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THIS ISSUE:

On the cover, Boothbay Harbor, Maine. Cover photo, photography on page 14, and for Maine and Rhode Island articles by Reinis Kanders.

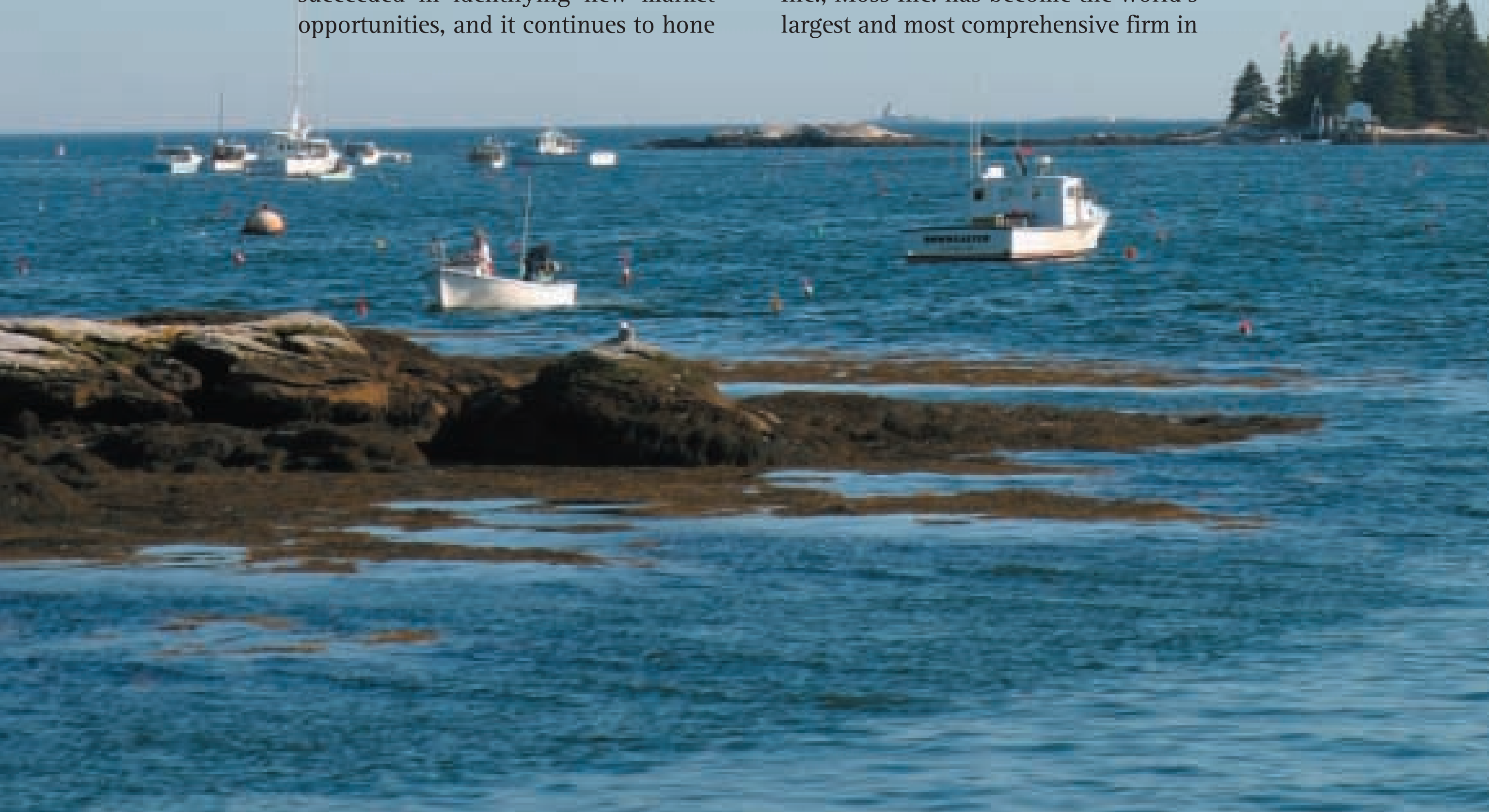
Netting Venture Capital *from a* Fishing Village

by Keith Bisson

Commercial fishing wharves and equity investing might seem an unlikely duo, but in Boothbay Harbor, Maine, they paired together nicely. When a processing and freezer facility, known as Boothbay Region Fish and Cold Storage burned down in the mid-1970s, the community and local fishermen owners scrambled to rebuild it. A little-known community development corporation, Coastal Enterprises, Inc. (CEI), did some scrambling of its own to help rebuild the facility. CEI provided financing in the form of subordinated debt and preferred stock, and leveraged its investment with financing from a local bank. Today, in a town dominated by waterfront hotels and restaurants, the facility remains one of Boothbay's few working wharves and continues to benefit the region. This was CEI's flagship project and its first equity investment. Before the term "community development venture capital" was even coined, CEI had added equity investment to its community development arsenal.

CEI and Community Development Venture Capital

From its early days in the fishery and natural resource industries, CEI had succeeded in identifying new market opportunities, and it continues to hone this skill. Another early example of equity experience came in 1984, when CEI invested $50,000 in a small tent-making company in Belfast, Maine. CEI's investment helped this small but established company diversify by financing a new product line that reduced dependence on summer-related business. Moss Tent Works, a world-renowned maker of backpacking tents, used CEI's investment to focus on manufacturing strong, lightweight frame-and-fabric structures for the trade-show industry. As a result, Moss is credited as the inventor of "tension fabric exhibitry" and its clients have grown to include museums, shopping malls, and public spaces. Since its May 2002 acquisition of Chicago-based Exhibit Architecture, Inc., Moss Inc. has become the world's largest and most comprehensive firm in



its market. Moss is not only a story of business success, but also of social responsibility. In 2000, the company received the Eagle Feather Award from Maine Businesses for Social Responsibility, the organization's highest honor.

With these initial and tentative steps, CEI staff gained some experience in equity investing — but CEI was not really known in the venture capital market. In 1988, CEI founder and President Ron Phillips hired Nat Henshaw as a loan and investment officer at CEI. Nat's background was in traditional venture capital and he was hired to help develop CEI's equity portfolio. By 1993, when Phillips and Henshaw created CEI Ventures, Inc., CEI had made 16 equity investments. This track record, the financial community's confidence in the fund managers, and Maine's widespread equity needs gave credibility to CEI's proposal to form a venture capital subsidiary. The formation of CEI Ventures Inc. brought focus and scale to CEI's equity investing.

CEI Ventures Inc. would use venture capital investing to foster economic development, environmental soundness, and resource equity among people. It would shrink the gap in the availability of equity capital for small- to medium-sized enterprises in northern New England. In return, CEI was looking to achieve a "double" or even "triple" bottom line. This meant that CEI wanted its venture capital to provide a financial return, a social return, and a product or service compatible with the environment.

Now nearly 10 years old, CEI Ventures, Inc. is a wholly owned for-profit subsidiary of CEI that manages two socially responsible venture capital

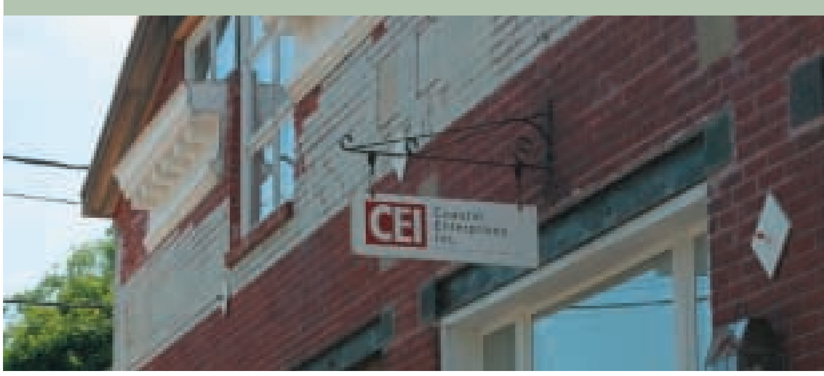
At Moss Inc., Joanne Desjardins does manual patterning. . .

