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Communities & Banking

Supporting the Economic Strength of Lower-Income Communities

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CLAREMONT LOOKS TO THE FUTURE

page 4

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Communities & Banking

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

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LETTER FROM THE EDITOR

This issue features several articles of interest to bankers. Lisa Shepard's Community Reinvestment Act overview is a reminder that banks' community development efforts don't always have to be about buildings. Our cover story notes the critical support of financial institutions in the revitalization of Claremont, New Hampshire. Fed economist Joe Peek offers new research on the profitability of small business lending for smaller banking organizations. Then Randolph Savings Bank's Richard Olson weighs the pros and cons of online lending platforms. And Elisa Tavilla writes about using mobile technology to reach unbanked and underbanked consumers.

Meanwhile, Bruce Seifer shares his deep experience helping to create a sustainable economy in Burlington, Vermont. Also from Vermont, we have Tiffany Bluemle and Linda Tarr-Whelan writing about the economic value of helping women get ahead and Brenda Torpy recounting why a new homeless initiative garnered warm community support.

Catherine MacKinnon, Mutual Housing Association of Greater Hartford, details unexpected ripple effects from leadership classes taken by affordable-housing residents. Matt Blumenfeld explains the Holyoke, Massachusetts, library renovation's unusual financing package. Susan Bartlett writes about how the New Hampshire Humanities Council helps English-language learners gain insight into a new country and culture. And Ana Patricia Muñoz's map shows the ratio of wage earners to children and elderly in New England counties.

Please visit our blog, www.thecentralpremise.org, for useful information of all kinds.

Best,
Caroline Ellis

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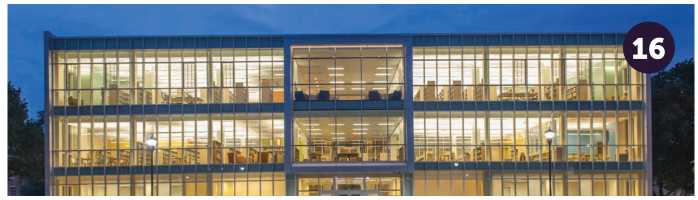

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CLAREMONT, NEW HAMPSHIRE,

LOOKS TO THE FUTURE

Nancy Merrill
CITY OF CLAREMONT, NEW HAMPSHIRE

By focusing on public-private partnerships, an interdisciplinary approach to development, innovative financing, and fundamental zoning changes, a town can rebuild.

"A once thriving mill city" is a phrase that starts many stories about New England communities. The next chapters usually describe job losses, vacant buildings, economic decline, and gradually, damage to the social structure.

Claremont, a city of 13,300 in the western part of New Hampshire, used to be such city. But in the last decade, Claremont has started to rebuild through a collaborative process that may hold lessons for other older communities.

Returning to Life

The original challenges were daunting. Between 1980 and 2000, Claremont saw a 9 percent decline in population. (See "Population Characteristics.") By 2002, it had had to demolish dozens of blighted buildings and remove 150 housing units that threatened health and safety. At one point, the municipal fund balance was down to $4,303.

The drive for change came from the citizens. Blight, vacancy, and general deterioration were not how they remembered this once-thriving town. In 2000, the Claremont Development Authority decided to invest in the center of town, purchasing the Farwell Block from the city. The goal was to fund new commercial space in Opera House Square and entice private-sector investment. In the same year, New Hampshire Main Street in Claremont called a meeting that drew more than 200 people.

"We all felt dismayed by the condition of the City Center," recalls one participant, "but it wasn't until that meeting that we realized so many others felt the same."

Attendees organized the Main Street Claremont coalition, which spearheaded initiatives such as the purchase of the Oscar Brown Block, a building in the heart of the city. The coalition got the rehabilitation going, then sold the project to the Monadnock Economic Development Council, which ultimately created 10,000 square feet of commercial space and six apartments.

In 2004 and 2005, the city put out a Request for Developers for several Monadnock Mills buildings it owned. The selection criteria weighted economically sustainable end use, developer experience, and financial stability. Three companies ended up getting involved—Red River (an IT business), the Common Man Inn & Restaurant, and Sugar River Mills Redevelopment LLC. By project completion in 2009, the city had extended its center by a block and had restored historic landscape along the Sugar River.

It helped that the city took a long-term view. Claremont knew it had to invest in roads, aging water and sewer infrastructure, parking capacity, and brownfield remediation to attract private investment. So instead of a building-by-building, or sidewalk-by-sewer-line approach, the city considered the future of the whole district, approaching it as a unit. The city council created a downtown tax-increment-finance (TIF) district to support the bonding for infrastructure improvement. Today, there are promising signs that the TIF district will continue expanding the tax base. In other positive news, Red River, the Common Man, and National Field Representatives (a mortgage field servicer) have created 160 local jobs since the mills opened; other building owners have invested in upgrades, energy projects, and residential units; and city population increased in 2010. The impact on restaurants and shops is also promising, with several small businesses opening in recent years.

Says City Manager Guy Santagate, "We decided we were going to remain a full-service city and put structure, vision, and direction into practice so that a stable financial environment could support future growth."

When those entities share a common goal and move in the same direction, good things happen.

Ongoing Partnerships

Partnerships continue to be critical to support both existing companies and new development. To address confusion about local permitting, Santagate pulled together staff from the Economic Development, Planning & Zoning, Building & Health Codes, and Project Management departments to create one entity. A business is now able to move through informational stages to any required permitting within this unit, and staff members work as a team from initial contact.

If a review from the Planning Board or Zoning Board of Adjustment is indicated, a technical review team meets informally with the developer or owner, bringing in public works, police, fire, and legal review. When building development, brownfields, or infrastructure work is occurring on one project, having an internal partnership saves businesses from answering the same questions over and over. The private sector has warmly welcomed the streamlining.

According to president and CEO of Hampshire Hospitality Holdings Rusty McLear, "One of the primary reasons Alex Ray and I entered in the Claremont mills project was because we had faith that Claremont was not just giving lip service to the term 'public-private partnership.' In order for this project to work, we indeed needed a true partner, one who would share in the expense, expedite the process, assist with the planning and coordination, and be there when problems arose. I'm happy to say that our faith was not misplaced. The city has been there every

photos courtsey of City of Claremont

step of the way, helping solve the tax-credit issues when we couldn't, and their cooperation in the planning process allowed us to save time and money. The city's work on the infrastructure, bridge, parking, sewer, and water [issues] made the project possible."

External partnerships depend on the nature of the need. Mill-project financing included private equity, bank lending, New Markets Tax Credits, historic preservation tax credits, Community Development Block Grant funding through Sullivan County and the Capital Regional Development Council, and lending from the New Hampshire Business Finance Authority through the Claremont Development Authority.

Public-sector work has included financing by bond through the TIF district, transportation funding from the New Hampshire Department of Transportation, two federal appropriations, and Environmental Protection Agency assessment funding. Many people are in the room, figuratively, but having multiple players has been critical. The value of the external partnerships was highlighted when, just before Monadnock Mills construction started, there was a delay in getting approval of the historic preservation tax credits through the National Park Service. The governor's office, the New Hampshire division of Economic Development, and all the Congressional offices provided valuable assistance to move the project forward.

Population Characteristics

Population

	1970	1980	1990	2000	2010
Claremont	14,221	14,557	13,902	13,151	13,355
New Hampshire	737,578	920,475	1,109,117	1,235,550	1,316,470

Decennial population percent change

	1970–1980	1980–1990	1990–2000	2000–2010
Claremont	2%	−4%	−5%	1.6%
New Hampshire	25%	20%	11%	6.5%

Source: U.S. Census

Other partners include Public Service of New Hampshire and River Valley Community College. On any given day, a company might have queries that can be addressed by such partners. The college has become increasingly important in workforce development and participates actively with local businesses to plan academic programming. The city holds all such relationships in high regard as these partnerships have evolved into mutual cooperation that supports economic growth.

A discussion of partnerships would not be complete without mention of the new Claremont Savings Bank Community Center. For 10 years, the city had been concerned about aging facilities and annual parks and recreation costs, but tight budgets were a barrier to making changes. As Claremont Savings Bank considered how to celebrate its 100th year of service, it seized on the idea of a community center. The bank ended up donating $3 million plus a parcel of land for a new building.

According to bank president and CEO Sherwood Moody, "The intention of the donation was to do something that all ages of the community could enjoy. One year after the opening of the Claremont Savings Bank Community Center, it has surpassed the original intention for both recreational enjoyment and community events."

More than $500,000 in other private donations and a $5.3 million dollar bond from the city supplemented the bank's generosity.

The Bigger Team

In municipal government, the bigger team is made up of community residents, elected policymakers, city management, and staff. When those entities share a common goal and move in the same direction, good things happen.

Some of the city's most important decisions have advanced the shared goals of adaptive reuse of existing buildings, new development, and job creation. Because Claremont's patterns of historic development were overlaid by incompatible zoning, the city sought and received a Department of Housing and Urban Development Sustainable Communities grant to rewrite the city zoning ordinance and embrace the traditional, historic development in the city center. The rewrite completed with the 2010 grant also removed regulatory barriers to private investment.

In Claremont, we accept that the results we would like to achieve won't all happen quickly but will be a result of stability over time. There remains much work ahead. Balancing resource allocation with the local property tax rate continues to be a struggle, and the tax base needs continued growth. But we are happy to see that, compared with 2001, the fund balance is up 126 percent, to $542,000, and long-term debt has dropped.

Today, neighborhood stabilization and workforce development are at the top of our agenda as we create bridges between workforce needs and available skills and provide quality workforce housing. With good infrastructure and more opportunity for both adaptive reuse and new construction, the city has a lot to build on.

Nancy Merrill *is the director of planning and development for the City of Claremont, New Hampshire. Contact her at nmerrill@claremontnh.com.*

Mobile Financial Services

Expanding Financial Access and Inclusion

Elisa Tavilla
FEDERAL RESERVE BANK OF BOSTON

Given that many unbanked and underbanked consumers have mobile phones, the technology already in their pockets may help them access safe, convenient, and affordable financial services.

For those who have bank accounts, everyday financial activities such as making purchases with a debit or credit card, having paychecks directly deposited into a checking account, or paying bills and viewing account balances online may be taken for granted. However, not all consumers have access to the same services. In fact, the Federal Deposit Insurance Corporation has found that more than one in four U.S. households are either unbanked or underbanked and conduct at least some of their financial transactions outside the mainstream banking system.[1] The rate for the Northeast, although lower than the national rate, is still 7.1 percent.[2]

Many unbanked and underbanked consumers use cash or alternative financial services (AFS) such as check cashers or nonbank money orders, which can be costly. Mobile banking could be a better option, but a 2012 Boston Fed study revealed that fewer than 10 percent of financial institutions surveyed offered mobile-banking services that targeted the needs of the underserved.[3]

But according to a Federal Reserve System Board of Governors report, the underserved make significant use of mobile phones and smartphones. Among individuals who are unbanked, 69 percent have access to a mobile phone, and approximately half of the mobile phones are smartphones. Among the underbanked, 88 percent have a mobile phone, 64 percent of which are smartphones.[4] This means that a potential platform for expanding financial access and inclusion already exists. Consumers don't need a desktop computer or a checking account to do online/mobile banking.

The underserved are a financially diverse segment with varied reasons for using AFS. Some of the most common reasons given for not having a bank account are not needing or wanting one, not having enough money, and being unable to open an account because of identity theft or problems with credit or banking history. Other reasons included dislike of dealing with banks, excessive fees and service charges, and inconvenient bank hours and locations.

