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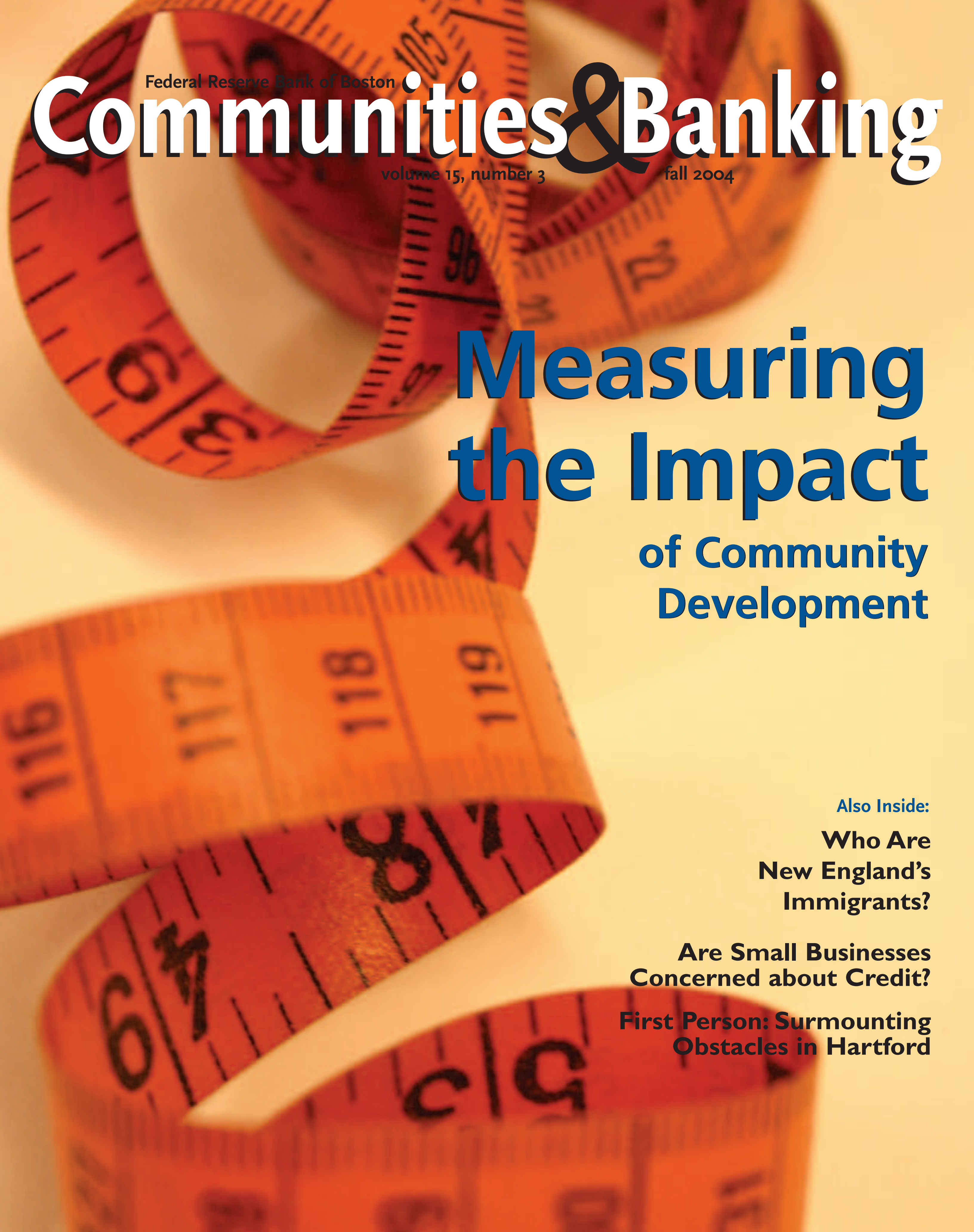

Measuring the Impact of Community Development

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Notice of Erratum: In the summer 2004 issue, the legend of the graph on page 14 was incorrect. A corrected version is available online at *http://www.bos.frb.org/commdev/c&b/2004/summer/Sprawl.pdf*

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Measuring the Impact of Community Development

by Sean Zielenbach, Housing Research Foundation

Impact, Impact, Impact.

The community development industry has recently been bombarded by questions of impact. Foundations, lenders, and government agencies have begun demanding that funding recipients measure and demonstrate the impacts they have on low- and moderate-income communities. Likewise, board members are increasingly insisting that their executive directors prove that outcomes are both meaningful and cost-effective. Reporting the conventional indicators of success—the number of loans closed, the number of units built, the amount of commercial square footage developed—no longer meets the demands of these stakeholders. Rather, organizations are now being asked to track and quantify the *benefits* that they produce for lower-income individuals and neighborhoods—*how have they really improved the community?* It is a difficult task, complicated by organizations' limited resources and the often ambiguous definition of successful community development.

How should a community development organization respond? This article offers guidance to organizations that are searching for the most appropriate ways to define and measure the impact of their efforts. First, it looks at changes in the funding environment that have fueled the recent drive for measurable impact. It then lays out a framework designed to help groups organize their thinking about meaningful impact, and it discusses several sources of useful data. Finally, it reflects on the prickly question of causality—is it possible to identify the factors responsible for a particular set of results?

The New Push for Impact Measurement

More so than ever before, the community development field is under the gun to prove that it is making a difference in its targeted markets. In its first 25 years, the industry found it sufficient to point to real estate development in an economically distressed market as an indicator of success. But recently, the bar has been raised. Now people want to know whether a development has really improved a community. To a certain extent, this new standard reflects the growth and success of the industry. No longer novices, a number of lenders, such as the Local Initiatives Support Corporation and the Massachusetts Housing Investment Corporation, have been around for at least 15 years, and in this time, financing and developing housing in low-income areas has become much more feasible—even relatively common. It is reasonable for stakeholders to ask this maturing industry what its efforts have been able to accomplish.

A lot of pressure is coming from foundations and other private funders. Community development organizations have long depended on various forms of subsidy to survive, a significant portion of which flows from the philanthropic community. The stock market downturn of 2000–2002 shrank many foundations' endowments, and most were forced to cut back on their giving. With declining resources yet more requests from a growing industry, funders are increasingly using objective impact measures to differentiate between organizations and determine the best allocation of their funds.

Public sector financial support is also crucial for community development organizations, and the recent sluggish economy had made for a lean public funding environment. Faced with weak revenues in the past several years, many states and municipalities have cut funding to various social programs in order to balance budgets. Moreover, a growing federal deficit and changing political priorities have introduced further uncertainty about the future availability of community development and affordable housing money. Possible reductions in the HOPE VI public housing redevelopment program, the Section 8 voucher program, and the Community Development Financial Institutions (CDFI) fund could significantly affect future funding streams for community development organizations. To preserve these programs, community development advocates and practitioners must make the case that their efforts make an important difference.

New Measures of Impact Are Needed

Unfortunately, the traditional ways in which community development organizations have tracked and reported impact do not sufficiently address whether their efforts make a difference. For example, the standard measures used by affordable housing lenders are the number of units or families financed and the amount of financing "leveraged" in a deal. These measures have two major limitations. First, they fail to capture the real social and economic benefits of the project. They say nothing about how the quality of life for the new residents and the community has been affected. Second, these measures of quantity are often deceiving. For example, one organization might provide a $500,000 five-year mortgage in support of 25 units, whereas another contributes a $50,000 six-month predevelopment loan for a 200-unit project. Relying solely on the standard quantity measures, the latter group would report eight times as much "impact" as the first for one-tenth of the cost. In another example, the impacts of developing 20 units of low-income housing in Springfield, Massachusetts, are not the same as developing them in Stamford, Connecticut, where the barriers to affordable housing are greater.

Traditional measures also imply a certain amount of causality that often does not stand up to scrutiny. The statement, "Loan Fund A's financing created 120 units and leveraged an additional $4 million in private investment," in reality might describe a fund that provided a $250,000 equity bridge loan to a $4.25 million project. While the fund cer-

"Keep It Simple"

Lessons from the Connecticut Housing Investment Fund's Impact Study

Before: Abandoned apartment building in Hartford, Connecticut..

Assessing impact is harder than you might expect. The Connecticut Housing Investment Fund (CHIF) learned this lesson firsthand when it undertook a study of its Neighborhood Rebuilder Loan Program last year. Based in Hartford, CHIF is a private, statewide, nonprofit organization that has been financing affordable housing and community revitalization efforts in Connecticut since 1968. Its Neighborhood Rebuilder Loan Program is designed to address a problem common to many of the state's distressed urban neighborhoods: Redeveloping abandoned housing and vacant lots often costs more than the after-construction appraised values of these properties. CHIF's program provides subsidies to close this gap, helping to eliminate this financial hurdle and increasing housing development in these neighborhoods.

"Last year, the Board was deciding whether to commit more funds to Neighborhood Rebuilder, so they asked us to find out how well the program was working," recalls Cynthia Russell, President and CEO of CHIF. To respond to the Board's request, CHIF began an impact analysis of 150 homes that had been financed through Neighborhood Rebuilder in Hartford and New London.

The task would prove to be a challenge. First, a literature search revealed that little had been written on the topic. "We quickly learned that there isn't a lot to guide loan funds that want to measure impact," says Russell.

Drawing on the knowledge that was available, CHIF consultants developed a set of indicators and began collecting data to measure the program's effectiveness. They rated the physical appearance of each Rebuilder property and its surrounding neighborhood. They used census data to capture the socioeconomic status of neighborhood residents and collected local crime and housing data to assess any changes in the safety, stability, and desirability of these neighborhoods.

Unfortunately, the data were far from perfect. The physical appearance measures were subjective and open to inconsistency. Census data provided only a snapshot from each decade, and many of the housing indicators that CHIF had hoped to analyze were difficult to find. The fact that Rebuilder properties had been built in various years also complicated things, particularly by making crime and property value data hard to interpret. Finally, CHIF did not have an adequate "before" picture with which to compare the "after" data.

The data difficulties muddled the results. "We had wanted to be able to tell the board that the program was a clear success," says Russell. "We were able to conclude that the neighborhoods had improved since CHIF started financing new construction and rehabilitation in these communities. However, we discovered that we need to do further analysis to determine the chief contributors to this improvement."

Regardless, the impact analysis has been a valuable learning experience for CHIF and a good starting place. The organization is using the results to create a baseline measurement of Rebuilder neighborhoods that can be used as a benchmark against which to compare future changes. CHIF has also realized the importance of good data collection and has decided to focus future analysis on several key variables. "CHIF wanted a lot from our study," says Russell, "and I think we were overly ambitious. My advice to other loan funds is to determine exactly what you are looking for in an impact study. Keep it small at first and build from there."

After: CHIF funded the rehabilitation of the building into a two-family home.

tainly played an important role in ensuring the success of the project, did it really "leverage" monies that were already committed to the deal? Was its loan really responsible for creating the 120 units? The bank that financed $2 million of the project could presumably make a stronger case for its role. Likely, the bank and each of the other lenders on the project will report that their financing produced 120 units, counting these units multiple times.