. . . while Rory Kimberlin rides high to help assemble an exibit for Harley Davidson.

About CEI

CEI was organized in 1977 as a community development corporation (CDC), and certified in 1996 as a community development financial institution (CDFI) by the U.S. Treasury. Early on, CEI focused on natural resources development. It has since expanded to achieve a scale of operations and impact in pursuit of its mission: to help people and communities, particularly those with low incomes, reach an adequate and equitable standard of living, working and learning in harmony with the natural environment. Since inception, and in partnership with banks and other financial institutions, CEI has directed $400 million to over 1,200 projects that have created or sustained some 15,000 jobs. CEI has developed 526 units of housing and 120 child-care projects supporting over 2,500 children; it has also provided business counseling to 10,000 new and emerging enterprises (many of which are small operations).

A former motor garage in Wiscasset, Maine, is the base of operations for CEI.



funds: Coastal Ventures LP and Coastal Ventures II LLC. The first fund is fully invested at $5.5 million and has performed ahead of initial financial and social projections, investing in 20 companies that employ over 1,700 people. The second fund is well on its way to raising $20 million and has already invested nearly $2 million in five Maine companies and one New Hampshire company. This newer fund will make investments of between $100,000 and $1.5 million in approximately 20 companies over the next five years.

CEI was looking to achieve a "double" or even "triple" bottom line. This meant that CEI wanted its venture capital to provide a financial return, a social return, and a product or service compatible with the environment.

CEI and Socially Responsible Investing

Phillips has always viewed CEI's work as socially responsible investing, a phrase that has many definitions and encompasses diverse activities. For CEI, it means sticking to its core purpose of creating economic opportunities for people and communities. Phillips believes that, "By putting our money to work in the right places we can help people and communities find hope and fulfillment. We try to be a place where social values and basic economics can converge." The socially responsible investing practiced by organizations like CEI recognizes that companies have stakeholders other than shareholders. It acknowledges that companies must meet investors' needs for financial returns, but that they also must tend to the needs of vendors, customers, employees, and the community at large.

Traditional venture capital funds seek high returns and quick turnarounds with their investments. Community development venture capital funds aspire to more normal market rates of return and are focused on being a source of patient capital. On top of these formidable goals, community development venture capital funds aim to both act in a socially responsible manner and meet financial targets.

But how does one identify and achieve a social return on investment? CEI Ventures is guided by the principles of the "3Es — Economy, Environment, and Equity." It seeks investments that build a strong and sustainable economy, use environmental resources wisely, and create equity for community residents. More specifically, CEI Ventures looks for businesses that create quality income, employment, and ownership opportunities for people with low incomes while following socially responsible business and employment practices. In order to verify its impact, CEI Ventures has developed a social index that tracks 45 indicators ranging from the financial side of the equation to social measures including job creation, low-income impact, and employee benefit information.

A good example of a typical investment combining the 3Es can be found in Washington County, Maine's poorest. The launching of Coast of Maine Organic Products, Inc. is a story that blends modern chemistry with strong social and environmental benefits. The company is focused on converting the seafood industry's costly waste disposal problem into a revenue-generating operation and is committed to developing the best compost on the market. Its products are sold in top-line garden supply stores all over the Northeast. The social benefits of this investment are threefold: Coast of Maine reduces a major disposal problem for marine industries, helps gardeners replace chemical fertilizers with natural ones, and creates jobs in a distressed region of the state.

In practice, says CEI Ventures President and co-founder Nat Henshaw, "community development venture capital and socially responsible venture capital are about balancing the needs of communities with the need to generate a profit. In best practice, these goals support and enhance each other. An economically disadvantaged person is a valued and profitable asset to a growth company. Conversely, polluting the countryside can be very

Its all about "balancing the needs of communities with the need to generate a profit," says CEI Ventures President Nat Henshaw.

detrimental to shareholder value and to public health. Traditional venture capital is all about internal rate of return (IRR) and community development venture capital is about external rate of return (ERR). To quote Edward Tasch of the Investors' Circle,[1] 'to IRR is human, to ERR divine.'"

Tagging onto Investments

Because job creation and economic opportunity are central to CEI, its venture capital investments come with some additional socially directed agreements. These agreements commit companies to hire and train individuals with low incomes. The Employment and Training Agreement (ETAG) commits the portfolio company to work with employment and training providers and social service agencies to foster employment opportunities for low-income and other disadvantaged workers. Similarly, the ETAG requires the affiliated training and social service organizations to provide prospective employees with training and related support services so that they can be successful in their jobs. CEI maintains an employment and training staff to manage this process and reduce its impact on the business. The program adds substantial value to portfolio companies by supplementing their human resources operations.

Taction, for instance, is a company that has used CEI's investments and services to create quality jobs. A Maine-based customer contact center, Taction is located in the rural town of Waldoboro, one of the poorest towns in Maine's midcoast region. Since 1995, when CEI first financed Taction to help restore its century-old building in Waldoboro, and later in 1999 when Coastal Ventures made an equity investment in the company, Taction's workforce has grown from 50 employees to over 100, and the average wage for its customer service representatives has risen from \$6.75 to \$9.95 per hour. Most recently, it implemented "Taction University," an in-house initiative aimed at the personal and professional development of its workforce. The company is also exceeding its current financial goals, with the first quarter of 2002 its most successful ever.

Lessons from Maine

Venture capital investment is a limited but powerful tool. It requires a thorough understanding not only of community development finance but also of equity and sub-debt financing. It also requires an understanding of the overall financing continuum in a particular marketplace. Community development venture capital, more than traditional venture capital, is truly place-based. Replication of any particular approach can be difficult, but a common denominator among successful community development venture capital funds is an understanding of the communities in which they are working.

In addition, the venture capitalist's provision of business technical assistance can help achieve social and financial goals. For this reason, CEI is expanding its business technical assistance and community development venture capital expertise through the New Markets Venture Capital program, sponsored by the Small Business Administration. In July 2001, CEI was chosen as one of seven organizations nationwide to organize a New Markets Venture Capital fund; CEI's will be the Community Ventures Fund. This newest fund, which is poised to manage \$10 million, will also administer a \$3 million pool of funds to provide technical assistance. The New Markets program was created by Congress, which recognized that despite the nation's overall economic prosperity in the late 1990s, many parts of the country, especially rural and inner-city areas, have neither shared in this prosperity nor have had access to jobs or entrepreneurial opportunities. This became even more obvious as the economy cooled.

A successful community development venture capital fund should also engage the banking community early on. A crucial ingredient in all of CEI's activities, especially in venture capital investing, is partnerships with the banking community. Banks have a local understanding of their markets and can complement the knowledge of a community-based organization. CEI always viewed access to capital as critical to building Maine's local economy, but initially it did not have the financial expertise or

Business savvy, commitment to socially responsible investing, and the ability to raise money are crucial to making community development venture capital work.

Coast of Maine Organic Products, Inc. fit right into Coastal Enterprises' quest for companies whose practices further the 3Es: economy, environment, and equity.

resources to address those needs. Fortunately, CEI recognized the importance of bank partnerships and reached out to the financial community. Banks remain close and valued partners with CEI as investors and volunteer board members.

Moreover, business savvy, commitment to socially responsible investing, and the ability to raise money are crucial to making community development venture capital work. As Nat Henshaw said,

> *Venture capital experience is very important. It's easy to lose money in this business. We're fortunate to have some retired venture capitalists involved, and bankers — we have lots of people with individual experience. It's hard to hire an experienced venture capitalist, but we can look to retired people with experience, and others without experience but a strong desire to learn.*
>
> *Second, the social aspect is critical. While I personally think that pure venture capital can be very socially beneficial, as a community development venture capital fund, we're not just doing venture capital. When we created CEI Ventures, our premise was that we would be working with good, socially responsible managers who would, therefore, have lower employee turnover and better company performance.*
>
> *Third, a community development venture capital organization has to be able to raise money, which means the organization and the people involved need a track record of some kind. CEI Ventures was fortunate to be able to build on a track record of 16 equity investments by Coastal Enterprises, Inc. prior to the launch of the venture fund.*

Getting Involved

Banks have many options for getting involved in community development venture capital. In the case of CEI Ventures, banks are key investors, and bankers serve as board members and resources for the fund managers. Investing in a socially responsible venture capital fund is high risk, but has the potential for above-average financial returns. In addition, by supporting equity investing in their communities, banks can create customers. Banks can also receive credit in support of their Community Reinvestment Act goals.