More Uses, More Convenience

Mobile technology can foster financial inclusion by helping underserved consumers access safe, convenient, and affordable financial services.[5] Increased use of smartphones is encouraging more financial-services providers to offer mobile-account capabilities for the underserved. Many mobile-banking features previously available only with traditional bank accounts, such as mobile alerts, bill payment, money transfers, and remote deposit capture (RDC), are now available with bank and nonbank prepaid products, providing opportunities to expand access to mainstream financial services. Moreover, mobile technology provides the benefits of real-time, 24/7 access to financial information.

A recent Boston Fed paper analyzed 10 currently available retail payment products with mobile-banking features that can help underserved consumers.[6] The new products represent a portfolio of features and services suitable for a diverse underserved population. Prepaid products with mobile-banking capabilities remove some of the barriers encountered with traditional bank accounts, such as credit-history problems, minimum-balance requirements, and overdraft fees. Some prepaid products from banks include BB&T MoneyAccount, Chase Liquid, and Regions Now Banking Card. Nonbank prepaid products include American Express Bluebird, Banking Up UPside Card, Boost Mobile Wallet Plus, and Moven. The Fed study also reviewed two branchless mobile-checking accounts, GoBank and Simple.[7]

The new products offer traditional checking-account features, such as a network-branded debit card, ATM cash withdrawals, and FDIC insurance with mobile capabilities. Thus consumers can conduct financial transactions on their own schedule and from virtually any location. The products have mobile-banking features such as new-account enrollment, customizable alerts, bill payment, person-to-person (P2P) payments, and mobile RDC. A few products include mobile personal financial management and savings tools.

AmEx Bluebird, a reloadable prepaid account obtainable online or at Walmart, is one example. It allows customers to receive direct deposits, set up mobile alerts, pay bills electronically, deposit checks via mobile RDC, and set aside savings, among other features. Customers can access their Bluebird account via mobile web and mobile app.

Mobile Banking Features

Consumers may benefit from an overview of key mobile-banking attributes as they exist today. Many are available not just with checking accounts but with prepaid, which can benefit those without access to a traditional bank account.

- **New Account Enrollment** enables opening an account at any time from any place without being limited to branch operating hours and locations. Mobile enrollment affords more convenience to consumers who do not work traditional business hours, cannot easily access branch locations, or prefer a more digital lifestyle.

- **Alerts and Account Monitoring** let consumers track their financial activities with greater convenience and efficiency. Mobile alerts provide real-time account-activity updates, giving consumers more control over their money and potentially influencing their financial behavior. For example, low-balance alerts can motivate consumers to reduce spending or deposit money. Similarly, payments-due alerts can improve consumers' ability to pay bills on time.

- **Bill Payment** offers value, utility, and convenience by reducing cost and time spent paying bills and offering consumers more control over when and how they pay. Several products offer a virtual-check feature through mobile websites and apps as a more convenient and less expensive alternative to money orders.

- **Person-to-Person Transfer** enables consumers to send and receive money using their mobile phones. Customers access online accounts on their mobile devices to send money to an individual in the United States. Without a checking account, sending money can be expensive and burdensome. Mobile P2P offers a cost-effective and convenient alternative to money orders and money-transfer services.

- **Mobile Remote Deposit Capture (mRDC)** allows consumers to deposit paper checks electronically using the camera on their mobile phone. Compared with the effort required to travel to the bank, ATM, or check-cashing agent, mRDC affords more speed and convenience. Mobile RDC is also an attractive alternative to check-cashing services because it can eliminate fees and increase availability of funds. Several prepaid products offer mRDC without a checking account.

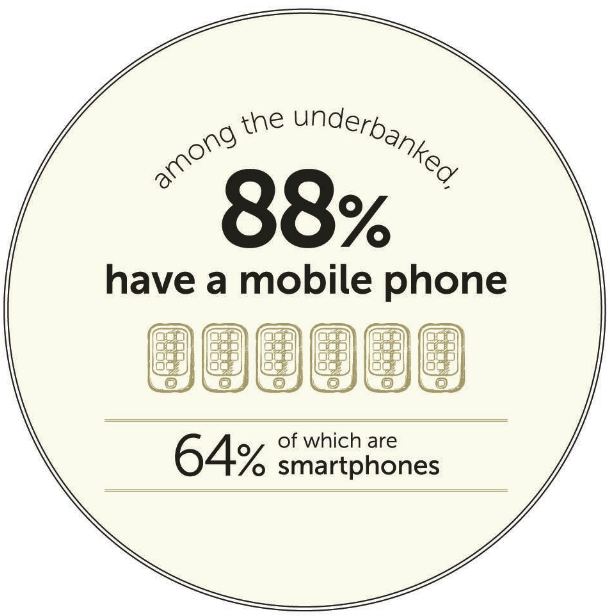
- **Personal Financial Management Tools** help consumers track and manage their money. Products offer varying levels of detail and entertainment features to help customers create budgets and better understand their spending behavior.

- **Savings Tools** can motivate people to do a better job of managing their finances. Saving can be challenging for consumers with little disposable income and limited access to mainstream accounts. Some products offer savings features with no minimum deposit or balance requirements. Although these are not separate bank accounts, the tools allow consumers to designate funds for savings and serve as a buffer against unintentional spending.

From Opportunity to Reality

Financial-service products that leverage mobile capabilities, particularly those built on prepaid products, demonstrate opportunities to help meet the financial needs of underserved consumers and provide otherwise unavailable access to the mainstream financial system. Moving from opportunity to reality will require educating consumers on how these products work and how they can improve financial well-being. Greater awareness of product availability and benefits through channels that the underserved use most may reduce consumer fears and confusion and lead to broader adoption.

Solution providers partnering with community-based nonprofit organizations that are focused on financial inclusion and financial literacy could help build awareness and promote adoption of mobile financial solutions among underserved consumers. Opportunities exist for more banks and financial-services providers in New England to leverage mobile technology and offer products that could improve underserved consumers' banking experience and expand access to safe and affordable financial services.



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Endnotes

[1] Federal Deposit Insurance Corporation, *2011 Survey of Unbanked and Underbanked Households* (September 2012), http://www.fdic.gov/householdsurvey/2012_unbankedreport.pdf. The FDIC defines *unbanked* households as households where no one has a checking or savings account and *underbanked* households as households with a checking and/or a savings account that has nevertheless used nonbank money orders, nonbank check-cashing services, nonbank remittances, payday loans, rent-to-own services, pawnshops, or refund-anticipation loans in the past 12 months. The term *underserved* refers collectively to both the unbanked and underbanked.

[2] The FDIC defines the Northeast region as Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont.

[3] Federal Reserve Bank of Boston, *2012 Mobile Banking and Payments Survey of Financial Institutions in the First District,* http://www.bostonfed.org/bankinfo/payment-strategies/publications/2013/mobile-payments-and-banking-survey-2012.htm.

[4] Board of Governors of the Federal Reserve System, *Consumers and Mobile Financial Services 2014,* http://www.federalreserve.gov/econresdata/consumers-and-mobile-financial-services-report-201403.pdf.

[5] Financial inclusion involves promoting access to and use of safe, affordable financial products and services, and educating consumers about ways to become fully integrated into the banking system. Availability of banking and payment services to the entire population without discrimination is a prime objective of financial-inclusion public policy.

[6] Federal Reserve Bank of Boston, *How Mobile Solutions Help Bridge the Gap: Moving the Underserved to Mainstream Financial Services*, http://www.bostonfed.org/bankinfo/payment-strategies/publications/2013/how-mobile-solutions-help-bridge-the-gap.pdf.

[7] Simple is not specifically designed for underserved people as it requires a checking account, but it was included in the analysis because of the potential benefits that its mobile financial features could offer the underserved.

Connections Adult Literacy
— BUILDS BRIDGES —
for New Americans

Susan Bartlett
NEW HAMPSHIRE HUMANITIES COUNCIL

English-language learners in New Hampshire are finding their way in a new culture through the world of books.

For more than 40 years, the New Hampshire Humanities Council (NHHC) has connected people with ideas and each other, inviting participation, lifelong learning, civil discourse, and public reflection. An independent, nonprofit organization, it provides over 400 free public programs annually on topics as diverse as New England town meeting, Islamic art, African American sailors, and Sherlock Holmes.

The council's mission to reach people from all walks of life, in all corners of the state, includes more than 500 adult learners in basic-education and English for Speakers of Other Languages (ESOL) classes through the adult-literacy program "Connections." A four-part book-discussion series, Connections augments the curriculums of established literacy programs by bringing content-rich children's literature with thought-provoking themes to students from around the world. New readers meet with teachers and Humanities Council–trained facilitators to learn new vocabulary, engage in lively discussions and supplementary activities, and explore the world and ideas through books.

At a recent Connections program in Manchester, ESOL students discussed the importance of voting rights in a democracy. They had just finished reading Ann Malaspina's book *Hearts on Fire: Susan B. Anthony Votes for President.*

"Voting is important because we can choose our leaders," one young woman from Ecuador said.

A woman from Iraq agreed. "Before the war, we voted, but we were forced to vote only for Saddam Hussein. They threatened you if you did not vote for him."

A young man newly arrived from Ukraine used a laptop to translate his point. "We vote to make sure tyrants do not gain control," he read.

"In Bhutan," an older man offered, "we could vote, but then we lost our right to vote. But we could vote in the refugee camp."

A woman from Vietnam nodded. "It is important to vote to choose the laws, to make sure they are fair for everyone."

Hearts on Fire, with its bold illustrations and accessible text, is a part of a Connections series highlighting the theme of liberty, the U.S. Constitution, and the Bill of Rights. The series was introduced in response to interest from adults studying for their citizenship test. Facilitated book discussions offer adult learners opportunities to articulate their thoughts while gaining exposure to the life experiences and perspectives of others. Through in-depth conversations, learners develop their vocabulary, put their learning into context, and find ways to connect to the community. One Connections participant remarked, "The conversation helps me the most. Before, I did not speak. Now I do."

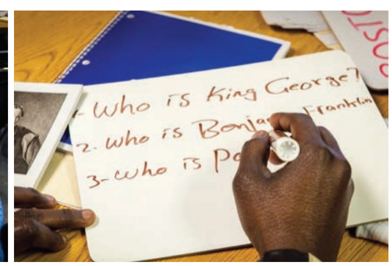
Addressing the Challenge

Connections brings 30 facilitated book discussions to adult-learning centers in 15 locations across New Hampshire annually. Although the program is similar to other adult-literacy efforts in promoting reading and conversational skills, Connections uses the power of literature instead of textbooks to stimulate discussion. Biographies, novels, short stories, and poetry connect new readers to history, ideas, culture, and themes that are relevant for those who are new to the country. Eighty percent of Connections participants are new immigrants and refugees, although the program also serves native English speakers by providing basic education, tutorials, and GED classes. Additionally, it reaches developmentally disabled adults and incarcerated parents, who participate in the Family Connections program of the New Hampshire Department of Corrections.

Connections began as a book group for adult tutorial programs through the New Hampshire State Library. The Humanities Council took the program on in the 1990s and later adopted the four-part, facilitated-discussion model developed by the Vermont Humanities Council.

"We discovered that facilitated discussions are much more effective in established classes where students meet regularly and have developed a certain level of comfort with each other," says Terry Farish, 2008–2013 Connections coordinator. "We expanded the program to meet the growing demand for literacy education among programs for new immigrants."

NHHC partner organizations find that Connections serves a vital purpose in their own programs. Suzanne Corby, director of English for New Americans, an adult-literacy program of Southern New Hampshire Services in Manchester, notes that the "curriculum and the textbooks we use are oriented toward very practical, survival English that is needed on a day-to-day basis. The Connections programs offer our students exposure to a literary world beyond what they encounter in their daily study. They offer our students a way to expand their vocabularies, think analytically and critically, share their thoughts, and experience the joys of actually reading. The most popular choices for themes are the ones that emphasize American culture and values, something they would not be readily exposed to without the Connections Program."



photos Rebecca Field of Fieldworks Photography

Facilitators work closely with teachers to select books that fit themes chosen for their relevance to adult experience. In addition to liberty, themes of families, work, journeys, and courage stimulate discussion and expand learning. Facilitators assess the needs and abilities of each group, customize discussions and activities, and encourage participants to take the risk of expressing their ideas aloud in English.