None of these critiques is meant to blame community development organizations for their traditional data collection methods. Funders and intermediaries often require this type of data so they can easily standardize and aggregate information across institutions. Additionally, data collection requires time and resources, and unless funding is available for more sophisticated analysis, entities have little choice but to concentrate on simple, easily tracked measures. Nevertheless, community development organizations are now being called to a higher standard of impact measurement and challenged to develop a new set of relevant benchmarks.

What are the more appropriate measures of successful impact, and how can relevant information be collected in a reasonable and cost-effective way? Before answering these questions, an organization must first step back and identify its goals and its definition of achieving them. Too often, community development organizations and their funders establish a vague and lofty goal—"make the neighborhood a more livable community" or "improve housing opportunities for low-income people." However, they never specify (1) what the goal means in practice, (2) how to determine if the goal has been met, or (3) how their efforts will contribute to meeting the goal. Clarifying these questions is critical, and only afterwards can an organization begin to identify meaningful and convincing measures of impact.

The next three sections offer some specific suggestions for how an entity might define and measure its success. Using affordable housing lenders as an example, the first section focuses on assessing internal issues. The second concentrates on determining the direct benefits from an affordable housing development, and the third looks at how to measure a project's broader effects on the community.

Internal Measures of Success

Assessing the impact of the activities of a community development organization must begin with an internal evaluation of the organization and a recognition of institutional limitations. Before an organization can fulfill the social half of its double bottom line, it must address its ability to generate enough revenue to cover expenses and remain in operation. To illustrate, take lenders. Their primary purpose is the provision of loan capital, and their effectiveness depends on their ability to make successful loans. Thus, an affordable housing lender's first responsibility must be to ensure its own sustainability; if it cannot continue to provide financing, then it cannot fulfill its purpose, and its potential social impacts become moot. [1]

For a lender, organizational sustainability boils down to three major issues:

Can the lender effectively get its money out into projects, where the dollars can generate both financial and social benefits?

Unless the bulk of a lender's money is out "on the street" earning interest, the lender cannot hope to gross enough to cover costs. With few exceptions, the interest a lender makes on its loans is more lucrative than the interest it could make in a money market account or in other short-term funds. Thus, the percentage of loan capital currently invested in loans provides an indicator of sustainability, although it is important to keep in mind that a lender must also have an adequate amount of cash on hand to facilitate ongoing lending. Historically, the best affordable housing lenders have deployed about 75 to 80 percent of their loan capital in order to maximize their financial return and maintain sufficient liquidity for future deals.

Can the lender get its money back from borrowers in full and on time?

A lender's sustainability depends on its ability to recycle its loan dollars; money goes out, comes back in, goes out again, and so forth. A break in the cycle can delay or even preclude future lending activities. Thus, low loss and delinquency rates are important measures of success. The best affordable housing lenders show loss rates of less than 1 percent and overall delinquency rates of no more than 2.5 to 3 percent.

What portion of operational cost is covered by earned revenues?

The greater the self-sufficiency of a lending program, the more an organization can direct the fruits of its fundraising efforts toward building its capital base. Revenues should ideally cover 100 percent of costs, but this level is often unrealistic for nonprofit lenders. The high risk profile of their loans requires that significant time and resources be devoted to pre-loan counseling, loan servicing, and loan restructuring in order to maintain low default and loss rates. Moreover, the returns on small loans may not fully cover the costs associated with them. The characteristics of a lender's portfolio should be kept in mind when assessing self-sufficiency ratios. Organizations that provide large loans that require little technical assistance should be better able to cover their operating costs from earned revenues. In contrast, entities that provide extensive counseling and smaller loans to individual borrowers will inherently rely more heavily on grant money to cover their operations.

Direct Benefits for Lower-Income Individuals

Successful community development efforts improve the lives of lower-income people. For example, affordable housing is designed to provide quality shelter at an economical price and to make residents better off than they were before. To evaluate how well this goal is achieved, affordable housing lenders must determine who lives in their homes and how their lives have been improved by living there.

To assess the direct impacts of a particular home or development, a lender should ask the following:

Who will be living in the homes? How economically distressed is the targeted population?

Arguably, affordable housing that helps the lowest-income individuals has the greatest social benefit, by assisting those least likely to have other quality housing options. Thus, determining the socioeconomic status of program participants is a crucial part of any impact evaluation. Fortunately, obtaining income information is relatively straightforward. Lenders can collect this information from loan applications if they lend directly to individuals. If they are lending to developers, project prospectuses provide reasonably accurate estimates of tenant incomes, which can be verified after leasing is complete.

When reporting a resident's income, it is useful to report it as a percentage of the area's median income to correct for cost of living differences across regions.[2] For example, a household earning $30,000 would be considered moderate-income in Springfield, Massachusetts, where median income is $30,417. The same household would be categorized as low-income in Stamford, Connecticut, where its income would be less than 50 percent of the median.

To what extent does the housing represent a social and economic improvement for the targeted population?

In many cases, an affordable housing unit constitutes a physical upgrade over a program participant's previous residence. For others, it provides an escape from overcrowding, domestic or neighborhood violence, or unsafe living conditions. Additionally, the new housing may offer substantial cost savings over what residents were paying before. Ascertaining the previous living situations of program participants and comparing them with current conditions allows lenders to measure the impact that a project has made.

To gather this information, a simple survey of new residents could be conducted: What was the previous housing situation? How much did it cost? How much are they paying now? Why did they move? How would they rate the current housing situation relative to the previous one? If resources or logistics preclude a survey, the lender could estimate the monthly cost savings to a resident by comparing the rent of a financed unit with the typical market-rate rent for a similar unit—data gathered by a scan of local apartment listings, a call to a local real estate broker, or a survey of area apartment-complex owners.

What other new services are being provided?

In addition to the value of the housing unit itself, some developments offer other important services that might otherwise be unavailable to residents, such as onsite child care or recreational facilities. Lenders should be sure to capture the value of these additional services in any survey or any comparison with market-rate projects.

To what extent does the housing build wealth for program participants?

Affordable housing lenders should assess the extent to which their developments help low-income individuals build wealth over the long term. In rental housing complexes, lenders can annualize the monthly cost savings in rent and calculate the additional money available to each household each

year. From there, it is easy to estimate this savings as a percentage of total household income. A similar approach can be applied to homeownership efforts. The program participant's monthly mortgage payments can be compared with either previous rental payments or average housing costs in the area, and an annual income gain can be computed.

Community development advocates and practitioners have long contended that affordable housing development can trigger positive change in surrounding neighborhoods.

Over time, homeowners increase their wealth by paying down their mortgage principals and experiencing increases in the value of their homes. Lenders can compute growth in a homeowner's equity by tracking the amount of retired loan principal and by estimating the value of the home over time. For the latter, some agencies use local real estate broker price estimates of comparable neighborhood properties to judge the current value of the home in question. Other lenders track the sale prices of surrounding properties to estimate changes in value.

Benefiting Neighborhoods: Other Important Impacts

Community development advocates and practitioners have long contended that affordable housing development can trigger positive change in surrounding neighborhoods. They argue that homeownership contributes to greater residential stability and enhanced social capital. They maintain that residential rehabilitation and new construction tend to increase surrounding property values and to lead to additional private investment in neighboring homes. They reason that increased residential density attracts retailers, restaurants, and other stores to the area, and that development, in concert with increased security and resident involvement, can contribute to a reduction in crime.[3]

However, these improvements rarely take place immediately and may not happen at all. Whether, when, and to what extent they occur depends on a range of factors, including the scope and concentration of development activity. These benefits are not easily documented, and advocates and practitioners have typically relied on anecdotal evidence, not data, to evaluate this type of impact. Regardless, community development organizations should attempt to calculate the value of these important impacts, and there are a number of concrete ways to do so:

• Assess the physical improvement to the property in question. In many cases, development and rehabilitation efforts turn a vacant or abandoned property into one that generates quantifiable tax revenue. Additionally, new development may eliminate a problem property such as a drug house. Performing a simple before and after comparison of the property can document these and other important qualitative and quantitative community impacts.

• Examine the condition of the surrounding properties. Lenders should assess whether there has been any physical change to adjacent or nearby properties. Again, a simple before and after comparison of the surrounding neighborhood can reveal whether there has been any variance in the number of foreclosures, home repairs, or other physical improvements since the project was completed.

• Measure changes in area property values. Improved perceptions about an area increase the number of interested buyers, generally resulting in higher property values. In turn, these higher values lead to enhanced wealth for homeowners, additional tax revenue for the community, and further investment. By tracking neighborhood property sales prices, tax assessments, or real estate broker price estimates, or by using Home Mortgage Disclosure Act (HMDA) data, lenders can quantify the change in property values following a new development.[4]

• Track new private investment. In improving neighborhoods, the number of conventional home purchase, home repair, home equity, and multifamily loans should increase over time. Calculating the change in the number of new residential mortgages in a particular census tract is a simple way that lenders can measure new private investment in a community. These data are collected annually by the Federal Financial Institutions Examination Council and are made available to the public on its web site.

• Gauge changes in crime rates. Arguably, properly managed development improves a neighborhood by helping to reduce crime, and lenders can use crime data to assess this impact. However, crime statistics may not reflect this relationship very neatly. Crime rates may actually initially increase after the completion of a new housing development if the area experiences an influx of people in response to the improved conditions or the improved conditions trigger greater reporting of offenses by residents and police officers. Crime rates can also spike for reasons completely unrelated to the neighborhood, such as a larger than normal population of teenage males or a large release of former prisoners. If a lender wants to focus on changes in crime rates, it is important to keep these outside factors in mind and to track data an on annual basis to help smooth out anomalies.

A Final Thought: Causality

The indicators discussed above provide a more sophisticated and methodical way for community development organizations to begin measuring how well they are meeting their prescribed goals. However, as organizations embark on this task, it is important to remember that only a few of a project's benefits are the direct result of any one organization. Most projects involve multiple actors. The typical affordable housing development includes a combination of at least four lenders, equity providers, or donors—it is impossible to attribute success to any single one of them. Furthermore, financing is only one element of a successful community development project. Project management, the local economy, community support, co-existing development, and other factors are also critical to a development's ultimate success.

Given the complicated nature of causality, the community development industry should be realistic about its ability to demonstrate impact. Funders must move away from a mindset that seeks to attribute outcomes to a specific actor or to judge an organization on impacts that are largely outside of its control. At the same time, organizations must clearly articulate the particular role that they play in a community development project. By collecting, analyzing, and reporting useful, mission-relevant data, the community development industry can enhance overall knowledge, improve outcomes, and make a more compelling case for the importance and effectiveness of its work.

Endnotes

[1] The National Community Capital Association has done considerable work tracking and benchmarking the financial performance of CDFIs throughout the country and regularly publishes analyses of CDFI trends and best practices. Visit www.communitycapital.org for more information.