A new opportunity for bank involvement in equity finance is now on the horizon. The New Markets Tax Credit Program is an economic development program enacted by Congress in December 2000 that aims to spur the investment of $15 billion of private capital in a variety of businesses, commercial real estate, community facilities, and other projects located in qualified, low-income, rural and urban census tracts. The program is managed by the CDFI Fund of the U.S. Treasury and consists of a 39 percent credit spread over seven years against federal income taxes. CEI and other eligible community development organizations, as well as other financial institutions, will seek allocations of tax credits for private investors, including banks, insurance companies, developers, and individuals. CEI is planning to create a fourth regionally oriented venture capital equity fund specifically for tax credit investors.

Starting with the unlikely pairing of fishing wharves and equity investing, CEI has shown that creative financing can do more than land a good catch. Based on sound philosophy and practical experience, CEI cultivated its community development venture capital approach. CEI's good ideas have changed the venture capital landscape in Maine and brought new opportunities to its communities.

Forget gray ceiling tiles. Jennifer Whitehill works in Taction's restored 1899 building and particpates in Taction University.

Endnote

1. The Investors' Circle is a national nonprofit network of angel and institutional investors, foundation officers, and entrepreneurs who seek to balance financial, social, and environmental returns.

About the Author

A native of Brunswick, Maine, Keith Bisson is earning his master's degree at the Yale School of Forestry and Environmental Studies. He just recently left his position as research assistant at Coastal Enterprises, Inc. where he provided the organization with market research, including economic, geographic, and impact data analysis. Bisson was also responsible for assisting CEI with proposal development, research, and writing.


NEW YORK STOCK EXCHANG

Social Investors

New Patrons of Community Development

by Kristin Kanders

Corporate responsibility is a serious topic this year, with profiles of impropriety dominating the business news. This attention has bolstered the ranks and resolve of socially responsible investors — those who want to make money while doing good. Groups that promote socially responsible investing are multiplying, investment options are growing, and — of interest to readers of *Communities & Banking* — investors are increasingly directing socially invested money toward community economic development.

At the most basic level, social investors want the same thing as traditional corporate investors: maximum return on investment. But how social investors decide which companies merit investment is what sets them apart. After evaluating a company's financial potential, social investors judge whether the company meets certain social and environmental standards. These standards vary depending on the investor's personal values.

A socially responsible investor, for instance, may screen against companies that profit from tobacco, weaponry, sweatshop labor, or pollution-heavy manufacturing processes. Deceptive accounting practices have also fallen on the watch list of socially conscious investors because of their potential to destroy wealth and mislead the public. On the proactive side, socially responsible investors may seek companies that support employee diversity, a sustainable environment, and community involvement.

Although it is natural to think that restricting the investment field through screens will entail a financial sacrifice, social investors see it otherwise. They believe that social investing often steers investors away from companies likely to face public relations disasters and provides a more rigorous understanding of a company. Christopher Brown, vice president and portfolio manager for Pax World Funds in Portsmouth, NH, notes, "You get a better perspective of what a company is all about when you look at it not just financially, but socially. You get a better sense of management, of how they treat their employees and the environment. A better-run company translates into better financial returns." To support his claim, Brown cites Lipper & Company data ranking Pax Balanced Fund in the top 7 percent of all 5-year-return balanced funds through 2001. (See the sidebar "From Sin Screens to Sustainability" for more on social investing performance.)

Despite their stereotype as tree-huggers, socially responsible investors are of many political persuasions. The provision of same-sex partner health benefits, for example, cuts across political boundaries, with some screening for companies providing benefits and some screening against such companies.

From sin screens. . .

Socially responsible investing is a negotiation between money and morality. In the United States, Quaker settlers were the first to employ the technique, using it to avoid supporting weaponry and slavery. Later religious followers created "sin screens" to avoid connections with alcohol, tobacco, and gambling. Numerous religions today sanction particular mutual funds because of their avoidance of pharmaceuticals (Christian Science), abortion (various Christian denominations), or interest-based lending (Muslims).

Aversion to the Vietnam War, however, unleashed social investing from its religious roots and brought it to the general public. Environmental disasters, such as the 1989 Exxon-Valdez oil spill, drove even more investors to the cause. So did the victory social investors saw when South Africa abandoned its policy of apartheid under pressure from, among others, international investors.

An important development in the social investing story over the past decade has been proof of profitability. Prior to 1990, socially responsible investors lacked a benchmark, such as the S&P 500, to gauge success. The Domini 400 Social Index (DSI 400), a benchmark for socially screened equity portfolios, now fills this deficiency. Other benchmarks, many managed by KLD Research & Analytics, Inc., Boston, provide investors with comparative information on social investments. Since its 1990 inception, the DSI 400 has outperformed the S&P 500, leading many to view socially responsible investing as legitimate investing, not just a sport for the politically correct.

Assets dedicated to social investing have followed suit. According to the Social Investment Forum, socially invested assets grew from $640 billion in 1995 to over $2 trillion in 2001, and roughly 230 U.S. mutual funds employed social screening in 2001. Even during the market downturn from 1999 to 2001, assets in socially screened portfolios grew 1.5 times faster (36 percent growth) than

Various religions invest according to their beliefs.

The Vietnam War unleashed social investing.

When South Africa abandoned apartheid, more social investors emerged.

Along with screening, another hallmark of social investing is the use of shareholder advocacy to promote corporate responsibility. Wielding the power of stockownership, social investors support resolutions to persuade corporate executives of investor priorities. After a nonprofit conservation organization failed to convince Home Depot to stop offering old-growth timber products in 1997, it enlisted the help of Trillium Asset Management, a Boston-based manager of socially responsible investments. As a Home Depot shareholder, Trillium first wrote letters of concern to Home Depot management. When that tactic failed, Trillium informed the company that it would file a proxy resolution to bring the matter before shareholders. This got Home Depot's attention. Talks ensued and so did the proxy resolution — which obtained 11 percent of shareholders' support. Home Depot then committed to phase out all old-growth timber products by 2002.

Philosophy: "You get a better perspective of what a company is all about when you look at it not just financially, but socially."

Other resolutions succeed by attracting media attention and raising public awareness. Many of these campaigns are grounded in concerns

. . . to sustainability

total U.S. assets under professional management (22 percent growth).

Social investing has long made use of negative screening — ruling out investing in a company because of its undesirable activities. Many social investors believe the industry's next step should be to increase its use of positive screening. The premise of positive screening is to seek companies that provide a benefit to society or the environment. A positive screen, for instance, might sift through companies to highlight those that support affordable housing, pollution control, or women in the workplace. Although the range of filters is wide, the focus in positive screening is on "sustainability" for communities and the environment.

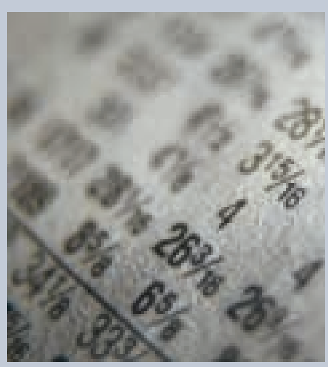
One obstacle to positive screening is that it is fuzzier than negative screening. While a typical negative screen might rule out a company like Phillip Morris for its tobacco reliance, positive screening is more complex. The Teachers Insurance and Annuity Association College Retirement Equities Fund (TIAA-CREF), one of the nation's largest pension providers, has been grappling with this issue since 1996, and the pressure keeps increasing. TIAA-CREF uses negative screening in some of its funds, but has resisted creating a positively screened fund for feasibility reasons and fears of low financial returns.

