Development Sustainable Communities grant to develop a plan for sustainable development that includes significant input from diverse communities.[3]

The first step, Gibbs explains, was to select a team to create statewide plans for economic development, housing, and growth centers that would link to transportation, land use, and environmental strategies.[4] A key piece is an unprecedented focus on public engagement—tapping as many residents as possible, regardless of economic, social, or political backgrounds, and regardless of race, ethnicity, age, gender, neighborhood, or any other characteristic.

To assist the process, PolicyLink, which describes itself as "a national research and action institute advancing economic and social equity," produced an Equity Profile for Rhode Island showing a clear past, current, and future demographic perspective and highlighting disparities from transportation to housing to jobs to education. A Social Equity Advisory Committee (SEAC) was organized and will reference the Equity Profile to help ensure all voices get heard.

"The state will increasingly be home to people of color, people who have not always had a voice in government," says Gibbs. "The state must take into account our changing demographics because economic-planning strategies won't succeed without a diversity of voices involved."

Gibbs is optimistic about the approach. "It's the first time I've seen deliberate outreach to parties who have never been part of the discussion. It can be challenging because many residents are not used to being asked their views. You need to do a lot of explaining, but in the end, the input is really valuable."

Gibbs is also on special assignment to a related state-level initiative to help implement Governor Lincoln Chafee's "Promotion of Diversity, Equal Opportunity and Minority Business Enterprises in Rhode Island." The executive order speaks to the importance of inclusion and diversity in government hiring practices and supplier opportunities, just as RhodeMap RI does for planning processes. Both initiatives, Gibbs says, reflect the willingness of community and elected leaders to take on equity challenges and work toward positive change.

"Rhode Islanders are beginning to understand that we must emphasize the assets that make us a great state, rather than spend any more time on the perception that our challenges are insurmountable," says Gibbs. "We can and will focus on possibilities and positive change and make them happen."

Caroline Ellis *is the editor of* Communities & Banking *magazine. Contact her at caroline.ellis@bos.frb.org.*

Endnotes

1 Colleen Daley Ndoye, now with the expanded RENEW at service provider Amos House, notes that clients tend to be desperate women: as old as 65, 70 percent homeless, 95 percent with addictions.

2 Apponaug is part of Warwick.

3 See http://rhodemapri.org. The grant comes from the Federal Partnership for Sustainable Communities, a collaboration of HUD, the Environmental Protection Agency, and the Department of Transportation. Grant awardees must demonstrate how they would help "reduce transportation costs for families, improve housing affordability, save energy, increase access to housing and employment opportunities, and nurture healthier, more inclusive communities which provide opportunities for people of all ages, incomes, races, and ethnicities to live, work, and learn together."

4 See http://www.ri.gov/press/view/19197.

Whom Do Black-Owned Banks Serve?

Russell D. Kashian, Richard McGregory, and Derrek Grunfelder McCrank
UNIVERSITY OF WISCONSIN, WHITEWATER

Black-owned banks are vital sources of capital, employment, and training in low-income areas. They provide institutional leadership and jobs with career ladders to communities.

Much attention has been paid to the overall banking industry in the wake of the 2008 financial crisis but not much to black-owned banks (BOBs). What has been their approach to banking since 2008? What has been their role in communities?

Past literature focused on minority-owned banks' efficiency relative to other banks, with some authors finding insignificant differences, and others suggesting nonminority-owned banks were more efficient.[1] Later work showed that minority-owned banks, BOBs in particular, paid higher interest rates on certificates of deposit (CDs) than nonminority-owned banks—using CD rate premiums to help insulate customers from the effects of the recession.[2]

That is part of a pattern in which BOBs have been known to serve their neighborhoods as sources of credit and other support.[3]

Black-Owned Banks Since 2008

To learn more about BOBs after the Great Recession and their role in communities, researchers at the University of Wisconsin, Whitewater, looked at bank data from 2000 and 2011. The list of BOBs and the zip codes for their main and branch offices in 2000 and 2011 come from Federal Reserve quarterly reports and the Federal Deposit Insurance Corporation (FDIC) list of Minority Depository Institutions.[4] The FDIC also provided annual branch deposit data, which the research team measured as a percentage of all bank deposits within each zip code on June 30, 2000, and June 2011.[5]

Race/ethnicity and poverty estimates were drawn from the Integrated Public Use Microdata Series (IPUMS), which was generated as part of Census 2000, and from 2009–2011 American Community Survey (ACS) data. Together the data provided a poverty indicator measured as a percentage of the official poverty level. (See "Characteristics of Black-Owned Banks.")

A comparison of 2011 and 2000 figures points to a general market trend toward bank consolidation. Although the number of BOBs declined from 51 to 33 (35.3 percent), the number of branches decreased only slightly (from 163 to 159, or 2.5 percent), and the number of unique Zip Codes served expanded (from 142 to 150, or 5.6 percent), suggesting that a smaller number of BOBs may have been capable of serving a larger number of customers. Growth in average deposits was dramatic: more than $10 million (40.9 percent) per office and slightly less than $180 million (159.8 percent) per bank.