[2] Using local consumer price indices to adjust for cost of living differences would be preferable. Unfortunately, such indices are available only for metropolitan areas and do not differentiate among individual municipalities.

[3] Research related to neighborhood spillover effects includes the following: Ding, Chengri, Robert Simons, and Esmail Baku. "The Effect of Residential Investment on Nearby Property Values: Evidence from Cleveland, Ohio." *Journal of Real Estate Research* 19:1 (2000), 23-48; McCarthy, George, Shannon Van Zandt, and William Rohe. "The Economic Benefits and Costs of Homeownership: A Critical Assessment of the Research." Research Institute for Housing America Working Paper #01-02 (May 2001); Rohe, William M. and Leslie S. Stewart. "Homeownership and Neighborhood Stability." *Housing Policy Debate* 7:1 (1996), 37-81; Sampson, Robert J., Jeffrey D. Morenoff, and Felton Earls. "Beyond Social Capital: Spatial Dynamics of Collective Efficacy for Children." *American Sociological Review* 64 (Oct. 1999), 633-660.

[4] For more information on using HMDA data, see Zielenbach, Sean. "Assessing Economic Change in HOPE VI Neighborhoods." *Housing Policy Debate* 14:4 (2003), 621-655. For an example of using an econometric model to assess the impact of particular programs on local property values see Galster, George C., Peter Tatian, and Robin Smith. "The Impact of Neighbors Who Use Section 8 Certificates on Property Values." *Housing Policy Debate* 10:4 (1999), 879-917.

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Who Are *New England's* **Immigrants**

by Mamie Marcuss with Ricardo Borgos
Federal Reserve Bank of Boston

When asked, "What areas of the country do you associate with immigrants?" most Americans would respond with a litany of southern and western states—Texas, California, Florida. East coast cities like New York and Washington DC might get a mention, but few people's first response would be "New England."

Given the relative size of the region's immigrant population, it is an understandable omission—less than 5 percent of the 31 million foreign-born persons in the United States live in the six New England states. But for New Englanders, these 1.4 million immigrants make up nearly 10 percent of the population, and they significantly shape the region's economy, culture, and character.

In fact, the region is becoming increasingly dependent on these individuals. Between 1990 and 2000, growth in the foreign-born population was responsible for almost half of New England's total population growth. In Connecticut, Massachusetts, and Rhode Island, immigrants accounted for even larger shares of these states' growth—as much as 76 percent in Connecticut. Overall, the region's population grew only 5.4 percent over the decade, but without foreign immigration, it would have been virtually stagnant.

Who are the region's immigrants? To better understand the demographic, geographic, and socioeconomic characteristics of New England's foreign-born population, the Federal Reserve Bank of Boston is undertaking an analysis of the region's immigrants. Where do they emigrate from? Where in the region do they live? How do their income, homeownership, and employment opportunities compare with those of the native population? The research, based on data from the U.S. Census, has revealed several attributes that set New England's immigrants apart from the rest of the nation.

A Collection of Diverse Nationalities

New England's foreign-born population embodies many nationalities, and unlike the United States, no single group constitutes an overwhelming majority. In particular, there is a striking lack of Mexican immigrants in the region. In 2000, 9.2 million Mexicans were recorded in the U.S. Census, by far the largest single group of immigrants in the country. However, while they account for over 30 percent of all U.S. immigrants, only 26,000 Mexican immigrants reside in New England, making up less than 2 percent of the region's foreign-born population.

In general, the composition of the region's immigrant population differs greatly from that of the United States. The nation's five largest foreign-born countries of origin—Mexico, China, the Philippines, India, and Vietnam—contribute only 15 percent of the region's immigrants, and only two are among the major sources of New England immigration. Instead, Portuguese immigrants are the region's largest immigrant group, while thanks to the region's northern neighbor, Canadians are the second largest. Immigrants from China (including Hong Kong and Taiwan), the Dominican Republic, Italy, the United Kingdom, Brazil, India, Haiti, and Poland each make up another 3 to 5 percent apiece, and together, these ten nationalities represent about half of the region's immigrants.

World Regions

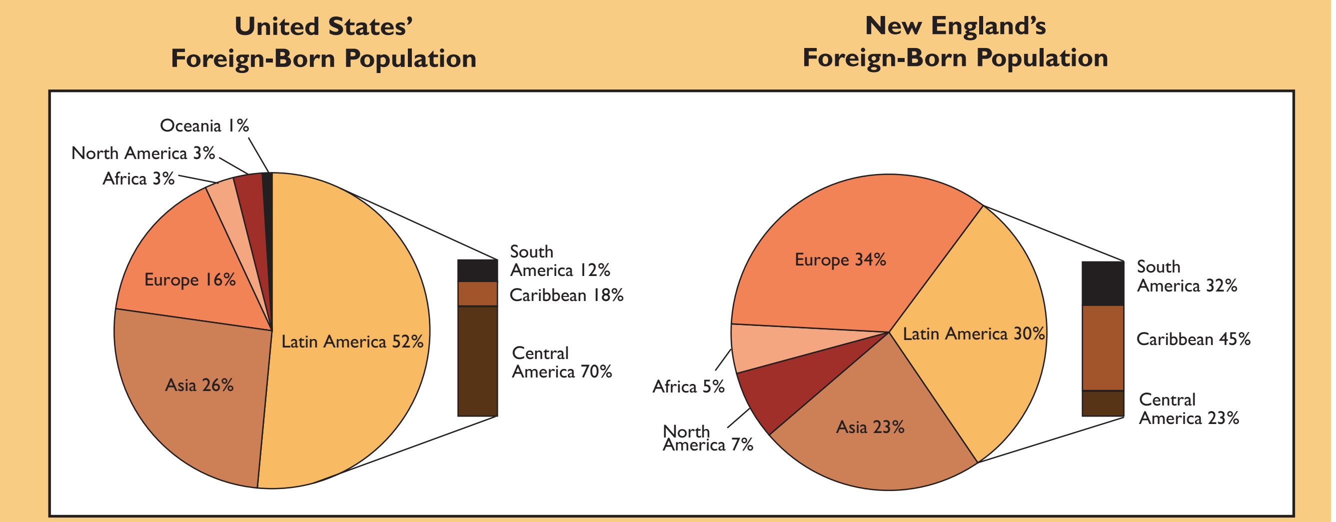
The significant absence of Mexican immigration to the region has not lessened the presence of Latin American immigrants in New England. Thirty percent of the region's foreign-born persons are from Latin America. But, unlike the rest of the United States, the bulk of New England's Latino population traces its roots to countries in the Caribbean and in South America.

Among the regions of the world, however, Europe accounts for the largest fraction of New England's foreign-born population. Thirty-four percent of the region's immigrants are European, more than double the national fraction of 16 percent. Importantly, most of the region's Europeans immigrated to the United States before the 1980s. For instance, three-quarters of the region's Portuguese population arrived in this country more than two decades ago, and 89 percent of Italians arrived before 1980. With the exception of some recent immigration from Eastern Europe, this timing is characteristic of the bulk of the region's European population. Undoubtedly, the large presence of these older European immigrants contributes to the region's relatively high percentage of older, more established immigrants. Overall, nearly a quarter of New England's foreign-born population has been in the country for more than 30 years, compared with only 15 percent of immigrants nationwide.

Fastest Growing Groups

Despite the region's large fraction of older immigrants, 39 percent of New England's foreign-born population arrived after 1990. In this stream of new arrivals, European immigrants have largely been replaced by Latin Americans and Asians. In terms of raw numbers, Latin American immigrants were the fastest growing foreign-born population, doubling their size over the decade. This growth was led by immigrants from the Dominican Republic, whose population nearly quadrupled, and by the 33,000 Brazilians who moved to the region. However, a large number of Mexicans, Guatemalans, Haitians, Colombians, Jamaicans, and

Immigrant Population by Region of Origin, 2000



Source: U.S. Census, 2000.

Salvadorans also came to New England in the 1990s.

Large streams of immigrants from Asia also characterized the decade. Over 33,000 Chinese immigrants settled in New England in the 1990s, as well as large numbers of Indian and Vietnamese immigrants. All three groups have doubled their populations from a decade ago. Of note, the foreign-born population from Africa increased 198 percent between 1990 and 2000, the largest percentage increase for any world region. In 2000, over 47,000 African immigrants lived in New England.

City Dwellers

While nationalities differ, New England's immigrants are much like their U.S. counterparts in their settlement patterns. Across the nation, most immigrants live in urban areas, and many live in concentrated ethnic communities, choosing to settle near those who share their language, culture, and history. How do these geographic choices play out in New England's communities?

Most of the region's foreign born live in the cities of southern New England. In fact, while New Hampshire, Vermont, and Maine house one-quarter of the region's total population, less than 9 percent of the region's immigrants live in these three northern states (a full third of these immigrants are from Canada). Farther south, on the other hand, Massachusetts is home to 56.2 percent of New England's immigrants. Another 26.9 percent live in Connecticut, and the remaining 8.7 percent are Rhode Islanders. New England's five largest cities are in these states, causing much of this disproportional balance. Boston, Springfield, and Worcester, Massachusetts, Providence, Rhode Island, and Bridgeport, Connecticut, house one-fifth of the region's foreign-born population within their city limits, with many more living in the surrounding metro areas.

While many native New Englanders live in cities, the region's foreign born are more likely to be city dwellers. Forty-four percent of all immigrants, but only 22 percent of all New Englanders, live in the region's 25 largest cities and towns. In total, 55 percent of New England's foreign-born population lives in cities, defined as areas with a population of at least 50,000 people. The region's more recent immigrants are even more likely to live in urban centers, and 63 percent of immigrants who arrived in this country after 1990 live in the region's 25 largest cities and towns.

Boston and Providence, not surprisingly, are the top two addresses for immigrants. Foreign-born residents make up one-quarter of each city's population. The communities neighboring these and other large cities also have substantial immigrant populations. Central Falls, Rhode Island, just outside of Providence, has the highest ratio of immigrants to natives in the state, with the city's foreign born making up 35 percent of the population. In nearby Pawtucket, Rhode Island, 23 percent of residents are immigrants. Close to New York City, Stamford, Connecticut's

Ten Largest Immigrant Groups in 2000

United States				New England		
Country of Origin	Population	Percent of Total U.S. Foreign-Born Population		Country of Origin	Population	Percent of Total New England Foreign-Born Population
Total Foreign Born in United States	31,107,889			Total Foreign Born in New England	1,376,317	
1. Mexico	9,177,487	29.5		1. Portugal	101,980	7.4
2. China	1,518,652	4.9		2. Canada	98,853	7.2
3. Philippines	1,369,070	4.4		3. China	74,774	5.4
4. India	1,022,552	3.3		4. Dominican Republic	72,920	5.3
5. Vietnam	988,174	3.2		5. Italy	60,391	4.4
6. Cuba	872,716	2.8		6. United Kingdom	53,914	3.9
7. Korea	864,125	2.8		7. Brazil	49,246	3.6
8. Canada	820,771	2.6		8. India	48,322	3.5
9. El Salvador	817,336	2.6		9. Haiti	43,819	3.2
10. Germany	706,704	2.3		10. Poland	42,257	3.1

Source: U.S. Census, 2000.