Facilitators also plan activities such as writing, drama, research, painting, and cooking to deepen understanding of the teaching materials and enhance the discussion. And students are often inspired to explore on their own. For example, after reading *Johnny Tremain*, the classic Revolutionary War tale by Esther Forbes, Manchester Adult Learning students organized a trip to Boston's Freedom Trail. Students keep their books to build their home libraries. In addition to reading with their children, many students share books with friends, coworkers, bosses, and even customers.

"I love to read. I love books," says a student who works at a bakery. "I have to share my books with everyone."

The Importance of Literacy

In the 1948 United Nations Declaration of Universal Human Rights, literacy is acknowledged as a fundamental freedom, as important to well-being as food and housing. What's different about literacy, though, is that once acquired it never diminishes. Literacy builds competence and confidence, providing the means to engage in lifelong learning. Solid literacy and communication skills facilitate self-advocacy and access to better health care. They enhance parent-child connections, open doors to community and cultural opportunities, and help lead to economic self-sufficiency.

Adult Literacy in America, by the U.S. Department of Education's National Center for Education Statistics, calls literacy the single most critical factor in personal and financial success for new immigrants as well as native adults.[1]

Supporters of the Connections program agree. "At a time when New Hampshire's population is becoming more diverse, with an influx of resettled refugees and immigrants from non-English-speaking lands, adult literacy has taken on a new importance," says Byron Champlin, program officer for Lincoln Financial Foundation.

Adds Ken Sheldon, Bank of America New Hampshire president, "Connections is another example of the [New Hampshire Humanities] Council identifying a real need, rallying partners around it, and coming up with an innovative solution. Adult literacy leads to economic empowerment, which can change lives and benefit the entire community."

And yet, according to the U.S. Department of Education's National Assessment of Adult Literacy, 50 percent of adults arriving in New Hampshire from other countries with little or no English are not yet functionally literate. The department defines functional literacy as "the knowledge and skills needed by adults, in life and at work, to use information from various texts (news stories, editorials, manuals, brochures) in various formats (including text, maps, tables, charts, forms, timetables)." It states that the literate adult should be able to "retrieve, compare, integrate, and synthesize information from texts and to make inferences."

Adults with poor literacy skills are often isolated, excluded from the social and economic life of the community, and dependent on uncertain and complex systems for support. Literacy programs like Connections can fill the void, offering adult learners meaningful connections to the wider community. While gaining the skills and confidence necessary for social and economic success, students move from isolation to engagement.

Connections inspires innovative projects that respond to community needs and trends. In 2012, the New Hampshire Humanities Council collaborated with Nepali-speaking Bhutanese participants to publish the bilingual Nepali folktale *The Story of the Pumpkin*. This publication continues to be a source of pride for New Hampshire's largest community of refugees and is used in classrooms across the state.

In other developments, Manchester Adult Learning students inspired by *Hearts on Fire* hosted their own living-history presentation, with storyteller Sally Matsen as Susan B. Anthony. Meanwhile, Connections has begun developing web-based resources for students, including a blog for submitting stories, essays, and poems. And participants can sign up to receive e-mails about Council programming.

Connections opens the world of learning to adults from many countries, enabling more engagement, more access, and more "connection."

Susan Bartlett *is the adult literacy coordinator at the New Hampshire Humanities Council, which is based in Concord. Contact her at sbartlett@nhhc.org.*

Endnote

[1] Irwin S. Kirsch, Ann Jungeblot, Lynn Jenkins, and Andrew Kolstad, *Adult Literacy in America* (Washington, DC: U.S. Department of Education National Center for Education Statistics, 2002), https://nces.ed.gov/pubs93/93275.pdf.

Online Lending:

Friend or Foe of Community Bankers?

Richard D. Olson Jr.
RANDOLPH SAVINGS BANK

As new online-lending platforms change the small-dollar lending landscape, opportunities may exist for community banks.

Community banks have long been the go-to source for small-dollar loans.[1] Because they frequently interact with local borrowers, they develop a good sense of which loans are good risks. Close ties to borrowers allow them to issue small loans with a high degree of confidence that they will be paid back.

Unfortunately, smaller loans are more costly for banks to originate and service than larger loans because they require the same resources to approve as more-remunerative loans. As a result, many community banks have moved upmarket. Meanwhile, large institutions use credit card products to provide credit to borrowers looking for loans of less than $100,000. But they don't provide education on the proper use of credit, and borrowers often learn the hard way that attractively low minimum payments may keep them from reducing the actual debt.

Today, there's a shift as new players enter the lending arena through the Internet. Online credit platforms are disrupting the market, issuing increasingly greater volumes of small consumer and business loans. Online lenders offer a streamlined application process, expeditious decisions, and quick disbursal of funds. What's more, customers have proved willing to pay higher interest rates for online speed and convenience. New players often complete the loan process in four human interactions, compared with up to 14 at traditional banks. The automated decision making screens out inappropriate applications, and the automated closing and funding process reduces costs to close and store loan notes.

Companies such as Prosper and Lending Club led the way with peer-to-peer lending, which used credit platform technologies to provide personal loans to individuals. Nowadays, small business owners have easier access to credit from platforms meant for them—for example, OnDeck Capital, Endurance Lending Network, IOU Central, Fundation, QuarterSpot, and CapTap.

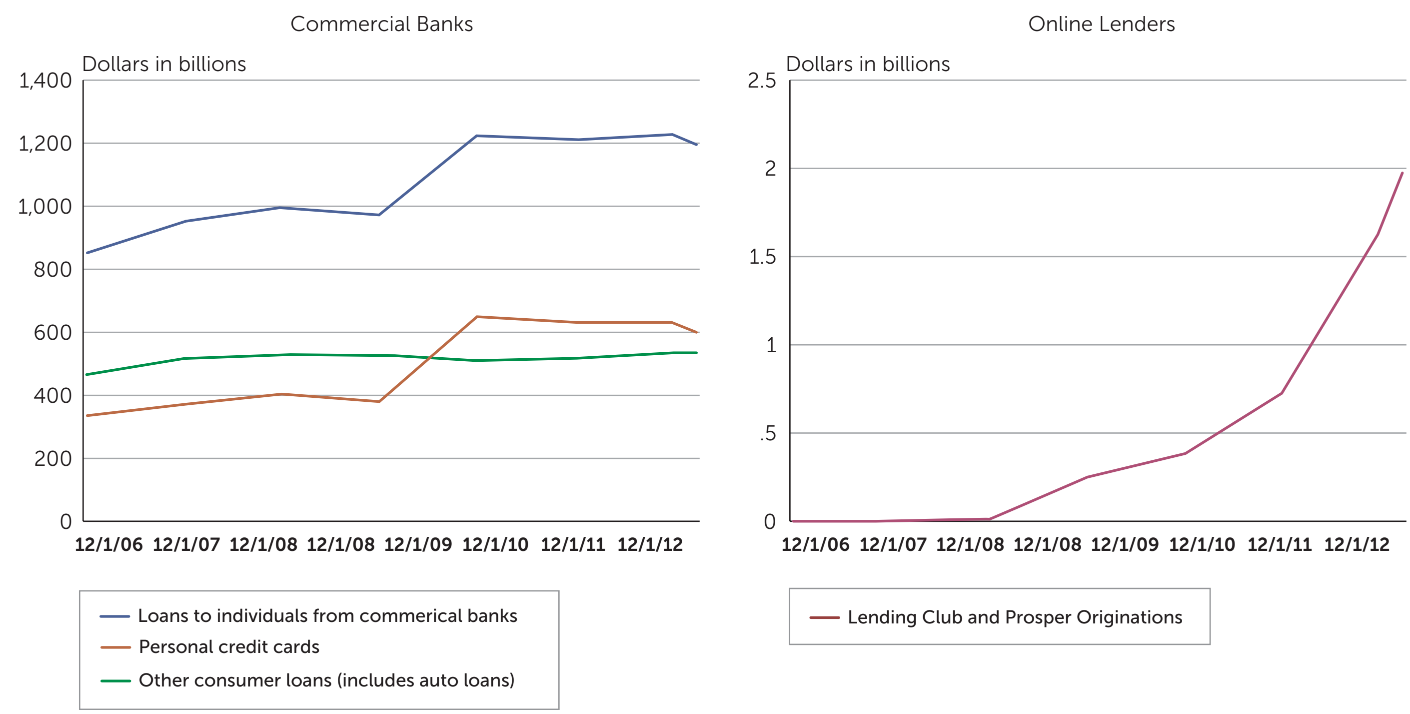
Market Growth

One of the most striking aspects of online lending is how rapidly it has grown. Kabbage, an online lender launched in May 2011, grew by 298 percent from 2012 to 2013. Lending Club, which originated $1.18 billion from 2007 to 2012, expects to originate an additional $4 billion in 2014 alone. OnDeck Capital is growing more than 100 percent annually. A comparison of the growth of Prosper's and Lending Club's originations with the growth of commercial bank loans to individuals during the same period is striking. (See "Consumer Lending by Commercial Banks and Online Lenders.")

The Federal Reserve Bank of New York's 2013 Small Business Credit Survey shows a market demand for credit products of less than $100,000. Fifty-one percent of respondents sought a loan of under $100,000.

As of March 31, 2013, FDIC-insured depository institutions

Consumer Lending by Commerical Banks and Online Lenders



Source: http://www.prosper.com/prospectus/ and https://www.lendingclub.com/info/prospectus.action.

listed a cumulative total of $285 billion in commercial and industrial small-business loans of under $1 million, with 43 percent of the volume for amounts less than $100,000. Eighty-three percent of those loans are held by commercial banks. Of those, four out of five are held by institutions with more than $1 billion in assets.[2]

As large traditional banks have fed a need for personal loans and business loans by offering credit cards without credit education, consumers have racked up large balances. Now many are seeking out companies like Lending Club to refinance credit card debt. Credit card balances at FDIC depository institutions totaled $660 billion as of March 31, 2013, an 86 percent increase over the first quarter of 2007.[3]

Cost Comparison

Online lending has both advantages and disadvantages when it comes to costs. Lender operating costs, including underwriting, are much lower than at traditional financial institutions. Online lenders do not have to maintain brick-and-mortar branches, and many employ high levels of automation for applicant screening.

Even though online lenders have lower costs, it is generally more expensive for borrowers to obtain credit through online platforms. That is largely because online lenders use broad, risk-based pricing models, which result in only the most creditworthy borrowers obtaining rates that are better than what they could get at a traditional bank. The average interest rate is 16.97 percent at Lending Club and 19.31 percent at Prosper, with the difference likely attributable to the different risk profiles of their customers.[4] It's worth noting, however, that the rates do not take into account origination fees, which would make the annual percentage rates slightly higher.

Regulatory Environment

The regulatory environment for online lending is still evolving. There's some lack of clarity as to which regulator should oversee it. The Securities and Exchange Commission provides oversight on the investor side, while state-level bank regulators govern online lenders in the states in which they do business. There may also be oversight by the FDIC or the Federal Reserve if online lenders have partnerships with banks. In addition, the Consumer Financial Protection Bureau has announced plans to provide oversight and regulation in the near future.[5] Bankers who were interviewed for this article cited lack of regulatory clarity as a barrier to their participation in online lending.