Characteristics of Black-Owned Banks in the United States, 2011 and 2000

	2011	2000
Number of banks	33	51
Number of main or branch offices	159	163
Number of unique Zip Codes served	150	142
Avg. deposits per office	$35,967,000	$25,525,000
Avg. deposits per bank	$291,562,000	$112,204,000

Source: Federal Reserve, FDIC.

Race and Ethnicity of Areas Served by Black-Owned Banks

	National average	Black-owned bank present in market	Black-owned bank holds more than 5 % of deposits	Black-owned bank holds more than 20% of deposits
Percent black				
2009–2011	12.2	49.1	52.7	61.7
2000	12.0	55.6	61.7	64.0
Percent nonwhite				
2009–2011	36.3	70.1	75.2	84.6
2000	30.9	71.5	80.0	83.3

Source: FDIC, Federal Reserve, Missouri Census Data Center, "MABLE/Geocorr2K: Geographic Correspondence Engine with Census 2000 Geography," http://mcdc2.missouri.edu/websas/geocorr2k.html, Census 2000, and the 2009–2011 American Community Survey.

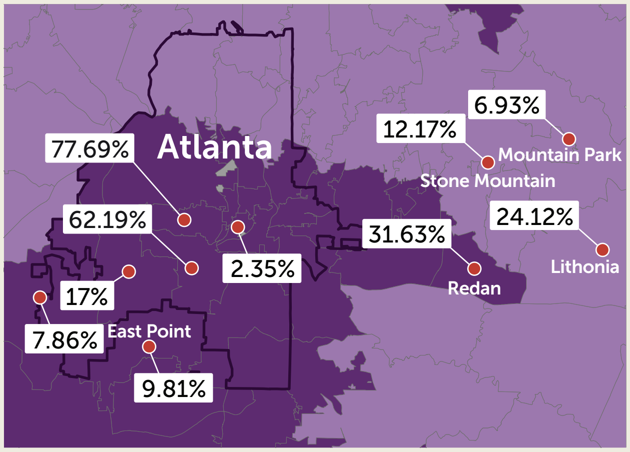
Race and Ethnicity

The percentage of African Americans in the national population rose slightly from 12.0 percent in 2000 to 12.2 percent in 2011. The percentage of African Americans in markets served by BOBs fell between 2000 and 2011. Nonetheless, the 2011 figures remain striking: the

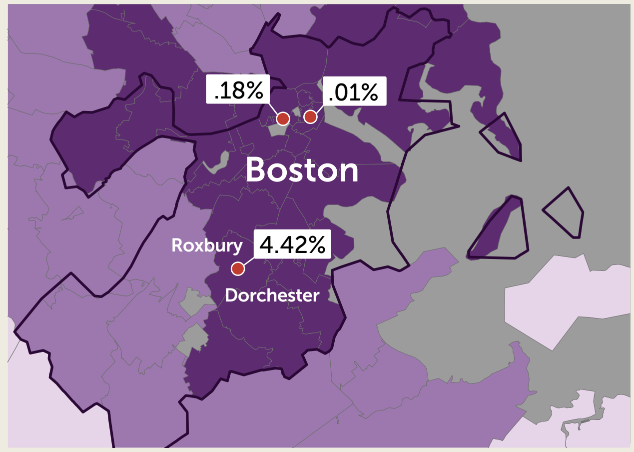
In New England

With just four locations throughout all six states, black-owned banks (BOBs) are not dominant in New England. Three of the region's four BOBs are located in the higher-poverty parts of the greater Boston area alone. Market shares of those BOBs, ranging from virtually zero to 4.4 percent in 2011, buck the trend and are much smaller than market shares seen in the higher-poverty areas of cities such as Atlanta, Los Angeles, and New Orleans.

Market Share of Black-Owned Banks and Poverty Rates by Zip Code



Atlanta Region, 2011



Boston Region, 2011

population in areas with any BOB is over three times more likely to be black than in the nation on average. That figure rises to more than five times the national average (61.7 percent) in areas where those banks hold more than 20 percent of deposits. Clearly BOBs tend to serve African American communities.

More broadly, the percent of nonwhites in the United States rose from 30.9 percent in 2000 to 36.3 percent in 2011. In areas with a BOB present, that figure jumps to over two-thirds (70.1 percent). In areas with BOBs holding more than 20 percent of deposits, over four-fifths (84.6 percent) of residents are nonwhite. Thus it can be argued that BOBs also tend to serve people of color who are not black. (See "Race and Ethnicity of Areas Served by Black-Owned Banks.")

Poverty in Areas Served by Black-Owned Banks

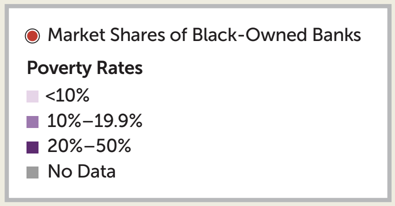
Deep poverty, for individuals in families reporting income under 50 percent of the federal poverty level, affected less than 10 percent of the nation as a whole in 2000 and 2011. But deep-poverty figures were substantially larger for communities served by BOBs and almost twice as large where those banks hold at least 20 percent of a community's deposits.