New England's Changing Immigrant Groups

New England's Fastest Growing Immigrant Groups
Ranked by Population Increase between 1990 and 2000

Country of Origin	Population in 1990	Population in 2000	Difference	Percent Change
Dominican Republic	27,689	71,262	43,573	157
China	41,283	74,944	33,661	82
Brazil	14,778	48,147	33,369	226
India	20,366	48,388	28,022	138
Vietnam	16,742	38,166	21,424	128
Mexico	7,993	27,874	19,881	249
Guatemala	9,597	28,129	18,532	193
Haiti	23,068	41,389	18,321	79
Colombia	17,431	33,876	16,445	94
Jamaica	25,095	38,740	13,645	54

New England's Fastest Shrinking Immigrant Groups
Ranked by Decline in Population between 1990 and 2000

Country of Origin	Population in 1990	Population in 2000	Difference	Percent Change
Italy	78,144	58,169	-19,975	-26
Canada	113,151	96,399	-16,752	-15
Portugal	109,908	98,266	-11,642	-11
Ireland	27,240	23,860	-3,380	-12
Scotland	10,277	7,158	-3,119	-30

Note: Population numbers here differ from those in the table on page 12 because this table uses Public Use Microdata in order to make comparisons between 1990 and 2000.
Source: 1990 and 2000 Public Use Microdata, U.S. Census Bureau.

population is 30 percent foreign born, neighboring Danbury's is 27 percent, and Bridgeport's and Norwalk's populations are both 20 percent foreign born. These four cities have the highest concentrations of foreign-born residents in Connecticut. In the Bay State, 16 Massachusetts cities and towns have at least one immigrant for every six residents living in them. All sixteen are in the greater Boston metropolitan area.

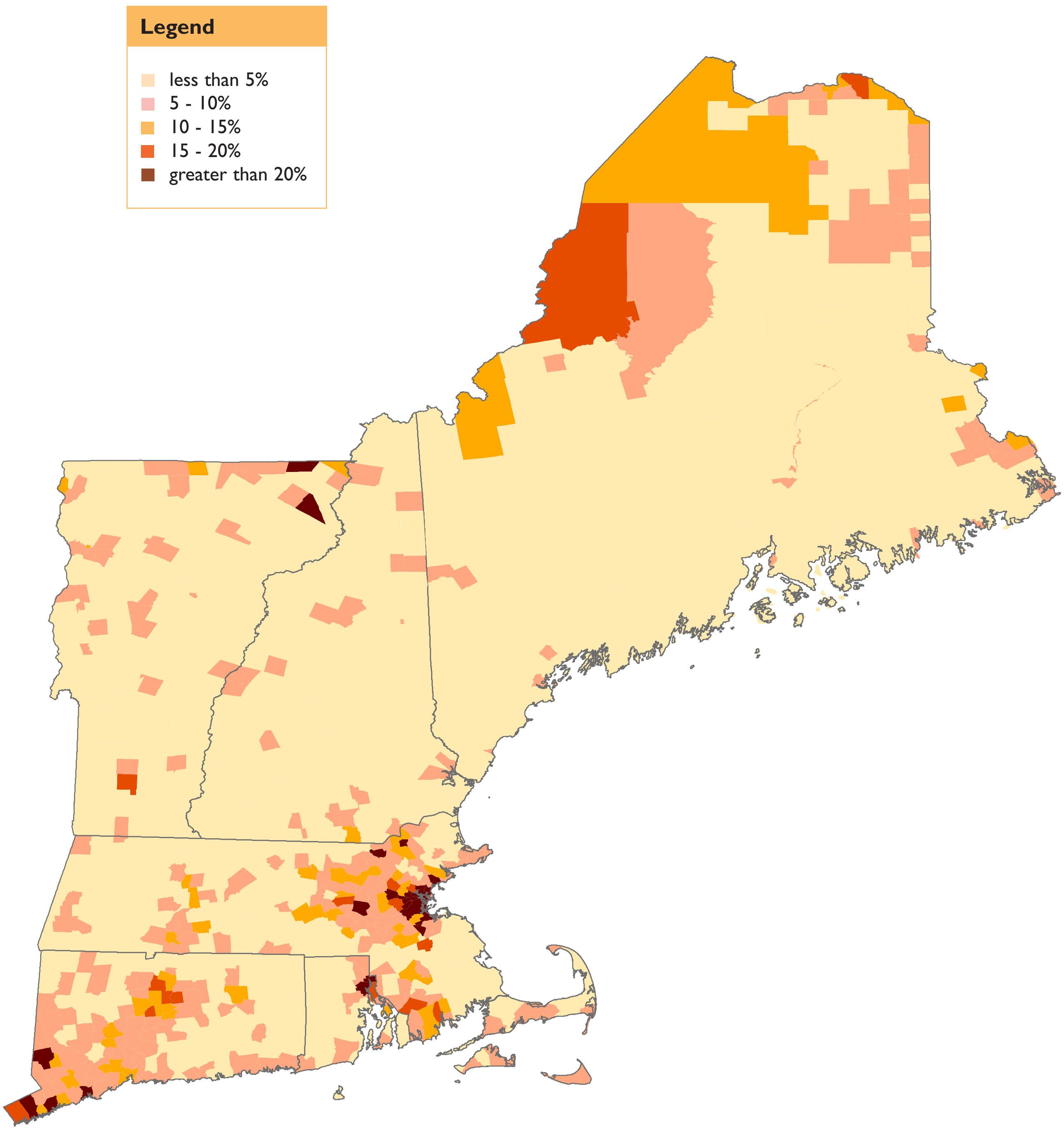
Several of New England's smaller cities have seen dramatic increases in their foreign-born population as new immigrant communities pop up throughout the region. In Lawrence and Somerville, Massachusetts, nearly one in three residents is foreign born, up from one in five in 1990. Similarly, 22 percent of Randolph, Massachusetts' population was foreign born in 2000, climbing from 12 percent a decade before. In Chelsea, Massachusetts, 36 percent of residents are foreign born, with two-thirds having immigrated since 1990.

Concentrated Neighborhoods

In many cases, new immigrant communities are composed largely of one nationality. Family ties and other networks create patterns of settlement that build communities of shared backgrounds, language, and traditions, in turn attracting more individuals of the same nationality. For example, the Portuguese have strong communities in southern Massachusetts and Rhode Island, where this group has lived for over a century (see sidebar, page 15). Fall River and New Bedford, Massachusetts, account for 26.8 percent of New England's Portuguese population, with an additional 20 percent living in neighboring cities and towns, including communities in Rhode Island.

The Portuguese are one of the few older immigrant groups that remain highly concentrated. Typically, it is the region's more recent immigrants who live in highly concentrated communities. For example, 60 percent of New England's Dominicans live in three cities—Lawrence, Massachusetts (21 percent), Providence, Rhode Island (19

Percent of Total Population that is Foreign Born in New England Cities and Towns, 2000



Source: U.S. Census, 2000.

United by a Language

New England is a hub for Portuguese-speaking people—be they from Portugal, Brazil, or Cape Verde. Portuguese immigrants are the region’s largest foreign-born group. Brazilians constitute one of the leading groups of recent immigrants, and more Cape Verdeans live here than anywhere else in the United States. The Portuguese language has drawn these three groups to New England, but today it is one of the few things to unite them.

New England’s lusophone immigration traces its roots back to the 1800s and the days of Moby Dick. In the 19th century, whaling drew thousands of Portuguese immigrants to southern Massachusetts. Providing a vital source of fuel, whaling was a booming industry and New Bedford, Massachusetts, was at its center. Boats leaving from Buzzards Bay in search of sperm whales in the eastern Atlantic would often dock in the Azores, Cape Verde, and Madeira to restock their ships with food, water, and other supplies. These were all Portuguese territories, and as captains returned home with their bounty, they brought hundreds of Portuguese sailors with them.

Soon, Portuguese communities were flourishing in New Bedford, Fall River, and other nearby areas, and even after the whaling industry collapsed, thousands of new immigrants from the Portuguese colonies and the mainland flocked to the area. For decades, new Portuguese immigrated to southern New England, seeking better economic opportunities and escape from the dictatorship that was stifling freedom in their home country. It was not until 1976, when Portugal’s longstanding fascist regime fell and economic opportunities improved dramatically, that the stream of Portuguese immigrants slowed to what today is a mere trickle. However, the remaining cultural and linguistic networks became a critical draw for the next major wave of Portuguese-speaking immigrants to New England—Brazilians.

According to the U.S. Census, 23.2 percent of the more than 200,000 Brazilians living in the United States in 2000 made their home in New England. However, these figures likely underestimate the region’s Brazilian population. According to Lois Josimovich of the Massachusetts Alliance for Portuguese Speakers (MAPS), “The Census figures are inaccurate due to serious undercounting. Many Brazilians are undocumented, and many others do not access the Census for a variety of reasons.” The Brazilian Consulate in Boston estimates that there are at least 200,000 Brazilians living in Massachusetts alone.

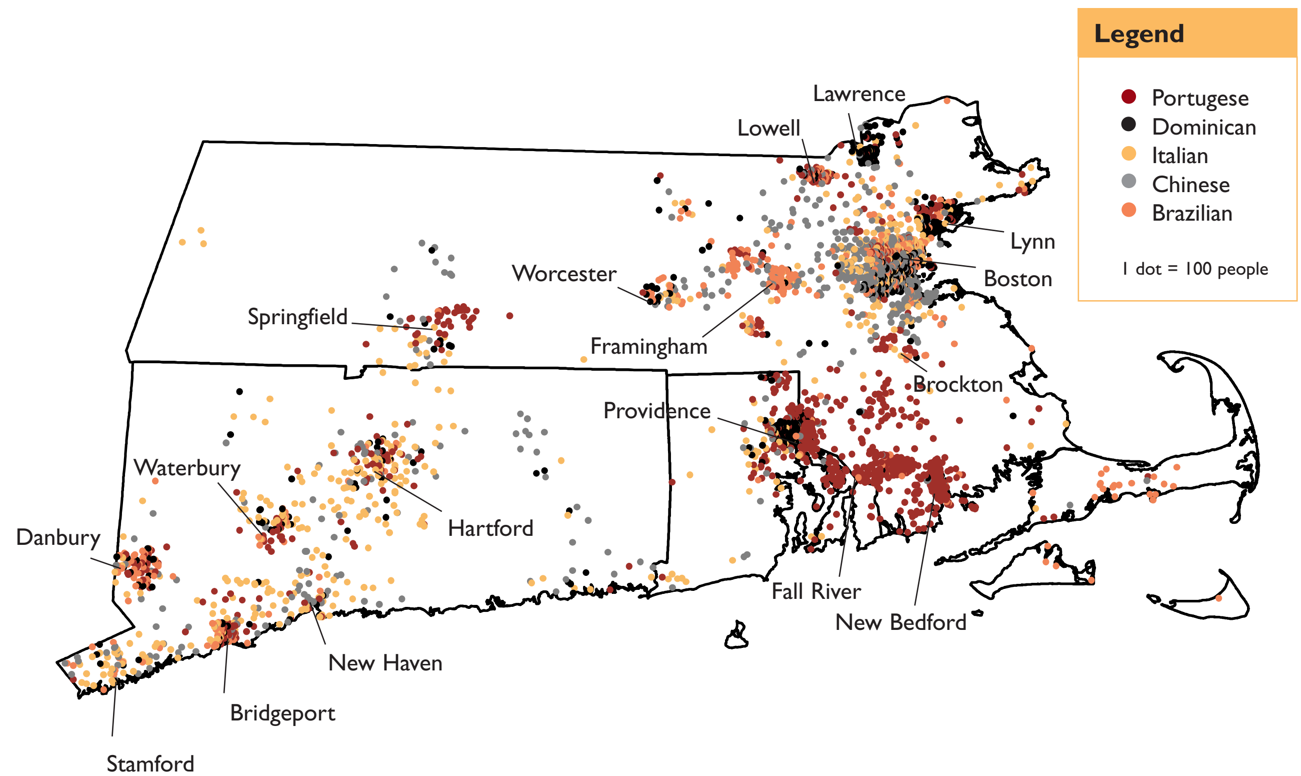
This new wave of Portuguese speakers has settled primarily in Boston, Framingham, and Somerville, Massachusetts, and in Danbury, Connecticut. “Brazilians are coming to the United States primarily for employment opportunities,” says Elsa Gomes, development and communications assistant at MAPS. “Many are choosing to settle in New England because they hear about the region’s strong concentration of Portuguese language and culture.”