Lower-Income Borrowers

The growth of online lending could have positive implications for low- and moderate-income (LMI) borrowers, especially as traditional banks enter the arena. Recent research shows that lower income tends to be associated with lower credit scores.[6] As online algorithms develop further, nontraditional criteria can be incorporated to provide a better prediction of a customer's ability to pay.

The major benefit of online lending for LMI borrowers is that it dramatically reduces service costs. As traditional banks become more involved in online lending, the overall cost of funds will decline. Those two factors should increase available credit and bring down costs for both lenders and borrowers.

Currently, many lower-income individuals turn to payday loans or pawnshops for loans, sources that generally carry high fees and interest rates. Payday loans are particularly notorious for trapping customers in repeated borrowing cycles with fees that end up equaling triple-digit implied annual percentage rates. In contrast, online loans offer longer terms and lower costs, relatively speaking. Moreover, because of the various constituencies they serve, online loans are transparent in disclosing their costs, and their speed and convenience competes with high-cost alternatives.

In another development that could benefit low-income borrowers, some online lenders have expressed interest in partnering with community development financial institutions to expand credit access to underserved individuals and small businesses.

Options for Bank Involvement

Common sentiment among community banks is that small loans are no longer cost effective. But that is not always true. Small loans are not cost effective for community banks under their current origination methodology, but banks may be able to overcome that drawback by forming partnerships with online lenders. There are several ways a bank could do so:

- **Referrals** – Community banks could refer to an online lender loans that fall outside their underwriting criteria. Such referrals would allow banks to continue their customer relationships while gaining fee income.

- **Onsite kiosks** – Community banks could invite online lenders to set up in-branch kiosks. Borrowers who don't fit the bank's criteria would simply be referred to the kiosk.

- **Investment** – Community banks could invest in pools of loans or provide capital to online lenders.[7]

- **Loan purchases** – Community banks could purchase loans directly from an online lender, then pay the online lender a servicing fee.

- **White-label partnerships** – An online lender could be asked to *white label* its technology platform in the name of a partner community bank.[8] The online lender would originate and service the loans, while the bank would purchase any loan that meets its criteria.

- **Software licensing** – Community banks could license the underwriting technology and incorporate it into their systems.

Some such partnerships are already evident in the marketplace. Lending Club, for instance, has entered into partnerships with two community banks, Titan Bank in Texas and Congressional Bank in Greater Washington, DC.[9] Both banks are acting as investors, purchasing loans originated by Lending Club. In addition, Titan Bank is planning to use the Lending Club platform to service loans. The former tactic gives the banks an outlet for their capital, the latter a means of underwriting loans that would be too costly otherwise.

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Online credit platforms are disrupting traditional lending markets in ways that have the potential to transform the lending business. They have removed costs from origination and servicing, while bringing enhanced data-gathering techniques to underwriting. In the absence of a lot of regulation, a disjointed market has evolved that allows many different models to be explored.

Community banks have choices to stay competitive. They may add efficiency to their current processes or integrate an online credit platform into their operations. Banks should tread slowly in the online market, however, first perfecting their underwriting methodology, then expanding to serve a broader customer base.

The biggest benefit of having banks in the online lending arena is that they can access lower-cost capital and bring down the overall cost of borrowing.

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Acknowledgment

The author is grateful to Sam Beckwith for his invaluable research.

Endnotes

1 Typically loans under $100,000 to businesses and under $10,000 to individuals.

2 Total commercial and industrial small business loans of $1 million or less to U.S. addresses, according to the FDIC Statistics on Depository Institutions.

3 Credit card loans made by all depository institutions.

4 See https://www.lendingclub.com/info/demand-and-credit-profile.action and http://www.prosper.com/Downloads/Legal/Prosper_Prospectus_2013-09-06.pdf.

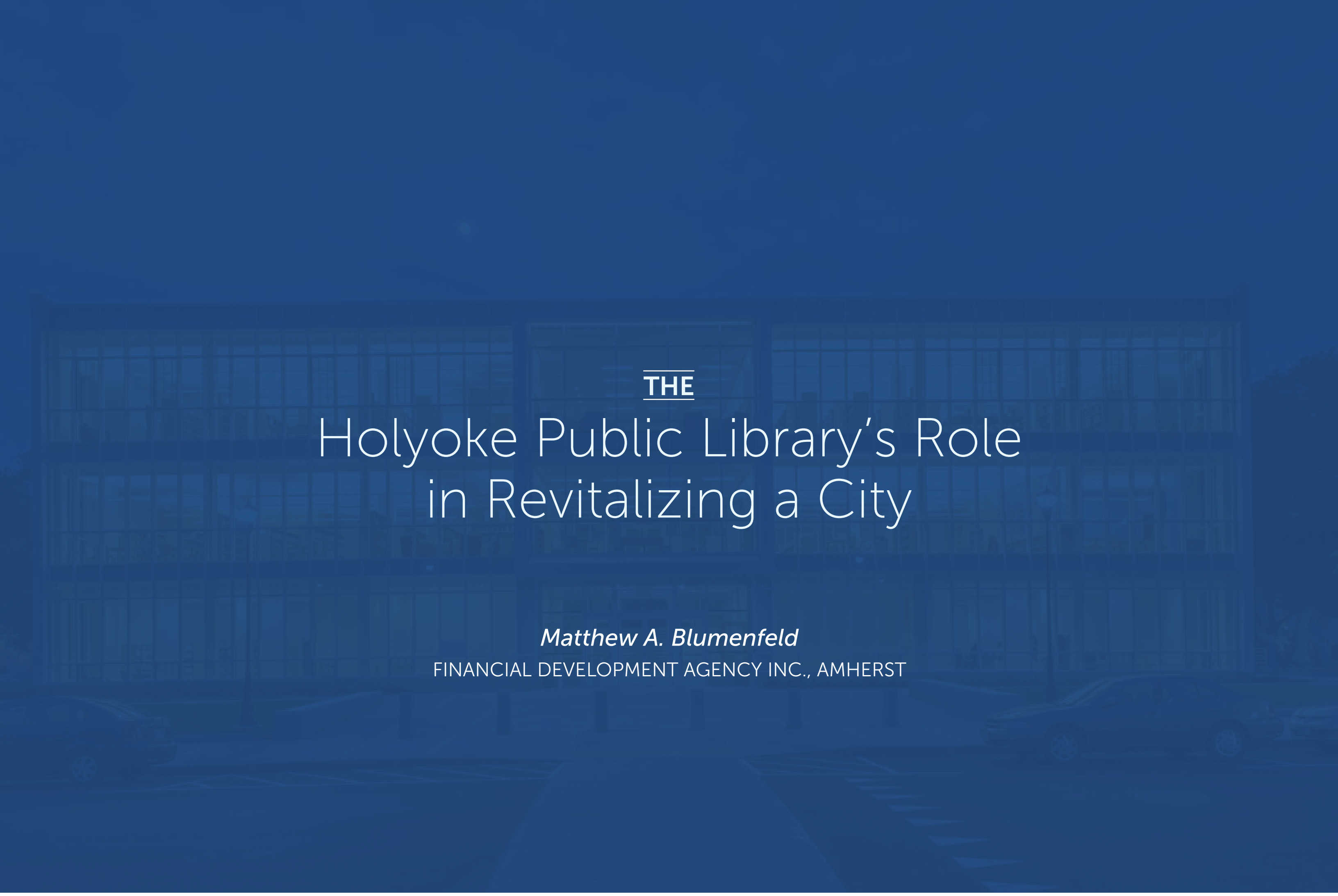
5 The Utah Department of Financial Institutions is a major regulator of platforms that use WebBank to originate loans.

6 Fumiko Hayashi and Joanna Stavins, "Effects of Credit Scores on Consumer Payment Choice" (Federal Reserve Bank of Boston public policy discussion paper no. 12-1, 2012), http://www.bostonfed.org/economic/ppdp/2012/ppdp1201.pdf.

7 Large, diversified portfolios tend to have high yields. So far no Lending Club investor who has purchased 800 or more notes has suffered a loss, and more than 94 percent gain 6 percent to 18 percent or more. See http://www.lendingclub.com/public/diversification.action.

8 White-label products are products that are manufactured by one company and sold by a company that puts its own brand and model number on the product.

9 See https://www.lendingclub.com/public/lending-club-press-2013-06-20.action.



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Holyoke Public Library's Role in Revitalizing a City

Matthew A. Blumenfeld
FINANCIAL DEVELOPMENT AGENCY INC., AMHERST

photos Finegold Alexander Architects

An initiative combining traditional fund-raising and financing with innovative sources of capital to expand the Holyoke Public Library may provide useful ideas for similar cities.

For Holyoke, Massachusetts, a city that has endured many challenges over recent decades, the successful renovation and expansion of the Holyoke Public Library (HPL) has been a welcome shot of adrenaline. The vision for the library is now fully realized, thanks in large part to a skillful blending of different financing approaches.

Addressing the Challenge

Since the beginning of the Internet era, public libraries have been called upon to provide new services to their communities while maintaining traditional ones. In addition to offering reading rooms and lending out materials, they often serve as technology centers, allies in early childhood and supplemental education, and small-business and workforce-development centers. A new or modernized and expanded library facility can play a significant role in a community's revitalization, attracting residents and businesses and helping to improve the educational system.[1]

In Holyoke, a dedicated team of volunteers, staff, and municipal leaders employed a flexible strategy to secure both traditional funding streams (municipal bonding, grants, private fund-raising) and innovative ones (New Markets Tax Credits).[2] Included was a construction grant from the Massachusetts Board of Library Commissioners (MBLC), which has helped to build or renovate more than 175 library buildings since 1987.[3]

To get started, the Holyoke Library, an independent 501(c)(3) organization, launched a comprehensive needs-assessment and planning process. The 25,000-square-foot building was old. Constructed in 1903, it had begun to see the effects of age, water damage, and general wear and tear. In 2004, the entire children's room had to be moved from the lower level. The library's large local-history collection had to be transferred to Holyoke Community College. By 2009, only 10,000 square feet were available to the public. In addition, portions of the building's limestone façade were falling off, and safety fences had to be constructed around the perimeter.

Meanwhile, the city itself had been dealing with harsh social, educational, and economic circumstances for years. It is not a wealthy city. U.S. Census Bureau data show Holyoke's median household income as $33,915, which is half the Massachusetts average and the state's second lowest; 31 percent of the population live below the poverty level. Over the last 30 years, while total population has remained relatively stable, Holyoke's Hispanic population has seen a 170 percent increase. Currently, the city is approximately 48.4 percent Hispanic, and 51 percent of those residents live at or below the poverty line. Dropout rates, unemployment, and teen-pregnancy rates remain among New England's highest.[4]

Despite such challenges, many in the city have a positive attitude about the future. The 2007 Gateway Cities Initiative and the Compact for Community and Economic Development have helped by creating a context in which Holyoke could begin to envision enhanced workforce-training opportunities, a revitalized urban core, and vibrant housing and commercial stock.[5]

Education is another key factor in revitalization, starting with the ability to read. Before the library renovation, Terry Plum, HPL's board president, worried that services such as the summer reading program for children were stunted by the poor quality of the facility. And Maria Pagan, HPL's director (the only Latina library director in the Commonwealth), pointed out, "If a child reads just 10 books over the summer, she or he is much more likely to return to school in the fall at the same reading level as in June." Today Holyoke is feeling more confident that reading can flourish in the city.

Putting Funding Together

HPL applied to MBLC for a construction grant in 2005. The request was wait-listed until 2010, at which time the library received a $4.4 million grant, conditional upon obtaining full project funding ($14.5 million) within a year.