Social investment advocates, however, launched "Social Choice for Social Change: Campaign for a New TIAA-CREF" to convince TIAA-CREF of investor interest in positive screening. The campaign, led by Neil Wollman, a professor at Manchester College in Indiana, is in the process of gathering fund pledges among TIAA-CREF clients in support of a potential positive fund. They base their campaign on the results of a 1995 survey of TIAA-CREF's social fund clients which found that over 80 percent wanted positive screening in areas such as community development and low-income housing. Why all the fuss? TIAA-CREF's actions are important to social investors, says Wollman, "because when they do something, others often follow."

Social investors of today seek companies with good workplace practices.

Tobacco remains the most common "No."

With benchmarks, social investors have proof of profitability.



about community stability. During the 2002 annual meeting season, three of the ten shareholder resolutions filed by Responsible Wealth, a project of the Boston-based organization United for a Fair Economy, aimed to link executive pay with reductions in predatory lending practices. At the 2002 annual meeting of Household International, the nation's second largest subprime lender, an anti-predatory resolution won 27 percent of the shareholder vote. Scott Klinger of Responsible Wealth and organizer of the Household campaign, says that Household "refused to discuss" the matter prior to the vote, but that immediately after, it was "much more conciliatory." Household has now opened lines of communication, says Klinger, although it does not acknowledge that it bears responsibility for predatory lending.

The campaigns against predatory lending came about in part, says Fran Teplitz of the Social Investment Forum, a nonprofit trade association, from a desire not to undo the work of community investing. "Community investing is a way to put money into a disadvantaged community – we didn't want it to be stripped out faster," says Teplitz. Although small, community investing is gaining recognition among social investors as a method for direct influence through investing.

Unlike typical socially responsible investments in major corporate stocks such as Microsoft and Coca-Cola, community investing supports community development financial institutions (CDFIs) – organizations such as nonprofit and profit community banks, credit unions, loan funds, and venture capital funds. These investments, often marketed as "high-impact investments," provide financing in credit-needy communities for affordable housing, microenterprises, and small businesses. Risks for community investing vary, as do the rates of return, which generally top out at 5 percent.

The Social Investment Forum and its partner, Co-op America, also a nonprofit advocacy organization, have initiated a "1 Percent in Community" campaign to encourage each social investor to dedicate at least one percent of portfolio funds to community investing. In addition to the work of these umbrella groups, some socially concerned money managers, such as Domini Social Investments, are marketing the benefits of community investing and are even creating new products for it. The appeal, they say, is the large social return.

Many socially responsible mutual funds already invest a small portion of their portfolios in community investing. What's more, large institutional investors may get into the business. Ford Motor Company, for example, has a 401(k) plan that partially invests in socially responsible mutual funds. If those funds include community investing, it could be a significant source of funding. Should these trends continue, community economic development practitioners could see a stable base of financing from a mainstream capital market.

Activism: **The campaigns against predatory lending came about in part from a desire not to undo the work of community investing.**

Shareholder activism convinced Home Depot to stop selling old-growth timber products.

Starting Small

Community investing has a long way to go before it becomes a significant part of the social investment industry. According to Social Investment Forum's 2001 Trends Report, of the more than $2 trillion in socially responsible portfolios, only about 4 percent, or $8 billion, was in community investments. From the upbeat perspective, however, community investing is growing rapidly — up 41 percent from 1999 to 2001, five times as fast as the whole of socially responsible investing.

Expansion of community investments is limited by several factors, some more easily surmounted than others. For one, community investments typically yield below-market rates of return. For this reason, the Social Investment Forum urges investors to allocate only a small portion of their portfolios to community invesments. In its report, "Increasing Investment in Communities: A Community Investment Guide for Investment Professionals and Institutions," it underscores that "low risk and low return community investments representing just one percent of a client's portfolio . . . will help meet the social impact objectives of that portfolio" while having minimal financial consequences. As the social investment industry has learned by creating benchmarks for socially responsible investments, demonstrating profitability is key to attracting investors. The "1 Percent in Community" campaign recognizes this reality.

As further motivation, the Social Investment Forum argues that by providing community investment options to clients, investment professionals and their institutions will "end up with loyal, high-quality clients" and differentiate themselves "from those who engage in lower-impact forms of responsible investment."

But investment professionals are not clamoring to promote community investments because the investments provide less broker compensation. Richard Glod, an investor associate for Calvert Group, LTD, a $7.8 billion manager of social portfolios, says that this translates into reduced incentive to offer community investment products. He adds that many community investment firms often lack the funds to market their products competitively.

Marketing is necessary because many social investors incorrectly view community investment as a higher risk investment. In actuality, the risks vary tremendously, from secure investing in savings accounts at insured institutions such as Vermont Development Credit Union to higher risk microenterprise and venture capital investing. With certain community investment products, investors may even specify what return they want, ranging from 0 to 5 percent.

Mark Thomsen, research and news director of SRI World Group Inc., believes that investor perceptions will continue to improve as community investing establishes a longer track record. As the field matures, says Thomsen, and as more innovative community investment products are fashioned, more investors will become interested. Developing new products is critical to the field's growth. Currently, there are few examples of community investment instruments that pool funds to then invest in a varierty of CDFIs, and fewer with low investment minimums. Some examples of pooled investments with low investment minimums include Calvert Community Investment Notes and the Domini Social Bond Fund.

Growing Connections

The social investment industry is serving an important role as a bridge between mainstream investors and the CDFI industry. This point is made by Kirsten Moy and Alan Okagaki in their July 2001 *Capital Xchange* article, "Changing Community Markets and Their Implications for Community Development Finance." They note that this is a key role since the CDFI industry still operates on a separate framework from mainstream financial institutions, and, therefore, has had less success in attracting general investors.

Socially responsible investing can be expected to grow as industry leaders prove that it can be both financially and morally satisfying. And, although still small, the community investing segment has the potential to spur significant new investment in CDFIs. A further dividend could come as community investors engage regular investors with the practitioners and different forms of community economic development.

Potential: Socially responsible investing can be expected to grow as industry leaders prove that it can be both financially and morally satisfying.

Web Resources

The Social Investment Forum web site, www.socialinvest.org, offers helpful information. It has content and links for shareholder advocacy, www.shareholderaction.org, and community investing, www.communityinvest.org.

The site www.sriworld.com is the home of four web sites that provide information on social investing and corporate responsibility.

Improving Low-Income Policies in tight Fiscal Times

by Iris Lav and John Springer

The authors represent the Center on Budget and Policy Priorities, a nonpartisan research organization and policy institute. As always, articles in *Communities & Banking* reflect the views of the authors, not the Federal Reserve Bank of Boston.

Like the rest of the nation, the New England states have been scrambling in recent months to repair the budgetary damage associated with the economic downturn. State budgets have been thrown out of balance as revenue collections have fallen substantially below expectations. The National Association of State Budget Officers estimates that 40 states face a combined budget shortfall of $40 billion for fiscal year 2002, and large additional gaps are expected for fiscal year 2003. In response, states are using up reserve funds, raising revenues, and cutting spending — including spending on programs aimed at low-income families and other vulnerable individuals.

Massachusetts' situation is one of the region's most serious. To close a shortfall that exceeded $2 billion during fiscal year 2002, the state used up more than $800 million in reserves and made a number of spending cuts, including nearly $50 million in cuts in various social service programs. Further cuts are planned for fiscal year 2003, even if the substantial tax increase now under consideration is enacted.

Other New England states are in better shape, but they too have been making cutbacks. For example, Rhode Island's governor raised considerable controversy by proposing to eliminate funding for the state's first-ever affordable housing program. Rhode Island is, however, planning to delete a long-standing program that provides small "weatherization bonus grants" to families receiving cash assistance.

Despite recent economic indicators suggesting the downturn has bottomed out, the state budget situation is unlikely to improve soon. State budgets usually don't recover from a downturn until a year or more after the economic recovery begins, in part because unemployment usually keeps rising for a number of months after the economic recovery technically starts.