One of the many bilingual businesses in downtown Framingham, Massachusetts.

Despite being drawn by the region’s existing Portuguese and Cape Verdean networks, Brazilians have not smoothly integrated with these groups. For example, separate Cape Verdean, Brazilian, and Portuguese organizations provide and advocate for the services their populations need, and these groups have yet to embrace one another. “MAPS is currently the only organization in New England that brings all Portuguese-speaking people together,” says Gomes.

“Building relationships among the groups takes a certain amount of adjustment on everyone’s part,” says Gomes. “Many of the older generation have forgotten what it was like to be new to this country, and life was different when they arrived. Today’s immigrants face a new array of challenges that older immigrants can’t relate to. Regardless of differences, we have this language in common. It can bring us together and help us to address the needs of New England’s entire Portuguese-speaking community.”

Immigrant Settlement Patterns in Southern New England, 2000



Source: U.S. Census, 2000.

percent), and Boston, Massachusetts (17 percent). The majority of Jamaican immigrants (66 percent) live in Connecticut, with particularly large populations in Hartford (18 percent) and Bridgeport (12 percent). Moreover, 23 percent of Guatemalans live in Providence; 27 percent of the region's Cambodian population lives in Lowell (see sidebar, page 17); and 23 percent of Vietnamese live in Boston.

Even within the 48 square miles of Boston, recently immigrated groups tend to reside in specific pockets of the city. Over half of the city's Chinese immigrants live in the Chinatown neighborhood of central Boston or in the Allston/Brighton area. Haitians are mainly clustered in the neighborhoods of Mattapan, Hyde Park, South Dorchester, and Roxbury. These same four neighborhoods are home to many other Caribbean immigrant groups, with significant populations of Dominicans, Jamaicans, Trinidadians, and others nestled there. On the other side of town, in the neighborhoods of East Boston and Allston/Brighton, many of New England's Central and South American populations have made homes. For examples, 56 percent of Salvadorans live in East Boston and the surrounding communities. These neighborhoods also support large populations of Colombians, Brazilians, Guatemalans, and Mexicans.

For some New England towns, one of these concentrated clusters can make up a significant percentage of the community's population. For instance, Chinese immigrants make up 5 percent of the population in Quincy, Massachusetts. In Central Falls, Rhode Island, Colombians constitute 11.4 percent of the total population, while in Framingham, Massachusetts, Brazilians account for 6.6 percent. Polish immigrants make up 8.8 percent of New Britain, Connecticut's population, and Dominicans are 21.4 percent of the residents in Lawrence, Massachusetts. Whether it is the Salvadorans in Chelsea, Massachusetts, the Canadians in Madawaska, Maine, or the Jamaicans in Bloomfield, Connecticut, immigrants settle in communities that they hope will support them as they establish themselves in this country.

How well are New England's immigrants doing on the road to success? The Federal Reserve Bank of Boston's research is finding that by some indicators, the region's immigrants are better off than most U.S. immigrants. They are set apart by their high levels of educational attainment, income, and occupational status. However, while the region's immigrant population is doing better than average,

Welcome to Lowell

Over the past two decades, Lowell, Massachusetts, has experienced a large influx of Cambodian refugees. In 1975, civil war broke out in Cambodia. The next 16 years were filled with genocide, violence, and poverty as the brutal Khmer Rouge regime struggled to control the country. Thousands of Cambodians fled their nation and sought refuge in the United States, Canada, and other countries.

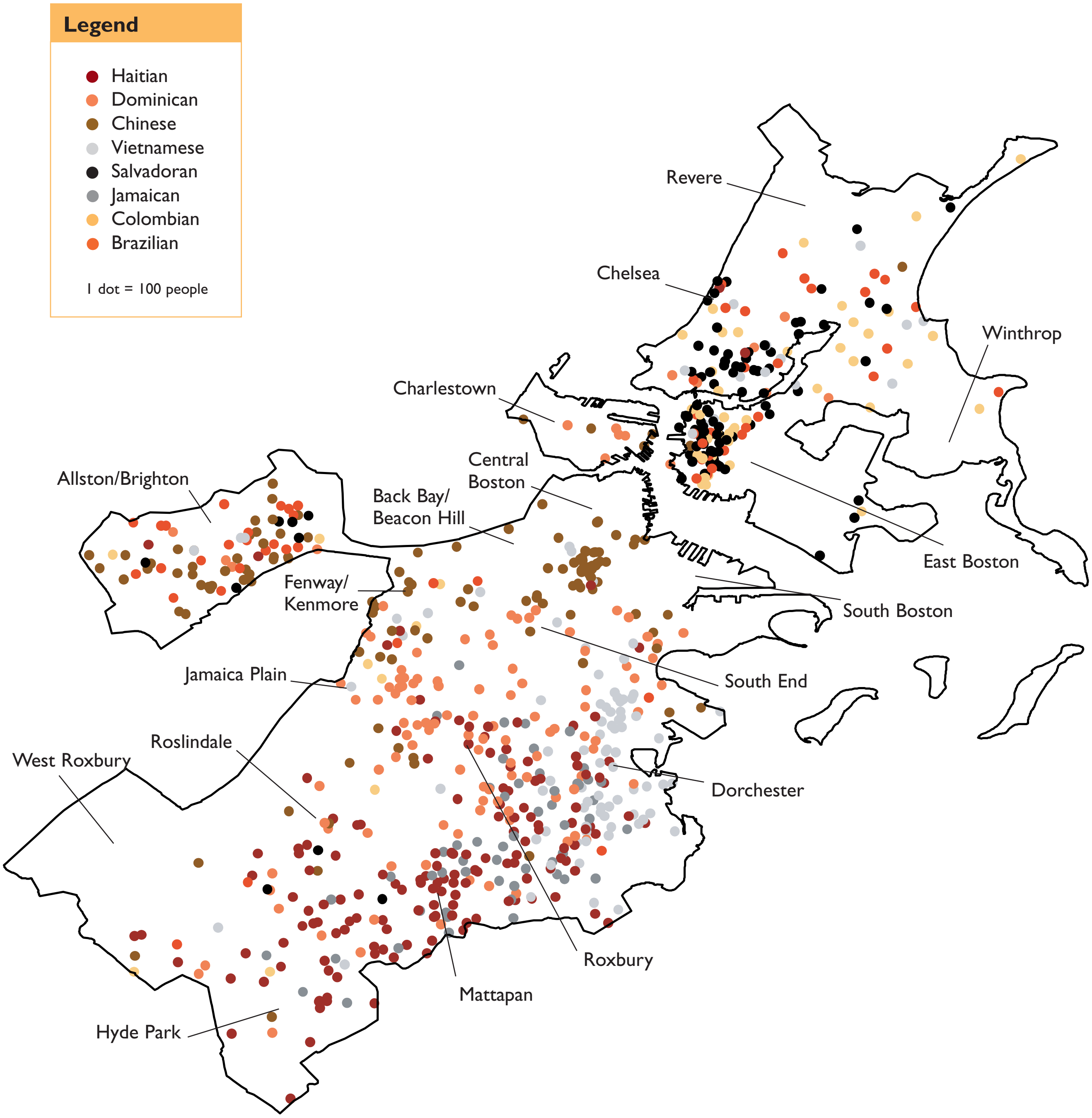
In the early 1980s, moved by the plight of these Cambodians, a number of Lowell agencies and churches sponsored several hundred Cambodians refugees and helped them set up new lives in Massachusetts. The city's Cambodian population began to rapidly expand in the second half of the decade as refugees across the nation decided to resettle in Lowell. Solid economic opportunities, such as assembly line jobs at Wang Laboratories, initially drew these resettled Cambodians. With the construction of the Trairatanaram Buddhist Temple and the proliferation of Cambodian culture in the city, Lowell became a mecca for Cambodian immigrants.

Their population skyrocketed. In 1991, the Boston Globe reported that Lowell schools were practically adding a classroom a week to keep up with the flow of Cambodian children to the area. In no time, there were two temples, a Cambodian cable T.V. show, a radio program, and a monthly newspaper. Cambodian-owned businesses lined Middlesex Street and filled Pailin Shopping Plaza. Lowell had the second-largest Cambodian population in the United States; only Long Beach, California, housed more Cambodians. Today, Cambodians make up at least 5 percent of the city's population. (Definite numbers are hard to come by for this government-wary group.) Many are employed as city employees, and the first Cambodian elected to office in the United States sits on the Lowell City Council.

It has not been all roses, however. Lowell's Cambodians have been victims of racial prejudice and crime, while many suffer from traumas they endured in Cambodia. Finding quality affordable housing in the city is a problem, and language barriers sometimes reduce access to opportunities. Several Cambodian community groups are working specifically to address these and other issues faced by Lowell's refugee population. At the same time, Cambodians as a whole are working for the revitalization of Lowell's economy. The refugees have brought a base of new consumers and workers to the city and have contributed committed leadership, helping to drive reinvestment and development in Lowell.

Shopping in one of Lowell's Cambodian neighborhoods.

Immigrant Settlement Patterns in the City of Boston and Suffolk County, 2000



Source: U.S. Census, 2000.

they remain several steps behind New England natives.