After hiring outside counsel to conduct a fund-raising feasibility study, the library's board projected that costs would be covered by the $4.4 million state grant, a $2.5 million capital campaign, $7.1 million in municipal bonding, and a $0.5 million contribution from the HPL endowment fund. The board was hesitant to tap into the endowment but believed that it was critical to use it to leverage the bonding from the city. At the same time, the library's advisers began to develop a contingency plan to access New Markets Tax Credits (NMTC) to fill a potential gap. NMTC had never been used on a stand-alone library project in New England but seemed to be ideal for a one located in the center of four of the poorest census tracts in Massachusetts.

The NMTC contingency plan suddenly grew in importance when the cash-strapped city was able to commit only $5.5 million in bonding support, not $7.1 million. Another reason to tap NMTC was that the city was requiring the library to guarantee any budgetary shortfall from the endowment.

All parties involved believed that the intent of NMTC program to create new markets in underserved areas applied to the library's situation, but marrying a NMTC structure to the project was not easy. The assembled experts worked tirelessly to create the appropriate structure and to clear all the regulatory hurdles. Throughout much of 2011, while the final design was shaping up and the bid package was being prepared, the team worked to secure a full project allocation of NMTC from Massachusetts Housing Investment Corporation (MHIC)—and to structure a complex transaction involving city and state procurement regulations, a pledge of most of the endowment to back the deal, and private funding sources.

Ultimately, the city was able to act as the leverage lender. It used proceeds from its bond sale, short-term borrowing backed by the endowment, and the MBLC grant and capital campaign proceeds to provide the loan that attracted U.S. Bancorp Community Development Corporation to become the equity investor in the tax credits.

The Aftermath

With full project funding achieved upon the closing of the NMTC deal, renovation and construction proceeded smoothly, and the library was completed in fall 2013. The city was able to see its commitment stay within its constraints, the library's endowment was sustained at previous levels, and the building was transformed into one of the most beautiful and functional libraries in the state.

The library has already seen usage rise dramatically. Most promising is the level of activity for children and young adults. Children's programs that used to attract 20 to 30 attendees now frequently see 70 to 80 children and caregivers. Family games nights, cultural programs, and community meetings are filling meeting spaces at unprecedented levels. As of this writing, it seems likely that the library will meet its projections for doubling usage to more than 200,000 visits per year within the first full year of operation, and computer usage has already tripled. New programs are being put in place tying Holyoke's Adult Basic Education system and its entrepreneurial and workforce-development efforts to HPL. The library is reestablishing itself as Holyoke's "People's College."[6]

construction photos Sandy Ward

Just as important, the project has inspired property owners in adjacent parcels to renovate and rehabilitate their buildings. A multistory residential building across the street from the library has been taken off of the condemned list and is being restored for residential use. Several empty lots are being prepared for new construction. The nearby Masonic Lodge is about to undergo a facelift. Meanwhile, the library has secured grant funding to rehabilitate Library Park to make it more attractive to children and families. And the library is on track to receive LEED (Leadership in Energy and Environmental Design) gold certification by late 2015.

Innovation, risk taking, entrepreneurship, and creative financing are not terms typically associated with public libraries, but HPL has earned them. The expanded social payback that Holyoke is experiencing thanks to HPL's leadership may inspire others in Gateway Cities to employ mechanisms like New Markets Tax Credits to develop their own 21st century learning centers.

Matthew A. Blumenfeld *is the president of Financial Development Agency Inc. in Amherst, Massachusetts. He was hired by the library team to help with campaign management. Contact him at matthew@financialdevelopmentagency.com.*

Endnotes

1 See Carlos A. Manjarrez, Jessica Cigna, and Beata Bajaj, "Making Cities Stronger: Public Library Contributions to Local Economic Development" (report, Urban Institute, Washington, DC, January 2007), http://www.urban.org/publications/1001075.html.

2 The New Markets Tax Credit Program was established by Congress in 2000 to spur new or increased investments in operating businesses and real estate projects located in low-income communities. It attracts investment capital by permitting individual and corporate investors to receive a tax credit against their federal income tax return in exchange for making equity investments in specialized financial institutions called Community Development Entities.

3 See Massachusetts Board of Library Commissioners Construction Program, http://mblc.state.ma.us/grants/construction.

4 See http://quickfacts.census.gov/qfd/states/25/2530840.html.

5 See Mark Muro et al., "Reconnecting Massachusetts Gateway Cities: Lessons Learned and an Agenda for Renewal" (report, MassInc., February 2007).

6 For instance, HPL is a lead partner in Holyoke's successful Working Cities Challenge Grant application (involving Holyoke S.P.A.R.K. Stimulating Potential, Accessing Resource Knowledge) to help link the Latino population with the city's innovation economy.

Harbor Place

Supportive Housing in Vermont

Brenda Torpy
CHAMPLAIN HOUSING TRUST

Where there are good community relations, residents often embrace supportive housing for the homeless.

Champlain Housing Trust has long been known for good, affordable housing in Vermont. But by the time a strategic-planning retreat was organized in winter 2013, there was a growing realization among staff members that housing is not enough. As the small groups reported out, a theme emerged loud and clear: essentially, "We need to do more for those whose lives are most precarious."

Champlain's staff comprises 85 people, most of whom are on the front lines every day—taking 140 applications a month when only 10 can be accepted, helping applicants and housing residents to access emergency services for food and utilities, staving off foreclosure or eviction, and working through clients' credit problems. They know when more than housing is needed.

Although Vermont did not have a real estate crash in 2008, its economy felt the aftershocks, and people at the lowest end of the economic ladder lost jobs, benefits, and hours of work while the bills continued to come in—or rise. Rents went up by 40 percent at the same time that fewer people found they could move from renting to homeownership. Gas and oil prices soared. Once the federal Section 8 rent subsidies were slashed by 800—a huge hit for a small state—everyone knew that something had to change. The board agreed: the next three years would be dedicated to addressing rising homelessness through new measures of prevention, service, and support.

Overflowing Shelters

The first call to action came quickly and in an unexpected way. In spring 2013, the Vermont media widely reported—and legislators hotly debated—the need for a 50 percent increase in state expenditures over the previous winter to cover motel stays for eligible homeless individuals and families on cold nights when shelters were full.

Members of the public had been largely unaware that a "cottage industry" had grown up as a result of increased and chronic homelessness, and they were concerned. Others saw the motel-voucher system as ripe for abuse, imagining taxpayer-funded "staycations." The truth was less colorful but equally discouraging. The motels participating in the program were often in rough economic straits themselves. They were magnets for illicit activities and unsafe for the many children housed in them. Because motel placements were strictly an emergency measure, the state had no data on outcomes and no systematic path to provide the homeless with more-permanent housing and services.

As the controversy raged, the state government sought to limit the use of motels by tightening up eligibility, a necessary measure but one that elicited a new wave of criticism that rendering people ineligible for assistance would ultimately be more costly.

In light of the growing need, Champlain Housing Trust decided to get into the motel business. Four months after the staff retreat, the nonprofit was drafting a contract to purchase an Econolodge on Route 7, just South of Burlington, to supplement overflowing shelters by offering emergency housing and services.

We knew the new facility, which we named Harbor Place, had to be up and running before the next winter. After pricing the 59-

room property, Chief Operating and Financial Officer Michael Monte and the trust's developer, Amy Demetrowitz, set about crafting acquisition and operating scenarios that would enable us to provide shelter with services at the site.

We had primary financing from the Vermont Community Loan Fund, grants from Fletcher Allen Health Care, the Fanny Allen Foundation, United Way of Chittenden County, and the Vermont Housing and Conservation Board. And with commitments from the state, the local community mental health agency, and the Fletcher Allen Health Care hospital to refer people who needed housing, we projected a per night rate that was 23 percent lower than what the state had paid to house homeless people. We also established memoranda of understanding with service providers to ensure that counselors would be on site daily. We wanted those who received a voucher to get connected promptly with a service as part of their emergency housing.

The Econolodge had a sizeable main building, which we fitted up for the services and our on-site managers. The trust interviewed motel staff and hired half of them to supplement the property-management team for round-the-clock coverage, janitorial help, and repairs. The sellers wanted to keep operating through the foliage season, so we had only five days from acquisition to our first night as a shelter, November 1, 2013.

Government and Neighbors Turn on a Dime

The Harbor Place initiative represented a major mobilization from many departments. State government agreed early on to make it work, but it was difficult for state Human Services staff to shift their programs around fast to commit funds in a very different way. For example, instead of waiting for shelter overflows on cold nights to issue vouchers to any available motel on their list, they had to commit in advance to cover a percentage of nights at our site throughout the year so that we could service debt. They also had to agree to let us reject people for behavioral issues.

Fortunately, the projected savings and the ability to track outcomes won the day, and Champlain Housing Trust and its champions within Human Services were able to surmount every hurdle to gain the necessary approvals.

The next big concern was ensuring community support. We were already under construction in Shelburne, where the motel was located, on a different project, a multipartner development of 82 affordable homes (including 42 family apartments and two duplexes built by Habitat for Humanity) as well as 36 affordable apartments for seniors and extensive open-land conservation.

As was our practice, we had planned that site with lots of community input and had engaged local churches and service groups. Shelburne was a town that really came through for affordable housing. But our new venture was a completely different kind of effort, and by agreement with the seller, we could not have a big public process to build support. The existing zoning covered our planned use so there was no planning process either.

Fortunately, town manager Paul Bohn was not just a very public advocate of affordable housing, he was chair of Champlain Housing Trust's board. He suggested that we speak to the police chief. Previously, the property had been such a notorious source of illegal activity that we had only to convince the police that we would manage it to be safe and peaceful, which we would have done for the residents anyway.

We believed that our good track record and our management plan would ensure that we would improve the safety and quality of the site and that that our improvements would be welcomed by community residents. We were nevertheless bowled over by their enthusiastic generosity and sense of obligation to help to the people staying at Harbor Place.

From opening day onward, we have been inundated with offers of food, clothes, volunteer services, holiday gifts for the children, and requests for lists of useful items. We have found a volunteer to coordinate all these supplies, and now we always have easy-to-prepare food, bus passes, and baby supplies at the site. In spring 2014, we had a volunteer day to paint and plant, and we are raising money for a play structure because there are always children at Harbor Place. In fact, 15 celebrated Christmas 2013 with us.

Harbor Place guests are moving into permanent housing at five times the rate of those placed at other motels. Through Champlain Housing Trust's credit-repair initiative, Ready-Set-Rent, those with purely economic barriers can be moved into apartments. Most of the residents have additional needs, and those are being addressed through caseworkers, who continue to work with them to support a successful move to permanent housing.

None of us could have predicted how cold and long the 2013–2014 winter would be. Harbor Place was full, and the funding plan worked. But we will not repeat exactly the same program. Being on site to track people's issues and place them in the hands of caring providers has opened a window on housing and shelter needs that have to be addressed.

By winter 2014–2015, we will have retooled Harbor Place with the new partners who will help us do so. The units with kitchens will be available for transitional rather than just emergency use, and families—especially those fleeing domestic abuse—may opt to stay longer and move after their permanent situation is resolved. A low-barrier shelter located most likely in Burlington will relieve a lot of the emergency use of motels, and additional permanent housing with health services should alleviate recurring emergency room use at the hospital. We also hope to have added a new rung of permanent housing for those in the greatest need, and other shelters at other locations.