As a result, the competition for state resources will remain intense for at least the next year. In this competition, groups representing corporations and higher-income families generally have an edge over groups representing low-income families in such areas as funding and organization. One sign of this imbalance is that states have made their tax systems increasingly regressive over the past decade: State tax hikes during the recession of the early 1990s hit both lower- and upper-income families, while state tax relief during the prosperous period from 1994 to early 2001 was largely targeted on upper-income families. The danger exists that some states will close their current budget gaps primarily through tax hikes and spending cuts that hurt low-income families.

To help groups concerned about low-income families participate more effectively in state policy debates, this article briefly describes a few concrete steps states can take – at modest cost and using federal funds wherever possible – to help low-income families harmed by the downturn.

Welfare

One area where states can revise their policies to help low-income families is in the Temporary Assistance to Needy Families (TANF) program, commonly known as welfare. The 1996 welfare reform law gave states considerable power to design their own welfare programs, subject to a few federal requirements. One such requirement is that states may not use federal TANF funds to provide assistance to families with an adult for more than 60 months of the adult's lifetime. States that want to provide assistance beyond this point must pay for it entirely with state funds.

States also can impose their own time limits that are shorter than 60 months, and 20 states have done so. Among New England states, Vermont has no time limit; Maine, New Hampshire, and Rhode Island have a 60-month time limit; and Massachusetts has a 24-month time limit for assistance within any five-year period. Connecticut's time limit is the region's shortest: 21 months over an individual's lifetime. While this limit may be extended by up to 18 months for certain families, the state has tightened the restrictions on extensions, largely limiting them to cases of domestic violence.

Time limits were intended to encourage work and prevent long-term dependence on welfare. However, in many states, families are reaching time limits at a time of rising unemployment, when moving from welfare to work is especially difficult. In Maine and New Hampshire, for example, the first families reached time limits late last year.

There are several reasons why states may want to revisit their time-limit policies. First, a significant number of parents who recently moved from welfare to work are losing jobs (or are being forced to work reduced hours) and cannot return to welfare because they already have reached their time limit. Many of them aren't receiving unemployment insurance benefits either.

Second, many families have not reached time limits and are still receiving assistance but have not yet found employment. Compared to families that left welfare for employment, these families are more likely to have problems that can keep them from finding or holding a job, such as low skill levels or emotional or physical difficulties. Having failed to find jobs during the strong economy of recent years, these families will have even more trouble doing so in today's more competitive labor market.

Time limits were intended to encourage work and prevent long-term dependence on welfare. However, in many states, families are reaching time limits at a time of rising unemployment, when moving from welfare to work is especially difficult.

Third, about one-third of families receiving welfare are working but are earning so little that they are still eligible for assistance. Many of these families will not be able to increase their earnings enough to leave assistance during a recession and are at risk of exhausting their months of cash assistance.

States can respond by providing working TANF recipients with exemptions from time limits, under which the months of assistance they receive while working do not count toward their time limit. (This is known as "stopping the clock" for working families.) This enables working families with very low incomes to receive the extra help they need to get by without using up their months of welfare eligibility, which would make them ineligible for help should they become unemployed in the future. Currently, five states, including Rhode Island, stop the clock for families that are working.

States also can provide working TANF recipients with extensions of time limits, under which they continue to receive aid even after reaching their time limit. For example, if a parent worked a certain number of hours during 10 of the months she was receiving assistance, she could qualify for 10 extra months of assistance. This would enable families that have lost jobs to return to assistance even if they have already reached their time limit. A few states have adopted extension policies, but none in New England.

Food Stamps

While states have less flexibility over food stamp rules than welfare rules, in the past few years the federal government has approved several new options that states can use to make the food stamp program more accessible, especially to working families. Food stamp participation by eligible families has fallen dramatically in recent years, a trend states should be particularly eager to reverse since food stamp benefits (unlike welfare benefits) are entirely federally funded.

One new option simplifies the reporting requirements for families receiving food stamps. Traditionally, these families have been required either to inform the food stamp office of even minor changes in their income within 10 days or to mail in a report of their circumstances every month even if there were no changes. In addition, many states have required families to reapply for food stamps in person every three months. For low-income working families, whose income may change from week to week and who may have trouble taking time off from work to go to the food stamp office every few months, policies like these are a powerful deterrent to participating in the program.

Now, however, states have the option of allowing working families to stay on food stamps for six months at a time with no reporting requirements during that period. Twenty states have adopted this option, but none in New England. Adopting the option not only can help boost food stamp participation, but also can make the program easier for states to administer, since it reduces the amount of information that state food stamp offices must process.

Another area of state flexibility over food stamps isn't new, but it isn't being fully exploited either. Under the 1996 welfare law, unemployed individuals aged 18 through 49 who are childless and not disabled can receive food stamps for only three months out of each three-year period. Generally these individuals aren't eligible for any other benefit program, so the three-month limit on food stamps is especially harsh.

States can request waivers from the federal government to exempt from this time limit any area of the state that has insufficient jobs. Each year, most states receive waivers for at least part of the state. While three of the six New England states are doing all they can in this area, Vermont and New Hampshire could apply for waivers for more areas than they do, and Massachusetts doesn't apply for waivers at all. Since food stamp benefits are entirely federally funded, providing additional months of food stamps to these individuals would entail only minimal (administrative) costs for states.

Health Insurance

A third area where state low-income policies can be improved is health insurance. The number of uninsured families is likely to rise in the coming year, in part because of the economic slowdown. Many workers will lose private health insurance when they become unemployed, and the high cost of coverage under the COBRA program makes it unaffordable for most jobless workers. Rising health care costs, which are causing some firms to drop or reduce health coverage for their employees or increase the amount that workers must pay for coverage, will also contribute to the number of uninsured families this year.

Almost all children who live in families with incomes below 200 percent of the poverty line (or about $30,000 for a family of three in 2002) are eligible for publicly funded health coverage under Medicaid or the State Children's Health Insurance Program (SCHIP). Coverage is much more limited for the adults in these families, however. In more than half of the states, a working parent with two children can receive Medicaid only if she earns less than about $10,000 a year.

The New England states do a better job than many others in providing publicly funded health insurance. Five of the 17 states nationally that provide coverage to working parents with incomes at the poverty line or higher are in New England. In New Hampshire, by contrast, working parents are ineligible for coverage if their income exceeds two-thirds of the poverty line. Moreover, New Hampshire has considerable unspent federal SCHIP funds it could use to help pay for expanding health coverage for parents. Connecticut too has plenty of unspent SCHIP funds and could use them to help pay for expanding parents' coverage beyond the current limit.

Making the Case for Improved Low-Income Policies

While federal funding is available for several of the policies outlined above, assisting low-income families generally requires state funds as well. As noted above, finding these funds is particularly difficult now because of states' current budget squeeze.

Two recent federal tax cuts could make that squeeze even worse by costing states considerable revenue. (Because of the linkages between federal and state tax codes, federal tax changes often affect state taxes as well.) First, the repeal of the federal estate tax, contained in last year's major tax legislation, effectively repeals most state estate taxes. States will lose between $19 billion and $23 billion in estate tax revenue between fiscal years 2003 and 2007 unless they act to "decouple" their estate taxes from the federal estate tax.

Three New England states — Rhode Island, Vermont, and Maine (for one year) — already have decoupled their estate taxes from the federal estate tax. Massachusetts, which at this writing appears poised to decouple, stands to lose more than $830 million in 2003-2007 from estate tax repeal if it does not act.

Second, the "bonus depreciation" provision of the recent economic stimulus legislation, which allows a business to claim an immediate federal tax deduction on purchases of new equipment, threatened to reduce state income tax collections by close to $14 billion between now and 2004 (when it expires). As with the estate tax, some states have averted this loss of revenue by decoupling their tax depreciation rules from the federal rules. Nearly every state in New England has decoupled fully from the depreciation provision.