Educational Attainment

The region's foreign-born population exhibits a bimodal pattern of educational attainment—they are less likely than natives to have completed high school yet more likely to have an advanced degree. While 87 percent of natives have a high school degree, only 69 percent of immigrants have reached this level of educational attainment. However, some 14.2 percent of the region's foreign-born hold an advanced degree, compared with only 12.3 percent of natives. This high percentage of advanced degrees also drives the slightly greater levels of educational attainment for immigrants in the region versus the rest of the country. While high school and college completion rates are comparable for New England and U.S. immigrants, only 11.9 percent of all U.S. immigrants have an advanced degree.

The educational attainment rates of the region's immigrants who came to the United States after 1990 show an even more accentuated bimodal pattern. On the one hand, only 73.7 percent have completed high school. However, 38.3 percent have graduated from college, and 19.2 percent have advanced degrees—significantly higher rates than the immigrant population as a whole, and surpassing those of the native population.

Household Income

New England immigrants have higher household income levels than the rest of the U.S. immigrant population. In 2000, the median household income for all U.S. foreign-born households[2] was $39,200, while New England's median immigrant household income was $42,900.

New England's immigrants, however, are more likely to lag behind their native counterparts than other immigrants. The median household income of the region's native-born population is 13 percent higher than that of New England's foreign-born households. Moreover, 31 percent of New England's foreign-born households fall in the lowest income quartile of all New England households. Nationally, only 29 percent of immigrant households are in the lowest quartile.

The region's oldest immigrant households lag especially behind. Twenty-nine percent of the region's households that are headed by an immigrant who has been in the country for more than 20 years are in the lowest income quartile, compared with only 26 percent nationwide. Additionally, the median household income in the region for these immigrants is $45,120—7.5 percent lower than for New England's native-born households. Nationwide, established immigrant households trail native-born households by less than 3 percent.

Perhaps the income differences are driven by the native population's higher rates of educational attainment. However, controlling for educational differences reveals even larger disparities. Among college graduates, the median income of an immigrant household was $68,000, nearly 11 percent lower than the median for college-educated native-born households. Recently immigrated college graduates have particularly low household incomes compared with natives, likely driving much of this disparity. Controlling for college graduation does improve the financial picture of the region's established immigrants. The median income for households headed by foreign-born college graduates who immigrated

2 Defined as households in which the head of the household is foreign born.

Occupational Status

	United States		New England	
	Native	Foreign Born	Native	Foreign Born
Percent of the Total Population in Each Occupation				
Management	12.8	9.5	14.5	11.1
Professional	19.4	16.7	22.6	21.4
Service	15.3	20.9	14.7	19.9
Sales and Office	28.0	20.7	27.4	19.0
Farming, Fishing, and Forestry	0.6	2.4	0.5	0.4
Construction, Extraction, and Maintenance	9.4	10.7	8.3	7.3
Production and Transportation	14.4	20.3	12.1	20.7
Percent of the College Educated Population in Each Occupation				
Management	25.9	22.0	26.2	21.9
Professional	49.8	51.0	46.7	52.1
Service	4.9	6.8	4.8	6.2
Sales and Office	18.9	18.3	18.0	13.5
Farming, Fishing, and Forestry	0.1	0.1	0.1	0.0
Construction, Extraction, and Maintenance	1.9	2.6	1.7	1.7
Production and Transportation	3.0	5.6	2.4	4.3

Note: Statistics are for the population age 16 and over.
Source: U.S. Census, 2000.

more than 20 years ago is $79,800, higher than the $75,750 earned by native college-graduate households.

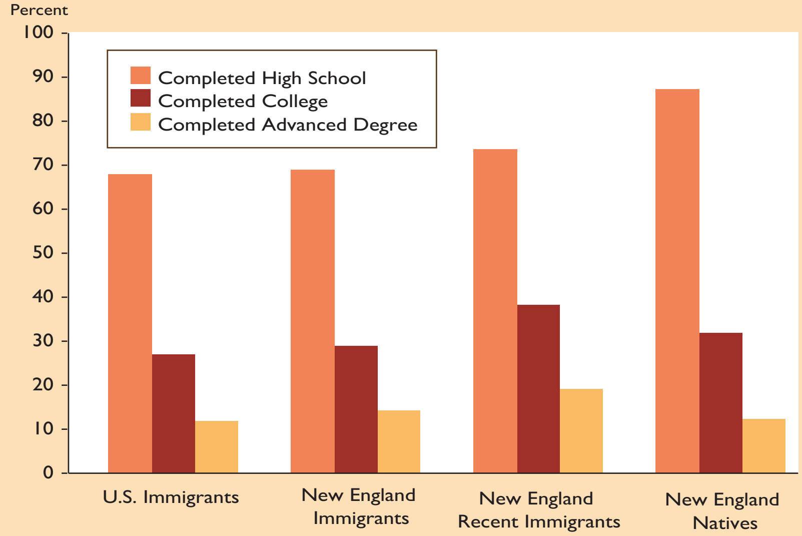
Occupational Status

Much of an individual's economic well-being is determined by employment opportunities. With higher levels of educational attainment and higher household income, New England's foreign born have a greater presence in high-skill occupations than U.S. immigrants as a whole. While only 26 percent of all U.S. immigrants are in management or professional occupations, 32 percent of the region's immigrants are in these types of high-skill jobs.

Most of New England's highly skilled immigrant workers are employed in professional occupations, such as doctors, lawyers, scientists, and engineers. Though they are less likely than natives to fill management roles, they have equal rates of employment in these professional trades. Among college educated New Englanders, immigrants are actually more likely than natives to be in professional occupations—52.1 percent versus 46.7 percent. The region's immigrants have particularly high participation rates in the hard sciences—computers, mathematics, architecture, engineering, and life and physical sciences—and they hold 16.5 percent of all science-related occupations in the region.

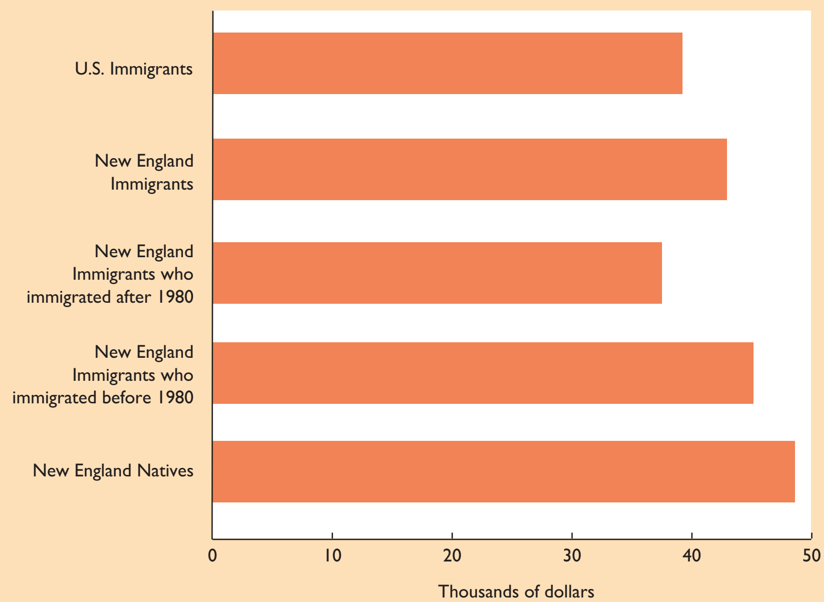
The remaining occupational breakdown of the region's immigrants mirrors that of the nation's immigrants. However, it differs from that of New England's native population, contributing to the socioeconomic gap between these two groups. The region's foreign born are less likely to be employed in traditionally higher paying sales and office support jobs and more likely to be employed as production or service workers. In fact, immigrants constitute 20 percent of all production workers and 15 percent of service workers in the

Educational Attainment, 2000

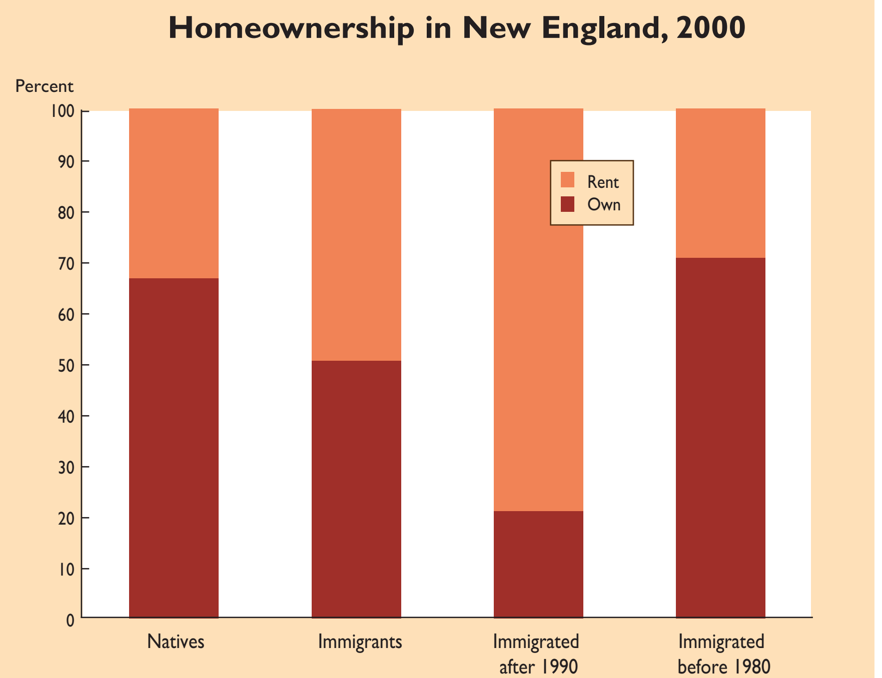


Source: U.S. Census, 2000.

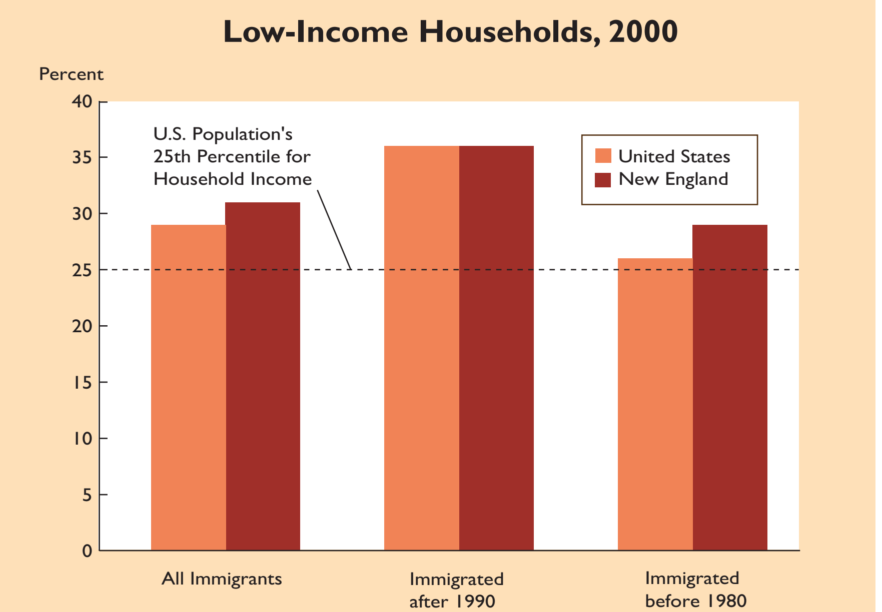
Median Household Income, 2000



Source: U.S. Census, 2000.