Brenda Torpy *is the chief executive officer of the Champlain Housing Trust. She is based in Burlington, Vermont. Contact her at btorpy@champlainhousingtrust.org.*

Mapping New England

Pressure on the Working-Age Population, by County

Ana Patricia Muñoz
FEDERAL RESERVE BANK OF BOSTON

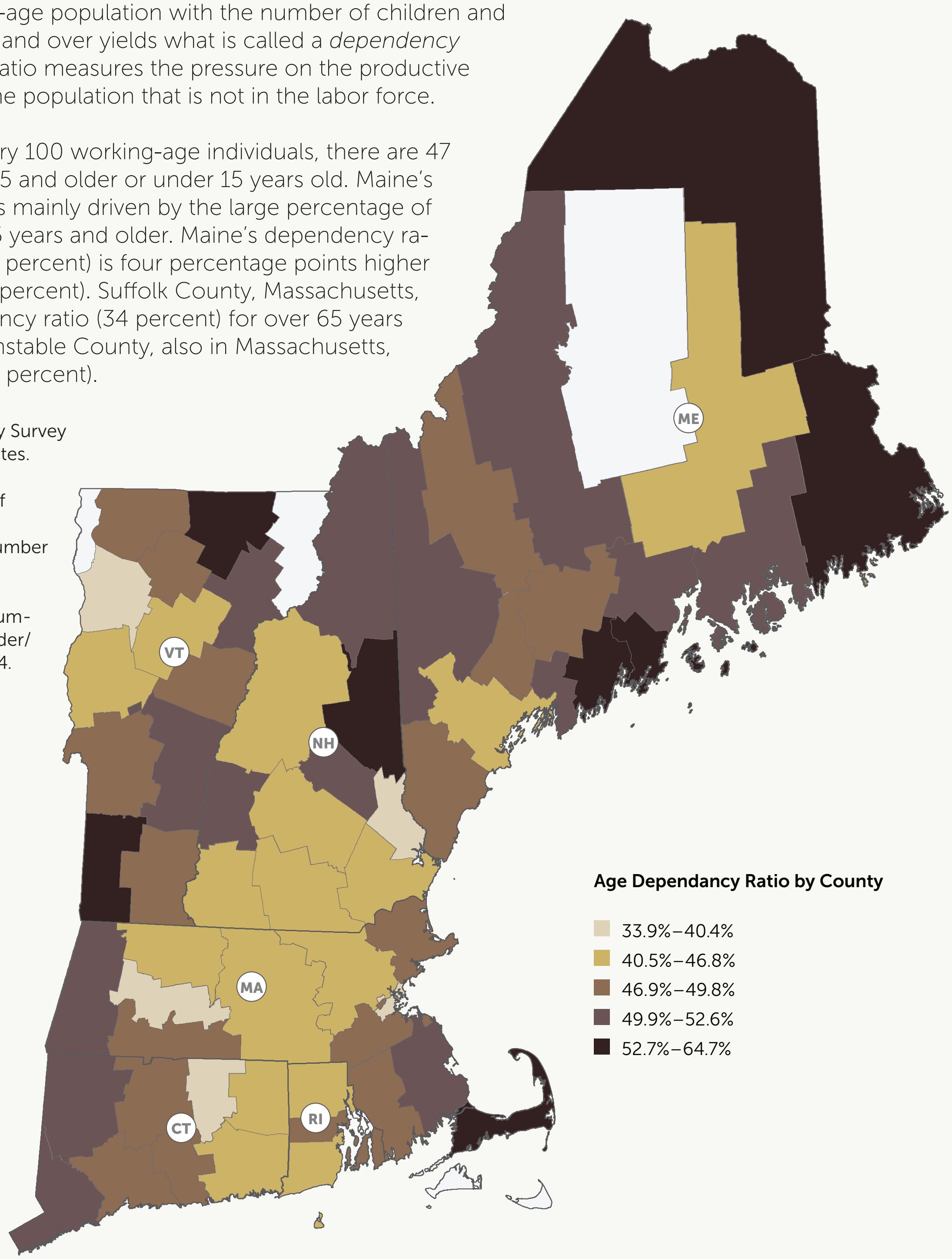
Comparing the working-age population with the number of children and the population 65 years and over yields what is called a *dependency ratio*. The dependency ratio measures the pressure on the productive population to support the population that is not in the labor force.

In New England, for every 100 working-age individuals, there are 47 people who are either 65 and older or under 15 years old. Maine's high dependency ratio is mainly driven by the large percentage of the population that is 65 years and older. Maine's dependency ratio for old age alone (25 percent) is four percentage points higher than New England's (21 percent). Suffolk County, Massachusetts, has the lowest dependency ratio (34 percent) for over 65 years and under 15 years. Barnstable County, also in Massachusetts, has the highest ratio (65 percent).

Source: American Community Survey 2010–2012 three-year estimates.

Dependency ratio: (number of people under 15 + number of people 65 years and older)/number of people aged 15–64.

Old-age dependency ratio: number of people 65 years and older/number of people aged 15–64.



Is Small Business Lending Valuable to Banks?

Joe Peek
FEDERAL RESERVE BANK OF BOSTON

New evidence suggests that small business lending is a profitable market niche for small and possibly midsize publicly traded banking organizations in the United States.

The consolidation of individual U.S. bank charters has resulted in both a shrinkage in the number of banks and an increase in their average size. (See "Number and Average Size of U.S. Commercial Banks.") A well-known concern is the effect on the availability of credit to small and midsize enterprises (SMEs) that, being too small to efficiently access national credit markets directly, rely on financial intermediaries, especially banks. A less well-known concern is the potential adverse effect on the shareholders of the surviving banking organization.

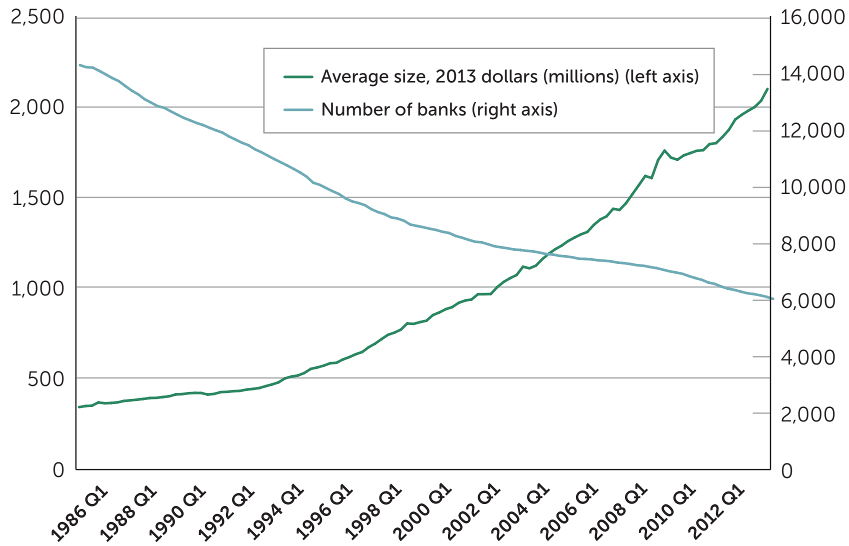
Given the inverse relationship between bank size and the portfolio share of small business loans, the ongoing consolidation in the banking industry will tend to shrink the share of small business loans in the portfolio of surviving entities. (See "Average Portfolio Shares by Bank Size.") But in addition to possibly impairing credit availability to SMEs, consolidation may destroy value for shareholders because the relationship-lending expertise of the smaller banks may be deemphasized.

Benefits of Relationship Lending

Much of the literature on relationship lending focuses on the fact that smaller companies are opaque compared with large businesses that provide information in public filings and are often covered by securities analysts.

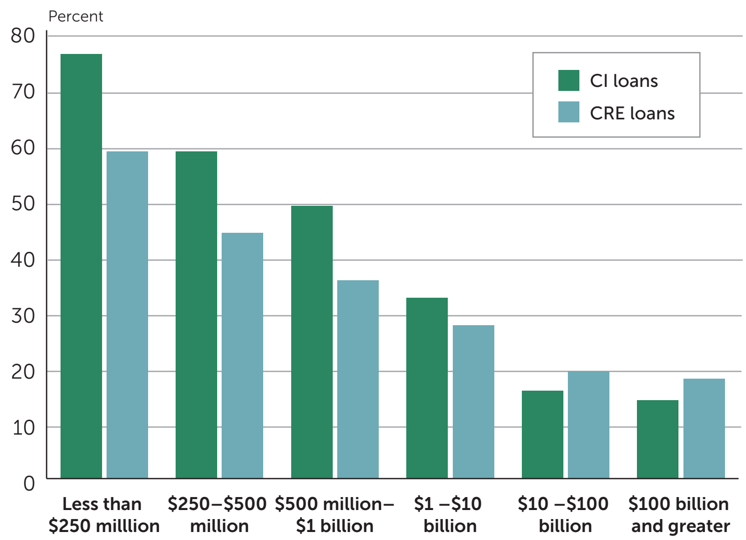
Small businesses may have little or no collateral and, in many cases, may be too young to have sufficient history from which to extrapolate future performance. Because of their size and the absence

Number and Average Size of U.S. Commercial Banks



Source: Bank-level call reports (the Federal Financial Institutions Examination Council Consolidated Reports of Condition and Income).

Average Portfolio Shares by Bank Size



Source: Bank-level call reports (the Federal Financial Institutions Examination Council Consolidated Reports of Condition and Income).

of substantial public information about their quality, such companies have virtually no access to funds from commercial paper, bonds, publicly traded equity, and the like. They tend to be dependent on banks. However, since banks are not well informed about the companies' credit risk, they must take the time to acquire and process information, and subsequently monitor the enterprises' activities.

Previous studies have established that long-term lending relationships between banks and businesses are valuable to small firms in terms of increased credit availability and protection against adverse credit shocks.[1] Relationship lenders, in turn, may extract benefits for themselves, not only covering the additional costs associated with establishing and maintaining the relationships, but adding value in three ways.

First, relationship lending, unlike transactional lending, lets a bank make use of the private information it acquires.[2] Second, it can give the bank opportunities to cross-sell products such as core deposit services and investment-banking services to its relationship borrowers. Finally, it can provide future business opportunities as the companies expand in size and scope.

A relationship bank has an opportunity to gain benefits from the businesses just by knowing more about them and exploiting the proprietary (and superior) information acquired through repeated interactions. The business has an incentive to remain with the relationship bank because, although the bank may charge an interest rate that is higher than justified by the level of credit risk, the rate will be lower than the interest rate that less well-informed lenders would charge.

In contrast, other bank lending is usually transactional in nature. Many banks lend to small businesses using credit-scoring models rather than private, qualitative information. Credit scoring applies statistical methods to quantifiable data, summarizing borrower characteristics to produce a score that can be used to evaluate the likelihood of repayment. Other transactions-based lending technologies, such as fixed-asset lending, are also unlikely to benefit from bank-firm relationships.

The costly information-collection and processing activities required for relationship lending partly offset the benefits. Given the expense associated with screening and monitoring small, opaque companies, the money earned by a relationship bank could simply be compensation for its information-gathering efforts and not represent a gain. However, it is also possible that what is earned from the bank's informational power will actually add value.[3] And the data do suggest that small business lending, at least by smaller banks, is value enhancing to the banks.

The increased competition among lenders in recent years of bank consolidation and technological advances, including the increased use of credit-scoring models, may be reducing the profitability of relationship lending. In fact, a number of studies have documented a rise in the use of credit scoring for small business lending even among small and midsize banks. Still, it can be argued that a focus on relationship lending by well-managed community banks remains an economically viable strategy.[4]

New Evidence

A recent Federal Reserve Bank of Boston working paper uses data from the small business loan survey contained in the June bank-level call reports (the Federal Financial Institutions Examination Council Consolidated Reports of Condition and Income) to estimate the relationship between the book value and market value of banks' small business loan portfolios.[5] The key hypothesis tested in the study is that relationship lending in the form of small business loans held by banking organizations is value enhancing to banks, both in absolute terms and relative to the large loans held by the same banking organizations. Because the analysis is based on market values, the sample is limited to publicly traded U.S. banking organizations.