But even if states act to protect their budgets from the effects of these federal tax cuts, as they would be wise to do, convincing state policymakers to make the policy improvements outlined above will not be easy. Groups concerned about low-income families need to explain that low-income programs not only provide relief to those most in need, but also promote economic growth in the state by bolstering spending among low-income families. These families (as opposed to high-income families) tend to spend a higher share of any extra income they receive, thereby injecting money into the economy. They also are more likely than higher-income families to do their spending within the state.

An equally strong argument can be made on the basis of fairness. During the late 1990s, when states were flush and felt free to cut taxes, lower-income families received few of the benefits. Now that states are in trouble, these families surely shouldn't be made to bear the brunt of any necessary sacrifices. And if there are ways states can provide extra help to these families at modest cost, they should do so.

Groups concerned about low-income families need to explain that low-income programs not only provide relief to those most in need, but also promote economic growth in the state by bolstering spending among low-income families.

About the Authors

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Partnerships and Collaboration Rebuild Communities

A Case Study in Pawtucket, Rhode Island

by Marcia Marker Feld

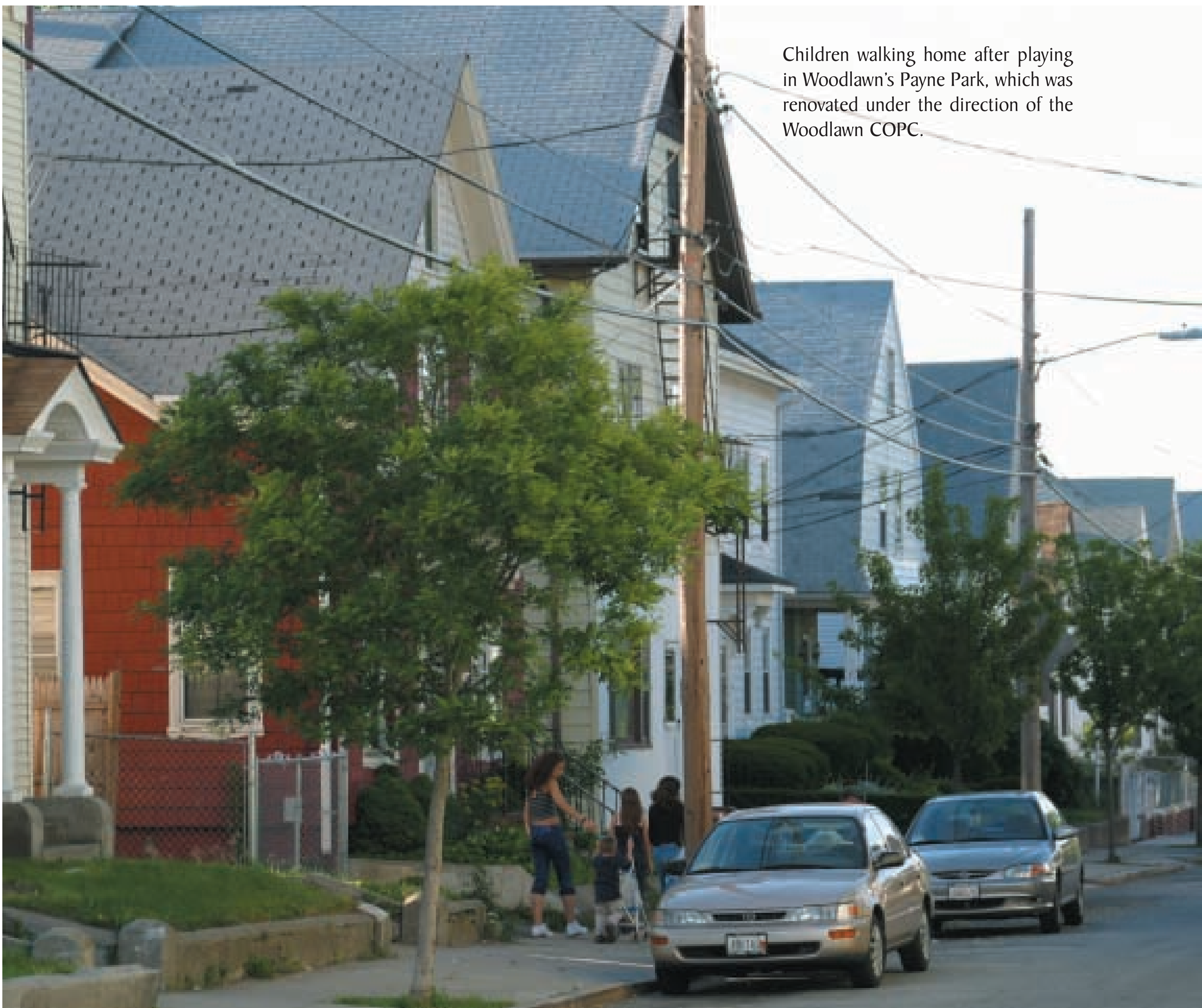
Question: How does a Rhode Island neighborhood, replete with abandoned properties, crime-ridden streets, unemployment, and very few residents who have completed secondary or higher education, become a model of neighborhood revitalization? The answer is by partnering with educational, municipal, and community organizations on a comprehensive and inclusive strategic planning process.

University Partnerships and Urban Neighborhoods

Partnerships have always been an important aspect of American public higher education. The first and second Morrill Acts of 1862 and 1890 formalized partnerships between land grant institutions and their surrounding areas. These Acts pioneered unique American institutions – cooperative extension and agricultural experiment stations – that have a mandate to intervene and strengthen their regional economies.

More recent partnerships between communities and universities took root in the late 1950s, when the Ford Foundation tested a model of urban extension at the University of Delaware. Then, following the fight to desegregate public schools in the 1960s, the federal courts ordered a few partnerships between higher-education institutions and failing public-school districts. In the 1970s, Congress passed the Urban Grant University Program entitling land grant universities and state higher-education institutions in urban areas fiscal support from the U.S. Department of Education; the program also supported learning about community service in urban public schools.

Despite these developments, there was no real national direction for universities to work with their urban



Children walking home after playing in Woodlawn's Payne Park, which was renovated under the direction of the Woodlawn COPC.

neighbors until 1992, when President George H. Bush signed the Housing and Community Development Act, which established the U.S. Department of Housing and Urban Development (HUD) Community Outreach Partnership Center (COPC) Program. The COPC Program was created so that universities and colleges could assist urban communities through outreach, use community advisory committees to help define university activities, and conduct applied research together with the community. It encouraged universities to work on a level playing field with the community and municipality to resolve neighborhood problems.

Further strengthening of the COPC program occurred in 1994, when HUD Secretary Henry G. Cisneros established the Office of University Partnerships to administer the COPC and other university-related programs. Cisneros believed in the potential of university-community partnerships for urban revitalization. As he expressed in an essay,

> *Our nation's institutions of higher education are crucial to the fight to save our cities. Colleges and universities must join the effort to rebuild their communities, not just for the moral reasons but also out of enlightened self-interest. The long-term futures of both the city and the university are so intertwined that one cannot, or perhaps will not, survive without the other. Universities cannot afford to become islands of affluence, self-importance, and horticultural beauty in seas of squalor, violence, and despair.*

The Office of University Partnerships, which remains the only unit of the federal government with the primary mission of supporting university and neighborhood partnerships, has provided over 200 COPC grants for community economic development initiatives including social action. COPC program funding continues to be authorized though 2003.

Case Study of the Woodlawn COPC: A Personal View

The partnership between the University of Rhode Island's Urban Field Center and the Woodlawn neighborhood was both serendipitous and substantive. As director of the University of Rhode Island (URI) Urban Field Center, I had just returned from HUD as the founding director of the Office of University Partnerships and was actively searching for a neighborhood interested in working with the university on a COPC proposal. I began by calling my former students, now planners and community development officers at municipal planning departments, and asking if their city fit the federal COPC criteria. Pawtucket and some of its neighborhoods had the required characteristics, and, in addition, the city's community development block grant officer welcomed the opportunity to collaborate with URI. He recommended the Woodlawn neighborhood because of its needs but also because of its assets. Pawtucket's mayor and community-based groups were also in favor of working with URI.