For poverty as officially measured, the rate rose from 14.5 percent in 2000 to 17.3 percent in 2011. The pattern for individuals in families below double the official poverty line resembles that for the other poverty cut-offs. It is notable that, where BOBs hold at least 20 percent of a community's deposits, more than half of the residents live below the double-poverty cut-off. This finding suggests that BOBs tend to

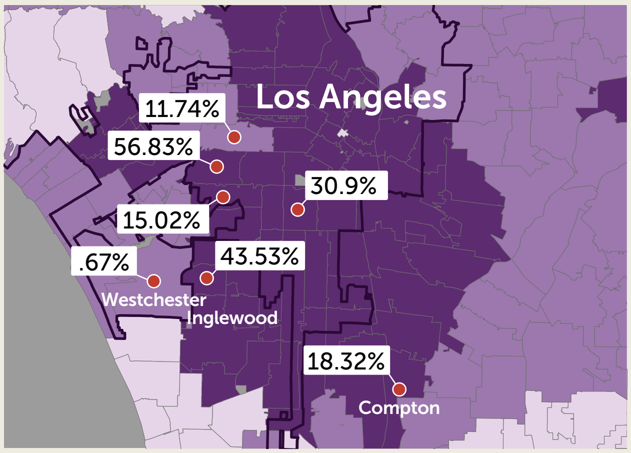
Poverty Rates for U.S. Areas Served by Black-Owned Banks

	National average	Black-owned bank present in market	Black-owned bank holds more than 5% of deposits	Black-owned bank holds more than 20% of deposits
Percent reporting deep poverty (income is below 50% of poverty level)				
2009–2011	8.9	12.8	13.2	15.5
2000	7.9	13.1	14.5	15.5
Percent reporting income below poverty level				
2009–2011	17.3	24.2	25.0	29.3
2000	14.5	22.9	25.5	27.4
Percent reporting income below double the poverty level				
2009–2011	35.7	45.9	46.9	52.4
2000	31.4	42.6	46.6	49.2

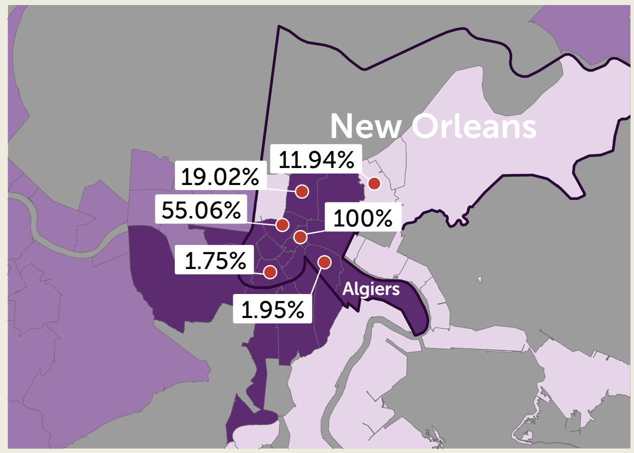
Source: FDIC, Federal Reserve, Missouri Census Data Center, Census 2000, and the 2009–2011 American Community Survey.



Tyler Tomaszewski, GIS Specialist - Fiscal & Economic Research Center, University of Wisconsin - Whitewater



Los Angeles, 2011



New Orleans, 2011

serve low-income customers with very limited asset holdings. (See "Poverty Rates for U.S. Areas Served by Black-Owned Banks.")

Looking Ahead

It is reasonable to conclude that BOBs are located predominantly in nonwhite communities with poverty rates almost twice the national average, suggesting that they primarily serve the needs of low-income customers.

The fact that these relationships are strongest where BOBs hold at least 20 percent of deposits further implies that BOBs locate in areas that other banks view as unprofitable. These conclusions mirror past predictions that, to survive, BOBs would increasingly serve niches where they were not in direct competition with nonminority-owned banks.[6] Given that BOBs are often one of the few financial intermediaries found in low-income areas, they are vital sources of capital for the residents and provide banking services to communities that are often barren of any other mainstream banking services. For members of the communities they serve, BOBs are a source of valuable jobs with career ladders, such as tellers, loan officers, and mortgage originators. They offer family wages and the opportunity for training and skill enrichment.

Economies of scale make mergers and acquisitions a force in both the general banking industry and the black-owned-bank industry. Although consolidation adds a layer to the direct interaction between customers and upper management, it appears likely to continue as the complexity of regulation and the cost advantages of size encourage institutions to grow larger.

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4 See "Minority-Owned Banks," Federal Reserve Statistical Release, http://www.federalreserve.gov/releases/mob/; and "Minority Depository Institutions," Federal Deposit Insurance Corporation, http://www.fdic.gov/regulations/resources/minority/MDI.html.

5 Federal Deposit Insurance Corporation, "Summary of Deposits," http://www2.fdic.gov/sod.

6 J. Duker and T. Morton, "Black-Owned Banks: Issues and Recommendations," *California Management Review* 17, no. 1 (fall 1974): 78–85.

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