To capture the effect of bank-firm relationships on bank value, the researchers focused on commercial and industrial loans (CI) to U.S. addresses in domestic offices and commercial real estate loans (CRE) secured by nonfarm, nonresidential properties in domestic offices. The Small Business Lending Survey provides information on loans with original balances of $1 million or less, further disaggregated into less than or equal to $100,000, $100,000 through $250,000, and $250,000 through $1 million. Unfortunately, the survey is based on loan size rather than company size and does not completely capture loans to small businesses.

Focus on relationship lending by well-managed community banks remains an economically viable strategy.

The researchers found that small CI loans do add market value to small and midsize banking organizations. This suggests that at least for those banks, the added revenue associated with relationship lending exceeds the added costs of evaluating and monitoring small business loans. The estimated effect may also include the value emanating from the opportunity to profit from other lines of business with the borrowers. Furthermore, the value-enhancing effect for the smallest banks appears to arise primarily from the smallest size category of CI loans—those with original amounts of $100,000 or less. Such loans likely represent the loans made to small, opaque firms, which give banks the most ability to leverage the power of better information.

In contrast, small CRE loans do not appear to enhance the market value of banking organizations beyond that from CRE loans generally, even for the smallest banks. One explanation is that CRE loans represent transactional rather than relationship lending and, being based on collateral rather than superior private information about borrowers, make the advantages arising from information-intensive relationship lending less important.

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The new evidence suggests that small business lending is a profitable market niche for small and possibly midsize publicly traded banking organizations in the United States. The evidence is consistent with the banks having a comparative advantage in originating and monitoring small business loans, compared with larger banking organizations. Consequently, consolidation of the banking industry—insofar as it takes the form of the acquisition of smaller banking organizations by larger banking organizations that are less focused on small business lending—may be value destroying and thus not in the interests of the shareholders of the acquiring banking organizations.

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Acknowledgments

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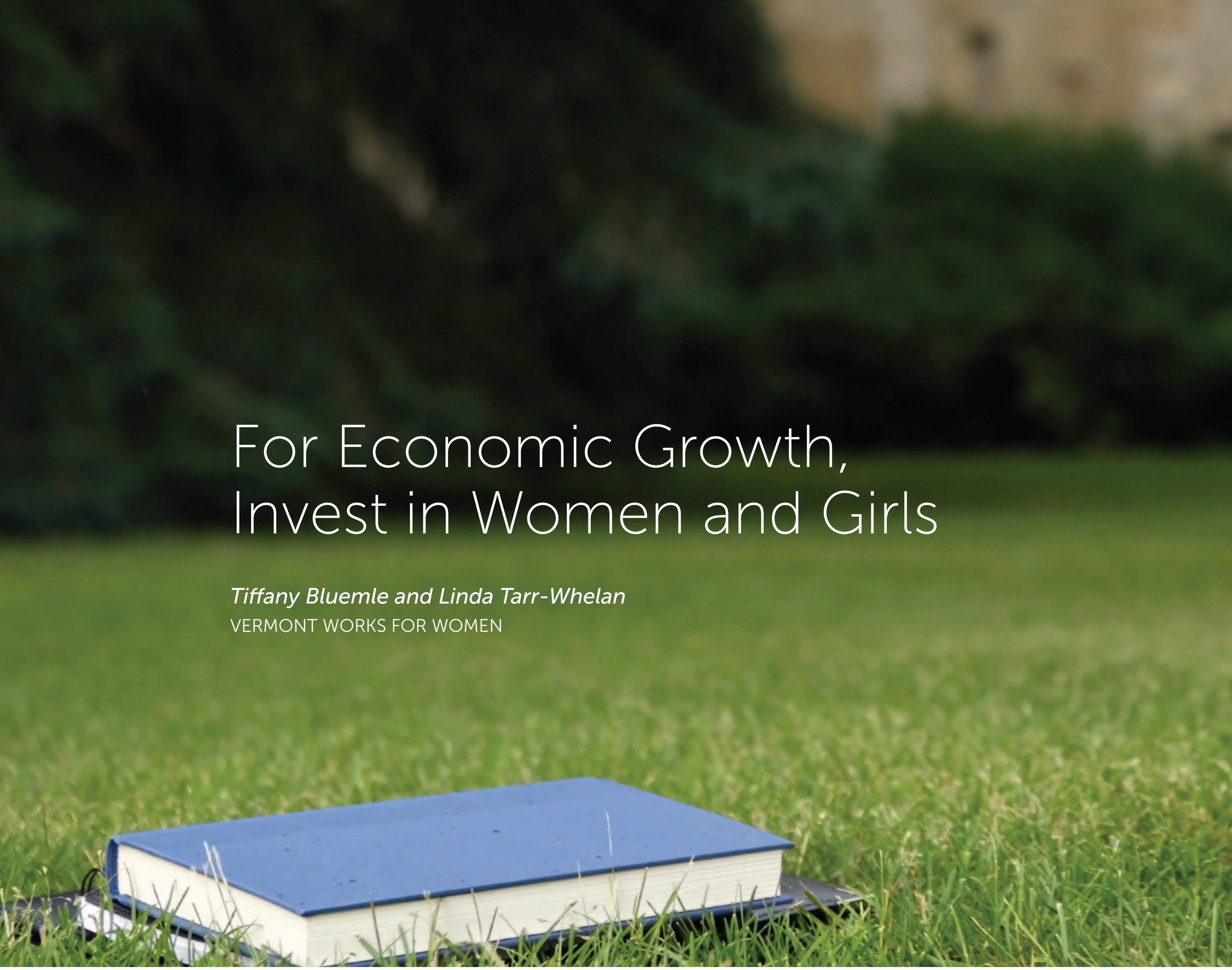

For Economic Growth, Invest in Women and Girls

Tiffany Bluemle and Linda Tarr-Whelan
VERMONT WORKS FOR WOMEN

Investing more thoughtfully in opportunities for women and removing barriers that hinder them is a potential key to economic growth.

New England census data leave little doubt that our economic future hinges upon making the most of our homegrown talent. With the region's population growth only one-third the national average, New England states have seen a 25 percent decrease in the number of residents ages 25–34 and have failed to retain many of the students who come for college.[1] In Vermont, a high school graduation rate in the 90 percent range has not been matched by college attendance. The college-going rate is 53.5 percent, while the national average is 63.3 percent.[2]

In anticipation of projected shortages in key fields, states have ramped up initiatives to attract out-of-state talent to state colleges or universities, or have offered incentives to graduates who stay. Such initiatives are important elements of any economic development strategy, but it is also important to focus on how to make the most of the young people who are actually here.

Current Job Picture

It would be wise to take a lead from the widely accepted international-development observation that investing in women and girls is a powerful economic-growth and stability tool. Gender matters. Although the realities for women and girls in the United States are not as harsh as for those in developing countries, it is fair to say that we are squandering female talent here, and at great cost.

Three of the five states with the highest percentage of low-income working households headed by women are in New England—Massachusetts, Connecticut, and Rhode Island.[3] In all six New England states but Maine, 50 percent or more of the women heading these families have not had any postsecondary education. Nationally, women head just 22 percent of all working families, but they are a disproportionate share of all low-income working families. And the trajectory is getting worse: between 2007 and 2012, the share of

low-income working families headed by women increased from 54 percent to 58 percent.

Working women are more likely to live in poverty than working men, and the reasons for the gender gap are well documented. Low-income people in particular have limited access to programs that help them balance work and family, such as paid sick leave, family leave, and affordable child care. Moreover, federal and state minimum wages have not kept pace with inflation, and even multiple minimum-wage jobs can't lift many families out of poverty. Such factors have a disproportionate impact on women, who represent two-thirds of all minimum-wage workers.

Occupational Differences

Many of these issues keep resurfacing. Hikes in the minimum wage, paid sick leave, and affordable child care will go a long way toward making work do what it is supposed to do: pay the bills. But if we hope to harness the full economic potential of women, we must vigorously attack occupational segregation. Nearly half of all working women are employed in just 5 percent of the available jobs—in child care, housekeeping, retail, or health care. Workforce projections for 2018 show that nine of the 10 fastest-growing occupations requiring at least a bachelor's degree will involve significant scientific or mathematical training. Some of the largest increases will be in engineering- and computer-related fields—fields in which women are significantly underrepresented.[4]

For decades, experts have called for increasing women's numbers in nontraditional fields—construction, law enforcement, and STEM (science, technology, engineering, and mathematics). Nearly three decades ago, in 1988, the National Research Council Committee on Women in Science and Engineering warned of the "threat of a serious shortage of scientific personnel." It recommended finding "ways to employ underrepresented groups more equitably—for reasons of national interest as well as of equality."[5]

In spite of the cyclical attention STEM careers have received, little has changed. Indeed, national data show women have lost ground in fields where they had previously made inroads. Women's participation in civil engineering, for example, declined from 13 percent in 2005 to just over 7 percent in 2009. In 2008, women held only 25 percent of all professional IT-related jobs, an 11 percentage point drop from a high of 36 percent in 1991.[6] The reasons are many: inconsistent and insufficient funding for programs that expose girls to nontraditional careers; insufficient outreach efforts by employers to deliberately recruit women; and unsupportive organizational cultures that erode female retention rates.

Three of the five states with the highest percentage of low-income working households headed by women are in New England.

Given how consistently these issues have been raised, it's time to get serious about making change. Increasing the number of women rocket scientists isn't rocket science, but without deliberate and sustained effort, it will remain an elusive goal.

In Vermont

Our work suggests the value of starting with young women and girls. Last year Vermont Works for Women (VWW) published a report on what young Vermont women say about how well-equipped they feel for the challenges of school, work, career, and economic independence as adults. *Enough Said—Young Women Talk about School, Work and Becoming Adults: Why We Should Listen and What We Can Do* is the result of in-depth interviews, surveys, and conversations with more than 210 young women and girls, ages 15–25, from 28 Vermont communities.[7]

The conclusions were startling and led to a statewide Task Force on Young Women and the Vermont Economy, which presented its "Change the Story" recommendations to Governor Peter Shumlin and the legislature in December 2013, attracting wide media coverage.[8] The young women shared deeply felt concerns about the future:

- **They lacked knowledge about personal finance.** They did not know enough to make decisions about student loans or careers. They couldn't estimate what it would cost to live on their own or what various jobs pay, and they didn't know how to fill out a tax form or open a checking account. The Task Force recommended including personal finance in state standards as a core competency for high school graduation.

- **They mentioned social aggression among girls.** It served to shake both confidence and aspiration. They also mentioned the ways in which adults ignored, were unaware of, or fueled the dynamic in personal relations and popular culture. The Task Force recommended development of curricula and a statewide conversations to highlight the problem and provide strategies to end peer aggression.

- **They lacked exposure to careers that might be of interest.** They didn't know about careers that might lead to financial independence. "How can I know I want to be an automotive technician," we were asked, "if I have never held a socket wrench?" The Task Force called on employers to partner with the schools and nonprofits to provide wider career opportunities.

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Smart economic development strategies for New England require new and deliberate action to tap the full potential of women and girls. Asserting without hesitation or apology that gender matters is essential, as are gender-disaggregated data. Among the questions we must ask in shaping policy or practice is: How will it affect women and girls?

Gender matters. Among champions of gender inclusion are leaders and pacesetters in finance, philanthropy, and government: for example, the Bill and Melinda Gates and Nike Foundations, the World Bank and the International Monetary Fund, the United Nations, Goldman Sachs, and the U.S. Joint Chiefs of Staff. All have asserted that women play a critical role in fueling economic growth. Now we must make that happen in New England.