The Woodlawn neighborhood was diverse with recent immigrants and burdened by homelessness and abandoned property. Two-thirds of the residents earned low or moderate incomes and over one-half had not completed high school. The neighborhood residents needed child-care services and an expansion of programs for literacy, life skills, and drug and school-dropout prevention. Chief among the neighborhood's assets was a hugely admired community activist and neighborhood association president. In addition, the local faith-based institutions were committed to helping the community.

With many partners — ranging from residents, local unions, businesses, and community-based organizations to the housing authority, public schools, municipal planning office, and URI — the Woodlawn neighborhood received a three-year COPC grant followed by a two-year implementation grant. While there were many problems to fix, it was critical to create a sense of empowerment among the residents of Woodlawn. The resident neigborhood association's motto, "Bring Back the Pride to Woodlawn," encouraged residents to embrace their community. Active participation in the entire COPC process further strengthened the neighborhood.

HUD has historically encouraged citizen participation in its programs — for example, there have been Urban Renewal advisory councils, Model Cities boards, public housing tenant councils, and Empowerment Zone committees — but the COPC Program offers the most energetic and far-reaching mandate for citizen participation to date. According to the call for proposals, community residents must agree with the planned programs and join the advisory committee, which controls the programs and their funds. Planning professionals are directed to act as facilitators, mediators, and information-providers, not decision-makers. The governance structure also emphasizes community power. If there is a vote, the votes of the community representatives outweigh the combined vote of the university, mayor's office, and planning department.

Along with empowering residents and revitalizing the neighborhood, the Woodlawn COPC aims to make the university aware of the bonds and common concerns it shares with the community. Although federal funding of the Woodlawn COPC ends in September 2002, its community development work will continue through Woodlawn Community Development Corporation, the non-profit 501(c)3 formed by the COPC.

Highlights of the COPC in Action

From a base of operations in an unused parish house, the Woodlawn COPC has made tremendous accomplishments, ranging from redeveloping abandoned properties to providing residents with leadership and citizenship training. The sidebar "Improvements in Woodlawn" on page 20 details some partnership achievements. During the past five

What To Handle When

During the initial three years, the Woodlawn COPC tackled issues including housing, neighborhood revitalization, education and social services, and community planning and organization. The COPC also worked to disseminate its results. Neighborhood residents decided on the projects and policy direction and the university provided technical assistance. Grant money could not be used for physical development.

During the following two years, the Woodlawn COPC focused on microeconomic development, job training, and a targeted neighborhood revitalization process. The COPC programs and strategies were also incorporated into the newly created non-profit Woodlawn Community Development Corporation.

Improvements in Woodlawn

From initiating dropout prevention programs in the local schools to establishing a local community development corporation, the range of activities undertaken by the Woodlawn COPC is broad. In most instances, the role of the University of Rhode Island has been to provide technical assistance. The section below provides examples of Woodlawn COPC solutions for various community problems.

Housing

* Organized local housing service providers into a Woodlawn Housing Coalition
* Developed a priority list of abandoned and poorly managed property; discussed it with the city council, mayor, and city planning department
* Developed a Fair Housing Impediment Assessment and a subsequent action plan with Roger Williams Law School students
* Improved landlord and tenant relationships through diversity training, mediation, and community policing
* Circulated knowledge of Pawtucket Housing Court procedures to the neighborhood

Job Training/Economic Development

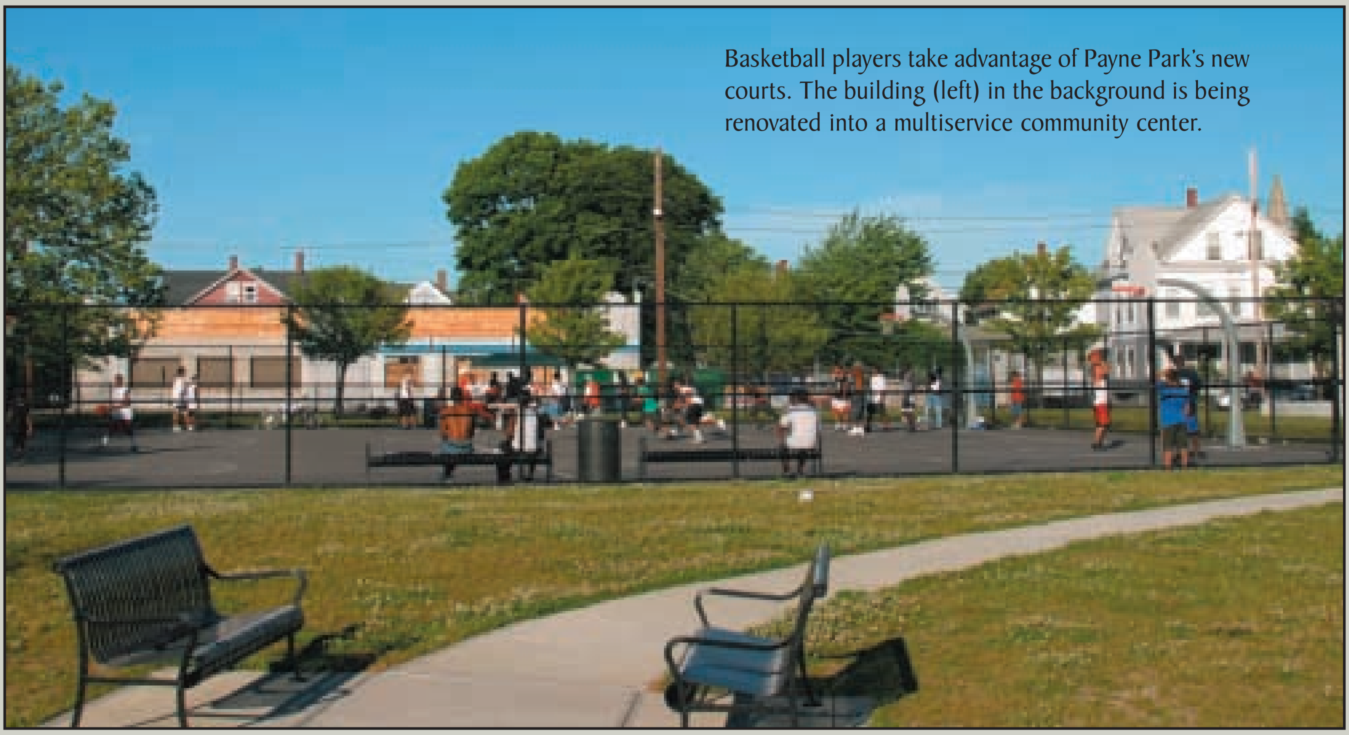
* Recruited public housing residents into technology classes taught by Urban Field Center staff
* Assisted residents with career development plans
* Referred residents to general equivalency degree and adult literacy opportunities
* Established the Woodlawn Business Association and Manufacturing Alliance
* Created a microenterprise start-up program
* Organized the Woodlawn credit union into a community development credit union

Neighborhood Revitalization

* Developed crime watch teams on each block
* Participated in a URI Landscape Architecture Department-sponsored planning project, called a charrette; the focus was physical restoration of neighborhood parks and playgrounds
* Renovated a run-down property across from Payne Park into a multiservice community center; restored other neglected homes and properties
* Developed a neighborhood revitalization strategy, submitted it to HUD, and received designation of Woodlawn as a revitalization area; this brought in over $200,000
* Established a Woodlawn CDC with a broad mission to improve socioeconomic and physical conditions in the community

Education and Social Services

* Initiated dropout prevention programs beginning in kindergarten and continuing through high school
* Encouraged parents, young adults, and senior citizens to attend the Woodlawn COPC's Institute for Leadership Training; about 225 residents have participated and 60 so far have graduated
* Offered parenting classes in two elementary schools, often in two or three languages.
* Staffed two high schools with an Urban Field Center staff member to implement the Guaranteed Admissions Program whereby students are guaranteed admission to URI, participate in summer enrichment programs, and take field trips to visit different colleges
* Brought diverse ethnic and racial groups together through workshops on literacy and diversity; the workshops concluded with a community-wide Heritage Day event and an international fair
* Hosted the annual national COPC conference in Providence and Pawtucket



Basketball players take advantage of Payne Park's new courts. The building (left) in the background is being renovated into a multiservice community center.

years, neighborhood residents have come together as a community, grown to trust staff at the URI Urban Field Center and Providence campus, and become sufficiently engaged so that they now discuss issues with the mayor's office and city council.