Source: U.S. Census, 2000.



Source: U.S. Census, 2000.

Detailed profiles of the region's foreign-born population are available on the Federal Reserve Bank of Boston's Community Affairs web site: www.bos.frb.org/commdev

region. Moreover, while the bulk of the region's college-educated persons are employed in high-skill occupations, a higher percentage of college-educated immigrants are employed in traditionally lower paying occupations. For example, 6.2 percent of college-educated immigrants are employed in service occupations, compared with 4.8 percent of native college graduates. Likewise, 3.3 percent of these immigrants have production jobs versus only 1.4 percent of natives.

Homeownership

New England immigrants are just as likely to be homeowners as immigrants throughout the United States. About half of all foreign-born households own their homes, lower than the native born homeownership rate, which nationally is close to 70 percent. Among more established immigrants, New Englanders are more likely to be homeowners than the rest of the U.S. foreign-born population; however, the reverse is true for more recent immigrants. Seeming to face higher barriers to homeownership than immigrants in the rest of the country, only 21 percent of the region's recent immigrants are homeowners, compared with 25 percent of all recent immigrants in the United States.

Small, but Significant

Understanding the unique attributes of New England's foreign-born population is important since New England is increasingly reliant on foreign immigration to sustain its population, productivity, and economic growth. The region's immigrants are not the same as California's immigrants. They are unlike Florida's and Texas'. From their countries of origin to their length of residence, the region's foreign-born population is distinctly New England's own.

Are Small Businesses *Concerned* about Credit?

by Mamie Marcuss
Federal Reserve Bank of Boston

Small businesses[1] are vital to New England's economy. They employ 60 percent of the region's workers and are responsible for more than half of New England's payrolls and economic output. But running a successful small business is not easy. Aside from their large investments in long days and sweat equity, small business owners confront a host of challenges that threaten to unravel their livelihoods. According to the U.S. Small Business Administration (SBA), 50 percent of small businesses fail within their first year, and only 5 percent make it for more than five years.[2]

[1] The Small Business Administration's Office of Advocacy defines a small business as an independent business with fewer than 500 employees.

[2] http://www.sba.gov/starting_business/startup/areyouready.html

What are these challenges and how daunting are they? In February, the National Federation for Independent Business (NFIB) Research Foundation conducted the sixth *Small Business Problems and Priorities* study. NFIB surveyed 4,603 small business owners and asked them to rate the severity of 70 problems faced by today's small businesses. For respondents, cost concerns and taxes topped the list of pressing problems (see table on page 23).

The high cost of health care was the number one concern of small business owners in 2004, and over 65 percent of respondents called it a critical problem. The price tag on liability insurance was the second biggest worry; workers compensation costs were number three, while rising fuel prices made energy costs a fourth major concern. With the nation just coming off the tail of an economic recession, it is not surprising that cost pressures were the greatest concerns of small business owners. With little room to expand revenues, businesses have had to control spending to stay out of the red.

What is striking about the NFIB's survey results, however, is the relatively low level of concern related to the availability of financing and credit. Obtaining business loans was the least important concern for small business owners in the survey, and aside from anxiety over cash flow, businesses were relatively unconcerned about financing matters in general. Given that inadequate financing has been shown to be one of the most common reasons why small businesses fail, why so little concern?

A Greater Concern for Younger Businesses

The lack of concern over credit availability may be a function of who answered the NFIB's survey. When compared with U.S. Census data on small businesses, respondents to the survey had, on average, more employees and were more likely to have been in business for over 10 years. The high percentage of larger, more-established small businesses in the sample may have resulted in greater emphasis on the problems associated with running a more complex organization and less on the problems faced by businesses trying to get off the ground—including a lack of credit. Unlike newer entrepreneurs, longtime business owners probably have established relationships with lenders and adequate revenue and assets to finance growth and capital improvements. In general, these businesses have fewer worries about obtaining credit than younger firms.

A closer look at the NFIB data reveals that owners of small businesses that have been in operation for less than four years were more concerned about financing than survey respondents as a whole. Cash flow was deemed a "critical" problem for 33 percent of young businesses—making it the second largest concern for this group behind the cost of health care. Moreover, obtaining loans was considered a critical problem by more than 15 percent of these business owners. Immigrant business owners were also more likely to be concerned with the financial health of their businesses. Cash flow was cited as a critical problem by nearly one-third of immigrant-owned businesses, and immigrants were more likely than natives to worry about obtaining business loans and to have concerns about their credit ratings.

Economic Impacts

While credit remains a major source of anxiety for many younger, smaller, and immigrant-owned businesses, recent economic conditions likely reduced small business financing concerns overall. Economic weakness in the early part of the decade decreased the demand for credit among small business owners. New loans were not on the radar screen, as many small businesses were preoccupied with keeping costs in line and riding out the economic downturn. As in past recessionary periods, many small business owners put their plans for expansion, growth, and improvements on the back burner, awaiting a rebound in sales, revenues, and profits. In fact, in 2002, total business loans declined for the first time in years, and growth in the number of small business loans significantly slowed.

At the same time that demand stagnated, the cost of credit became cheaper. Beginning in January 2001, the Federal Reserve steadily marched interest rates down to all-time lows in an effort to promote economic growth and stability. Between January 2001 and June 2003, the federal funds rate dropped 500 basis points, moving from 6 percent to 1 percent, where it remained at this historic low for almost a year. Banks and other lenders also reduced their interest rates, creating an accommodating credit market that likely lessened small businesses' concerns about obtaining affordably priced business loans.

Problems Cited by Small Business Owners

Rank	Problem
1	Cost of Health Insurance
2	Cost and Availability of Liability Insurance
3	Workers Compensation Costs
4	Cost of Natural Gas, Propane, Gasoline, Diesel, Fuel Oil
5	Federal Taxes on Business Income
6	Property Taxes
7	Cash Flow
8	State Taxes on Business Income
9	Unreasonable Government Regulations
10	Electricity Costs
58	Interest Rates
64	Credit Rating
68	Obtaining Long-Term Business Loans
70	Obtaining Short-Term Business Loans

Source: *Small Business Problems and Priorities.* National Federation of Independent Business Research Foundation. 2004.

Changing Supply

While macroeconomic conditions have affected the demand for small business financing, lenders have arguably increased the supply in recent years. First, credit cards have made capital dramatically more accessible for many entrepreneurs. For small-sized loans, credit cards offer less rigorous application requirements in exchange for higher interest rates on balances. Since the late 1990s, the use of credit cards for business financing has greatly expanded. The 1998 Federal Reserve Survey of Small Business Finance found that 45 percent of small business owners used a personal credit card for business purposes, and 33 percent had a designated business credit card. Likewise, the 2001 NFIB Research Foundation's report *Credit, Banks, and Small Business*, found that 82 percent of small business owners used a credit card to finance their businesses, and for 15 percent of owners, credit cards were the primary source of working capital. Credit card usage is more prevalent in younger and smaller firms, which are less likely to have an established credit history or banking relationship. The 2001 NFIB credit survey showed that 34 percent of firms in business for less than 4 years relied on credit cards for working capital, compared with only 16 percent of those in business for over 35 years.

Despite the growing popularity of credit cards, banks remain the primary source of funding for small businesses. Fifty-five percent of small businesses surveyed by the Federal Reserve in 1998 had at least one outstanding loan, lease, or line of credit from a banking institution, and banks accounted for 84 percent of the loans held by small businesses in the NFIB's 2001 survey. In the last decade, bankers' appetite for small business loans has improved, in part because the focus of the Community Reinvestment Act (CRA) was shifted toward small business lending in the mid 1990s.

Originally passed in 1977 to stop the practice of "redlining" in home mortgage lending, CRA seeks to ensure that banks meet the credit needs of their entire communities. In 1995, changes to the law put greater emphasis on small business lending as a way for banks to accomplish this goal. This new focus eased the availability of capital for small business owners, and researcher Jonathan Zinman found that the changes induced a 12 percent increase in overall small business lending.

The growing use of credit scoring in small business lending has also apparently increased the credit supply for entrepreneurs. Credit scoring uses computer-generated models to determine the probability of default on a specific loan application based on the applicant's prior credit history. The automated process is replacing traditional relationship-based small business lending. Some worry that as banks know less about their clients, the number of loans to small businesses, especially those in traditionally underserved markets, will decline. Researchers at the Federal Reserve Bank of Atlanta have found just the opposite. Credit scoring has increased small business lending both overall and in low- and moderate-income neighborhoods by increasing competition, reducing discrimination, and improving the quality of information. Moreover, the standardized use of credit scoring by the banking industry has even greater potential to increase small business lending. According to researchers at a recent SBA conference, credit scoring could eventually be used to securitize small business loans, allowing them to be packaged and sold on the secondary market and thereby increasing the overall profitability of small business lending.

Potential Threats Remain

While innovations in small business lending have increased the supply of credit and reduced some owners' concern about financing, potential threats remain. For instance, the banking industry of the past decade has been characterized by mergers and acquisitions, with at least 300 bank mergers taking place every year in the 1990s. Traditionally, smaller community banks have been the largest source of small business loans, and the industry's shift toward larger institutions may be negatively impacting small business lending. A recent research paper by the SBA found that credit is less available to small businesses in markets that are dominated by large banks. However, the evidence is mixed. Researchers have shown that mergers between small banks may actually increase small business lending and that new sources of credit, both bank and nonbank, often move into consolidated markets to help meet demand. Nevertheless, concerns remain that the continued consolidation of the industry may limit some small business owners' access to credit. In sum, although small business owners may be less concerned about credit today, changing economic and industry conditions may heighten their anxiety about this problem in the future.

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First Person
with Luis C. Cabán

Southside Institutions
Neighborhood Alliance

Surmounting Obstacles *in* Hartford

In 1997, Communities & Banking *featured an article on a major development initiative just getting underway in the distressed neighborhoods of south Hartford, Connecticut. The effort was led by the Southside Institutions Neighborhood Alliance (SINA). Luis C. Cabán, the current executive director of SINA, helped design this initiative and shares his thoughts here on the past seven years of the project.*

When I began my work with the Southside Institutions Neighborhood Alliance (SINA) in 1995, this neighborhood development organization had been working in south Hartford for 17 years. When SINA was founded in 1978, Hartford's economy was shifting to the suburbs and out of the inner city. Working class neighborhoods had declined. Factories had closed, and no new jobs had moved in. Residents were trying to survive on government assistance and low paying jobs, and the physical and social infrastructure of many communities had severely deteriorated. Things were particularly bad on the south side of town, where neighborhoods had largely failed to face the post-industrial reality.