In Pawtucket, the impact of the COPC has been strong and measurable. Mayor James Doyle has requested that a "COPC-like" organization be created in every neighborhood — a process that has begun in Pawtucket's Pine Crest and Pleasant View neighborhoods. The Woodlawn community has obtained special HUD designations (and, therefore, funding) but one of the most dramatic changes within the community has been resident empowerment. Several resident participants in the Woodlawn COPC's Institute for Leadership Training, for instance, have run for public office or have been appointed to city task forces and advisory committees.

The University of Rhode Island was also changed by the Woodlawn COPC. The Graduate Planning Department, the academic home of the Urban Field Center, opened an Institute of Housing and Community Development on the Providence campus. This Institute trains Rhode Island residents and staff of community development corporations and human service agencies. Rhode Island participants in the Institute receive partial scholarships from the Rhode Island Foundation and the state's community development block grant officer. The program, now in its fifth year, allows participants to transfer course credits to the URI Graduate Department of Community Planning and Landscape Architecture.

In addition, the Woodlawn COPC has spurred other developments, namely that the concept of universities and communities working together has gained footing in Rhode Island. For instance, the state legislature passed and funded the Rhode Island Housing Resources Act of 1998 which established a Housing Resources Commission. One purpose of this Commission is to "encourage and support partnerships between institutions of higher education and neighborhoods to develop and retain quality healthy housing and sustainable communities." Likewise, the Rhode Island Housing and Mortgage Finance Corporation has created a committee on higher education and community partnerships to share information and encourage cooperation.

COPC Board Members. . .

. . . Followed These Principles of Community Development:

* Promote active resident involvement to diagnose problems and fix them
* Recognize the comprehensive impact associated with possible solutions
* Disengage from efforts that might adversely effect the disadvantaged
* Design and implement a plan to solve problems by shared leadership
* Work to increase leadership capacity, skills, confidence, and aspirations

Conclusion: Partnerships as a Strategy for Neighborhood Revitalization

The Woodlawn COPC experience demonstrates that a partnership between a neighborhood and a university can be an appropriate strategy for neighborhood revitalization. It also shows how such a partnership can change a university's culture and curriculum. Through formal and informal education, the Woodlawn COPC raised the level of community residents' skills. The COPC also increased residents' awareness of the various levels of civil responsibility: neighborhood, city, state, and nation. The success of the Woodlawn COPC is testament to the fact that good community development does not happen effectively through directives; it occurs through collaboration, teamwork, and partnership.

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About the Author

Marcia Marker Feld, Ph.D., member AICP, is a professor of community planning at the University of Rhode Island and executive director of its Urban Field Center. Dr. Feld was the founding Director of the HUD Office of University Partnerships. She currently participates in HUD's peer review of new Community Outreach Partnership Center proposals.

She also recently assisted in founding the Association for Community and Higher Education Partnerships (ACHEP) with support from the Rockefeller Foundation and the University of Memphis. This organization, which is composed of current and former COPC staff and board memberss, aims to promote, enhance, and sustain partnerships between communities and institutions of higher education for the betterment of residents of economically distressed communities.

First Person by Mike Mandracchia

Changing Direction

One Banker's Journey from NYC to Brattleboro

When my wife and I moved our family to Vermont, I became a community banker — a big shift for someone who spent nearly 20 years on Wall Street. While the basic credit skills required to perform my job as a lender really have not changed all that much (although the number of zeros has dropped dramatically), I can say with certainty that my job and life are now much farther than 200 miles from New York City.

Working during the height of the leveraged buyout era in the 1980s, bankers were busy trying to keep pace as the deals increased in number, size, and complexity. My co-workers and I dedicated substantial effort to "creating the next best use of other people's money." The work was stimulating, challenging, and certainly unrelenting. I was working harder than I ever imagined, and there was little time left at the end of the day — for me or my family.

The deals kept coming and the pace quickened. A personal passion for tinkering with and racing cars was in a seemingly endless pit stop. Gardening and hiking were put on hold. I was married with two daughters and cherished every moment with my family; however, in almost an imperceptible manner, I was losing those moments. My wife was living her own life and my daughters were growing up without me. I reacted to this problem as many of my colleagues did: I bought a second home for family getaways and quality time.

It was an old farmhouse in Whitingham, Vermont, a working dairy farm until the 1960s, with a breathtaking view surrounded by many acres (a huge draw for someone who grew up in Queens, NY). We fled the city at every chance. The weekend escape seemed an ideal solution at first, but Wall Street had a way of permeating my life. Long-distance conference calls while my daughters were outside waiting for me and trips cancelled on Friday nights after the car was already packed made me realize that my well-intentioned attempt at quality time had failed. After many hours of discussion, my wife and I decided that the most important legacy we could give our children was an environment of connection to each other and our community. So we moved full time to our escape-home six years ago.

Living in a small community furnishes the perfect sense of connection. The feeling goes beyond the waves sent by passing drivers or the people who stop me for a chat in town; it permeates my life in every way. My family eats on dishes made by the local potter, the local sugarhouse makes maple syrup from sap tapped from our trees, and our neighbors plow the town roads. The fire chief, who is also a contractor, helped me shore up the wall in my barn, and I let him store his boat there over the winter.

When we first arrived in Vermont, I was managing a "rural market area" for a large regional bank. As I began to settle in at home and work, I realized that some of my marketing efforts didn't ring true with the community. The product selection and pricing I was offering, for instance, were designed by a committee located half-way across the country. The one-size-fits-all approach is not what small communities want from their bankers. While the days of lending money with little more than a handshake may be gone, the personal touch is still highly regarded by most people. I certainly noticed with envy the effectiveness of the local, savings bank. Because of its mutual-ownership structure, it was able to make decisions for reasons unrelated to next quarter's earnings. The mutual bank supported most community activities and positioned itself as an alternative to large, out-of-town banks. As industry consolidation continued, the community bank grew in importance to local residents. Community support manifested itself in ever-increasing business for the bank. It was at this time that I joined the association as manager of the bank's loan portfolio.

Working for the local community bank encourages feeling close to the community. No one ever stopped to thank me for providing mezzanine financing for a corporate restructuring. But the line of credit, that enabled the local nonprofit to continue delivering services until grant money was received, earned me a cup of coffee, a tour of the shelter, and a grateful smile from the residents. The sense of accomplishment after assisting a young couple with their first home purchase overwhelms that of completing a leveraged buyout.

Today's community bankers spend a lot of time worrying about losing business to large regional banks. Most would cite competing with bigger banks' broad product offerings and pricing advantages as their biggest challenges. I disagree. As a credit officer in a local community bank, you no longer work on transactions or deals, selling product and price. Instead, you provide capital to individuals and small businesses, establishing partnerships with your neighbors in the process. The challenge is to stop worrying about next quarter's results or if a particular product is still profitable and take the long-term view. Create an image and presence in town that makes you the bank of choice. Customers will opt to do business with your bank because you treat them well and care about enriching the community.

Community bankers have the opportunity to be an integral part of their community's future. They are not merely providers of credit — they are participants in the local economy. The bank takes in deposits from the community and recycles those funds into loans to local residents, businesses, and nonprofits. Community banks are not pressured from distant shareholders and don't send funds to far-away places. Profits earned by the bank are put back into the community, and this encourages even more business to find its way to the bank — and the community continues to grow.

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But the line of credit, which enabled the local nonprofit to deliver services until grant money was received, earned me a cup of coffee, a tour of the shelter, and a grateful smile from the residents.