Realizing a need for help, community leaders in the southside neighborhoods of Frog Hollow, Barry Square, and South Green asked for assistance from three major institutions that had long been anchors of the community—Trinity College, Hartford Hospital, and the Institute of Living, a mental health hospital. With major capital investment in the neighborhoods, these three organizations understood that their future success depended on the community's vitality, and they responded to the neighborhood's call. They formed SINA and together began working to improve the quality of life in these neighborhoods. SINA's early efforts began to change long-held perceptions that these institutions were unconcerned about their home neighborhoods. The days of minimal interaction and island-like campuses were replaced with a new commitment to neighborhood improvement and an emphasis on working with neighborhood residents.

However, when I came on board almost two decades later, the neighborhoods still had a long way to go. SINA decided to beef up its efforts and began to contemplate making some "bricks and mortar" investments in the neighborhoods. My task was to determine a plan of action that would improve both the physical environment and the area's quality of life.

As I began to study the SINA neighborhoods, I had to fight an inner voice that kept uttering "insurmountable problems." The degree of blighted housing stock was frightening. Lining the streets were once beautiful historic multifamily homes, including many of Hartford's famous "perfect six" apartment buildings from the early 1900s. The majority of these architectural gems were in severe disrepair, and many were abandoned. These neighborhoods had clearly been ravished by gang violence, drug abuse, crime, and unemployment, and their reputations terrified the rest of Hartford. The high percentage of absentee landlords begged the question: "Does anybody out there care enough to improve these neighborhoods?"

Given the state of things, I could not help but wonder whether SINA was an unenthused "pie in the sky" effort on behalf of powerful institutions residing in a deteriorating neighborhood. Very likely, I thought. In my 20 years of community development experience, I had seen this type of situation before.

Fortunately, it was not long before the sincerity, caliber, and commitment of those involved convinced me that this was for real. I began to catalog the multitude of assets present in the community. Schools, businesses, churches, and community organizations were present here and working for change. Real people resided in these neighborhoods. They had hopes and dreams, and they had leadership skills, energy, and "can do" attitudes. With some resources and a realistic and viable plan for the future, this neighborhood had the potential to succeed.

When *Communities & Banking* last reported on the initiative in 1997, SINA had finished developing its strategic plan and was in the process of putting it into action. Connecticut Children's Medical Center and Connecticut Public Television and Radio had joined the three original members of SINA, and the five institutions were knee-deep in several major neighborhood development projects.

The flagship of their ambitious revitalization effort was the construction of the Learning Corridor, a campus of four magnet public schools—a Montessori elementary school, a middle school, a performing arts high school, and a science and math high school. Completed in 2000, the complex today serves 1,500 students from over 40 districts in the region, including a large percentage of children from the city of Hartford. The Corridor includes state-of-the-art science, performing arts, and athletic facilities, as well as a library—all of which are accessible to community members. Quite possibly, it is the most racially, ethnically, and economically diverse campus in the country.

In addition to the Learning Corridor, SINA has undertaken a comprehensive assortment of other initiatives that we believe address the systemic challenges facing these depressed neighborhoods. Over the past seven years, these programs have successfully developed affordable rental housing, made investments in streetscape improvements, increased community safety, and worked to provide employment opportunities for local residents. Closest to my heart has been SINA's recent work in developing homeownership opportunities.

During the late 1970s and mid 1980s, I worked with the National Hispanic Housing Coalition, bringing affordable housing resources to Latino communities around the country. In those years, I came to believe that the root cause of neighborhood deterioration was the absence of homeowners that had a vested interest in maintaining the quality of a neighborhood. I even testified before the U.S. Congress to emphasize the importance of redirecting rental housing subsidies toward increased homeownership opportunities. So, when the SINA institutions decided to focus on developing and rehabilitating the neighborhoods' housing stock to increase homeownership, I was thrilled.

SINA began the Cityscape Homes initiative with the hope of achieving what had frustrated many inner city housing experts for years: finding a solid market of buyers for the neighborhoods' housing. In much of Hartford, the cost of developing housing is greater than the price for which homes will sell.

Yet there are many working families paying rent that could be paying off a mortgage. To address this quandary, we brought together an advisory group of residents and designed a new home model that includes a rental unit to generate income for the home buyer, making these new homes affordable for neighborhood families. As we began constructing these homes, SINA leveraged its financial resources to fill any remaining development cost gaps. The program has been a tremendous success; to date, we have built 18 Cityscape Homes, and we have plans for 33 more.

The strategic plan that I first worked on years ago has expanded, and SINA has taken on new initiatives. For example, in this community of largely Puerto Rican migrants and Latino immigrants, Park Street is a center of Latino commerce and culture. SINA, together with other community partners, is working to infuse a new vitality and physically upgrade this important commercial corridor. We funded a comprehensive revitalization study that was used to secure over $6 million in government aid for streetscape and infrastructure improvements. These enhancements have been a catalyst for further development on the street, including a new mixed-use project, the creation of a new "special services district," and the renovation of a historic building donated by SINA and slated to be occupied by Mi Casa, a local youth and family services organization.

Our most important accomplishment has been our ability to instill hope that this community can rebound.

In sum, the past decade has yielded a marked turnaround in south Hartford, and institutions from around the country have asked me, "How did you do it? What are the critical factors to success?" I've pondered these question over time and have identified what I believe are a cluster of eight important elements to our success. It is not any one of them alone; all, or almost all, of these must be present:

First, maintaining a comprehensive approach to development that addresses every aspect of a neighborhood's needs has been the overall principle that has guided our work.

Second, this approach encourages the formation of community partnerships, and we have engaged community partners in all of our projects.

Third, communications are important, both internally and externally. We regularly inform and update our members, residents, and community partners about our plans and what they can do to help. On the external side, negative news articles about south Hartford adversely affect residents, employees, and would-be visitors, and generating positive news to counteract bad press is one of our important objectives.

A fourth key to our success has been our financial stability and independence. Our member institutions pay an annual fee that covers the costs of management and general expenses, educational programming and scholarships, and community partner projects. Used as leverage, this base of financial support also substantially increases our ability to obtain outside sources of funding.

The ability to make timely and targeted investments is also of utmost importance. For example, we foresaw that the future success of our housing initiative could increase property values and negatively affect affordability in the neighborhood. To control this effect, we purchased and land-banked properties that today, as land values increase, we can use to develop affordable housing.

A capable and committed staff, dedicated to the established goals of the initiative, is an absolute must. It doesn't have to be big. We operate with a staff of five, yet time and again I've heard the comment, "I thought you had a staff of 20."

Tied to staff is the importance of committed leadership from our member institutions. These CEOs and our board set the tone for success by committing both financial and human resources.

As a group, these leaders not only provide guidance, but also advocacy in spheres of influence and power, completing the array of interdependent ingredients that I believe have been essential to our success.

Much work remains to be done in the neighborhoods on the south side of Hartford, but over the past decade, our work has produced a solid foundation from which we can generate future progress and begin to focus on sustainability. Our most important accomplishment has been our ability to instill hope that this community can rebound. I, myself, am a product of this success. I have become convinced that there are no insurmountable obstacles here, and I bought a house and moved into our neighborhood.

For more information about SINA, please visit www.sinainc.org

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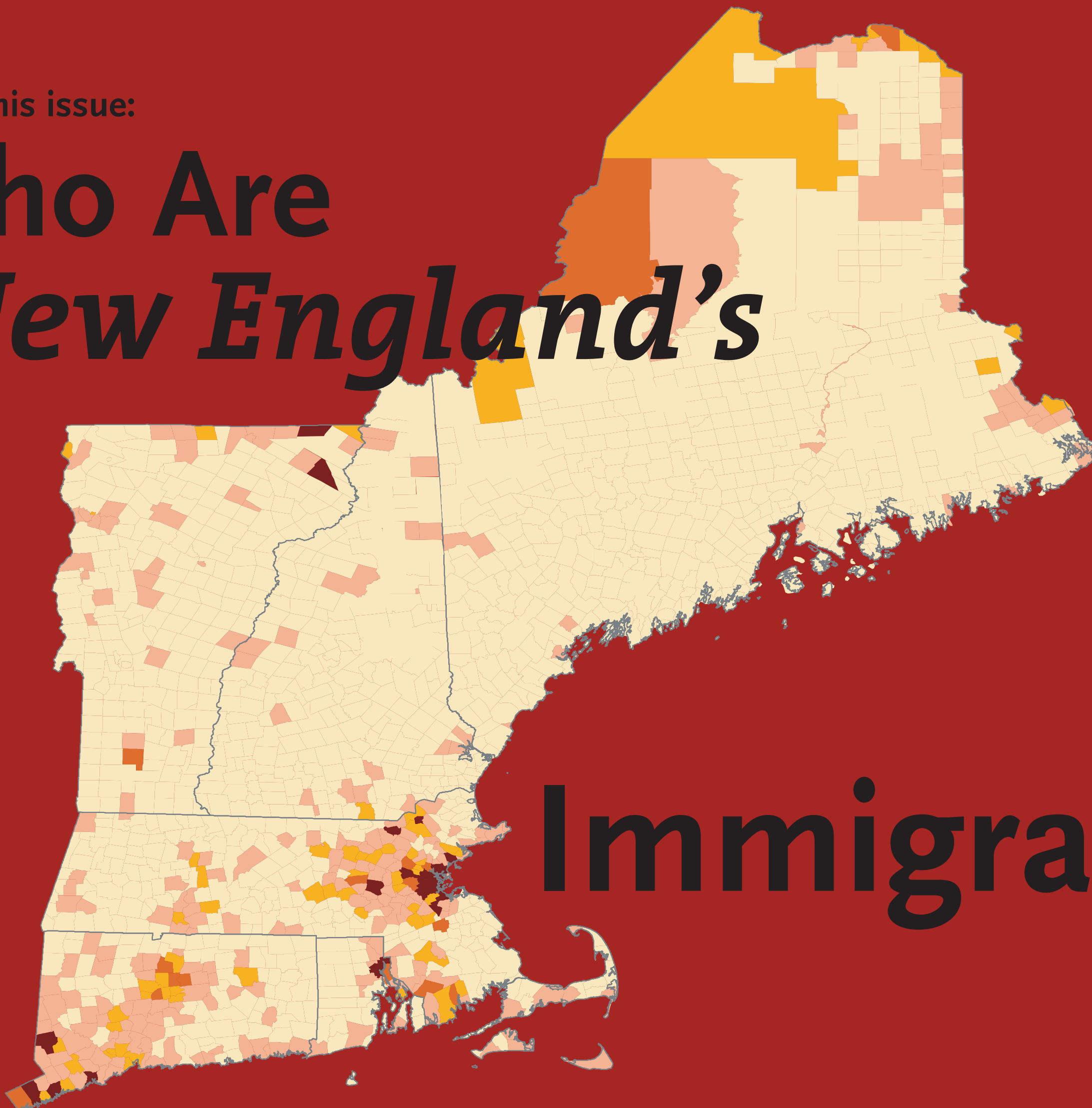

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