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Matching Financial Institution Community Development Activity with Community Credit Needs

Lisa Shepard
FEDERAL RESERVE BANK OF BOSTON

The purpose of the Community Reinvestment Act (CRA) is to ensure financial institutions help meet the credit needs of the communities in which they operate. One of the ways the Federal Reserve Bank of Boston assesses an institution's record of meeting those needs is by evaluating the extent to which the institution engages in community development (CD) activities.[1]

Financial institutions are evaluated under different CRA examination procedures on the basis of their asset-size classification. CD activities are evaluated during CRA examinations under either the Large Bank or the Intermediate-Small Bank (ISB) Examination Procedures. Whether a large bank or an ISB, an institution's CD activities should be consistent with the identified needs and opportunities in its community.

Needs and Opportunities

To gain an understanding of the credit and CD needs and opportunities in a financial institution's community, examiners obtain information from community, government, and civic organizations, and sources such as local housing authorities and small business development agencies. Financial institutions can benefit from collaborating with the same organizations.

Partnerships with community action agencies can assist financial institutions in reaching LMI individuals.

To receive CRA consideration, activities must meet specific regulatory requirements and have community development as their primary purpose.[2] CD activities will vary among institutions, depending on the particular characteristics of an institution's community and, at least to some extent, on the institution's available resources, sophistication, and staff expertise. Nevertheless, the need for CD activities is present in every sector of the economy and all institutions can help meet the need to some degree.

Communities composed primarily of low- and moderate-income (LMI) census tracts may have needs and opportunities that differ from communities composed primarily of middle- or upper-income census tracts. Furthermore, different geographies may be more conducive to certain CD activities. In geographies that have experienced a rise in foreclosures and absentee landlords, for example, a responsive CD activity may be to provide affordable-housing rehabilitation and construction loans. Construction and permanent financing of multifamily rental property serving LMI individuals is a qualified CD lending activity.

Consideration may also be given for activities in communities that government agencies have identified for redevelopment. A municipal bond to fund the renovation of a community facility or park that has been included in a redevelopment plan for an LMI neighborhood is an example of a qualified investment.[3]

CD activities, however, are not just about geography. Where LMI tracts are lacking, partnerships with community action agencies can assist institutions in reaching LMI individuals. For example, the need for basic banking access has been identified through CRA evaluations. Correlations have been noted between LMI individuals and underbanked and unbanked individuals, who rely on more-expensive, nontraditional forms of finance. In such circumstances, providing financial education that is coupled with low-cost checking and savings accounts and remittance services for those who send money to their countries of origin would likely qualify as CD services.

Bank Size

Although under Large Bank Examination Procedures, CD loans, investments, and services are all evaluated under the applicable test, under the Intermediate-Small Bank Examination Procedures, a separate and somewhat flexible community-development test is used. One bank's activities may tilt primarily toward loans while another's may tilt more toward investments or services. That approach allows an ISB to allocate resources among CD loans, investments, and services in amounts that it reasonably determines are most responsive to local needs and opportunities.[4]

CD activities may also differ in relative size, scope, complexity, or other factors, on the basis of bank size. It would not be reasonable to expect that a smaller, less complex institution would engage in the same activities, at least not to the same degree, as a larger, more complex institution. Further, a bank with a commercial-lending focus would more likely engage in activities that promote economic development by financing businesses or farms. Lending to small businesses might stimulate economic growth and provide employment to low- and moderate-income individuals. Such activity would qualify as a CD activity when specific size-eligibility standards are met.

It is important for institutions to understand the communities in which they operate in order to identify and, to the extent appropriate, deploy resources toward CD opportunities and needs.

Lisa Shepard *is an examiner at the Federal Reserve Bank of Boston.*

Endnotes

[1] Disclaimer: The views and opinions expressed in this document do not necessarily reflect those of the Federal Reserve Bank of Boston or the Board of Governors of the Federal Reserve System and should not be misconstrued as an endorsement or recommendation of any program or activity. The examples of community development activities described in this article are provided for illustrative purposes only. The Federal Reserve Bank of Boston does not guarantee that similar programs will receive favorable CRA consideration in the future. An institution's activities will be evaluated in accordance with the applicable Interagency CRA Examination Procedures to determine if those activities, with reference to the institution's performance context, meet the community development criteria necessary to receive CRA consideration. Community development activities include loans, investments, and services.

[2] Community development is defined in Regulation BB, at section 228.12(g).

[3] Qualified investment is defined in Regulation BB, at section 228.12(t).

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Sustainable Communities

Creating a Durable Local Economy

Bruce Seifer

With thoughtful attention to planning, social enterprise development, clean energy, the environment, food systems, and cultural well-being, a community can create a sustainable economy.

Burlington is the largest municipality in the state of Vermont by far. Situated on the edge of Lake Champlain, the city boasts a hospital, five colleges, and quality-of-life amenities that include a bike path, a boat house, historic architecture, a marina, and parks. But it wasn't always so ideal.

When I first began working for the municipal government over 30 years ago, this city of 37,894 was on the decline. Bernard Sanders had just won a close mayoral election against a sleepy contingent of what was known as the "old guard." With his Brooklyn, New York, roots, socialist label, and fiery speeches, Mayor Sanders was not favorably perceived by local business groups. In fact, 12 companies left for the suburbs.

Given the growing vacancy rate of commercial properties—and the need to fulfill mayoral-campaign promises about reducing property taxes and improving quality of life—it was clear that something had to change.

Start with a Plan

In the hostile business climate that followed the mayoral election, using traditional methods to lure companies from other places to locate in Burlington seemed unlikely to work. Clearly, an innovative urban-development plan was needed. The city turned to the Industrial Cooperative Association, based in Somerville, Massachusetts, for help creating a long-term, strategic economic plan.

The resulting document, "Jobs & People: A Strategic Analysis of the Greater Burlington Economy," became the city's bible for economic development. The plan and its regular updates were followed assiduously for the next three decades with great success.

Six public policy principles guided the city's economic development activities:

1. Encourage economic self-sufficiency through local ownership and maximum use of local resources ("seal the leaky bucket" of companies likely to move away);
2. Equalize the benefits and burdens of growth;
3. Leverage and recycle scarce public funds;
4. Protect and preserve fragile environmental resources;
5. Ensure full participation by populations normally excluded from the political and economic mainstream; and
6. Nurture a robust "third sector" and "fourth sector" of nonprofit and private for-profit organizations capable of working in concert with government to deliver essential goods and services.

One of the specific recommendations in the original "Jobs & People" report was to have the city provide direct technical assistance to people interested in starting or expanding businesses and nonprofit organizations.

With no more than our existing staff and an 800 number, we

A Sampling of Companies

Burlington provided technical assistance to more than 4,000 companies during the author's 29 years in city government. He himself worked directly with the following organizations:

Ben and Jerry's
Lake Champlain Chocolates
Rhino Foods
Koffee Kup Bakery
Bruegger's Bagels
Magic Hat Brewing Company
Vermont Pub and Brewery
Burton Snowboards
Seventh Generation
Gardener's Supply Company
Blodgett Oven
Pratt & Whitney
Conant Metal & Light
Terry Precision Bicycles
Vermont Teddy Bear Company
Innovation Center of Vermont
Courtyard Marriott Burlington Harbor
Hotel Vermont
Radisson Hotel
Spirit of Ethan Allen
Filene's Department Store
Anichini
Danforth Pewterers
Cornell Trading
Skirack
Outdoor Gear Exchange
Ethan Allen Shopping Center
Burlington Town Center
Burlington Hyundai Subaru
Dealer.com
Marsh Management and Real Estate
Select Design
Merrill Lynch
Associates in Rural Development
Northfield Savings Bank
Fletcher Allen Health Care
Champlain Housing Trust
Vermont Department of Health

marketed free business assistance from city government. The effort brought thousands of people to the city's door, including a good number who eventually launched projects, some of them major ones that helped to create thousands of jobs and fill the vacant commercial buildings. The offer of technical assistance for small businesses was important to residents and ignited partnerships that, in turn, fueled communitywide networking.

Providing a supportive, business-incubator environment and promoting local ownership can yield impressive results. (See "A Sampling of Companies.")

The City as Incubator

Vermont Energy Investment Corporation (VEIC) and City Market are good examples of what offering technical assistance can produce. In 1986, the late Blair Hamilton and his wife, Beth Sachs, approached City Hall to discuss their idea to start a nonprofit corporation, Vermont Energy Investment Corporation. Their plan was to make buildings more energy efficient and reduce the community's dependence on fuel.

Since the idea was consistent with all six principles in the "Jobs & People" plan, Burlington began providing technical assistance to VEIC and continued to do so over 12 years. The assistance included helping to develop a network of supporters among other local nonprofit and governmental organizations. With a small seed grant from the city, the supporters raised more than $15,000 in start-up money at a fundraiser in the Hamilton-Sachs home.

Twenty-eight years later, VEIC has more than 320 employees and fills 50,000 square feet of a building that had been left behind by a large defense contractor. Moreover, VEIC has helped to save customers the equivalent of 120 megawatts of electrical consumption since 2000.

Experience with VEIC, among others, taught the city that to create jobs and build a sustainable economy, it should consider making its partnerships with nonprofits the norm and not the exception. Nonprofits actually have the potential to create jobs, and they can be extra valuable to local governments because their public mission and goals are often consistent with the ones in a municipality's strategic plan.

City Market, another example of the value of local ownership, is Burlington's only downtown supermarket. Despite early resistance to the idea of a cooperative, it became over the course of 12 years an award-winning anchor for the entire downtown shopping area. Today it is hard to fathom the original hostility. In addition to the large supermarket operator that hired protesters to express opposition, there were residents who were convinced that coops only sell in bulk, some who were worried a coop wouldn't carry popular brands, and others who were opposed to a coop selling brands at all. Patient educational efforts eventually succeeded in countering all the misinformation.

Today the 9,000-member food cooperative strengthens the entire economic base of Burlington by attracting 1.5 million separate visits annually and employing more than 210 people, mostly from the neighborhood. It also provides an outlet for local food producers to sell their products, and that encourages the development of more agricultural jobs in nearby rural areas.

The support for agriculture provided by City Market helped Burlington meet a food-security goal it had embraced in 1993 as part of its "Jobs & People III" document—to grow 10 percent of the produce consumed in Burlington.

Other initiatives that were key to the development of a sustainable economy in the city included developing small-business incubator space in an industrial area, supporting efforts to transform existing companies into employee-owned companies, and creating business associations interested in understanding and supporting sustainable development. Together, Burlington's strategies and the networks they fostered created an irrepressible demand for an increasingly sustainable business climate that continues to build upon itself.

Although the objectives of the long-term strategic economic plan evolved over the decades, the six principles remained the same. By embracing them and implementing long-term strategies, the goal of economic self-sufficiency was achieved even beyond what was envisioned 30 years ago. As of this writing, the city of Burlington had the fourth-lowest unemployment rate in the nation and the second-lowest foreclosure rate. It had been named one of the "Top 10 Cities for the Next Decade" by Kiplinger and "The Happiest Small City in the U.S." by Gallup.[1] Such recognition tops a solid foundation of more than five dozen similar accolades over the past 15 years, which reference the city's low crime rates, its residents' overall health, and its desirability as a place to raise children.[2]

Bruce Seifer, *coauthor of the book* Sustainable Communities: Creating a Durable Local Economy*, worked for the City of Burlington, Vermont, in economic development for 29 years. Contact him at Bseifer@burlingtontelecom.net.*

Endnotes

1 See http://www.kiplinger.com/article/business/T006-C000-S002-10-best-cities-for-the-next-decade.html and http://www.cbsnews.com/news/the-10-happiest-and-saddest-cities-in-the-us/.

2 See Bruce Seifer, Rhonda Phillips, and Ed Antczak, *Sustainable Communities: Creating a Durable Local Economy* (New York: Routledge, 2013), http://durablecommunities.weebly.com. The book is designed to be both an academic resource and a tool for practitioners.

Leadership Academy Boosts Grassroots Effectiveness

Catherine MacKinnon
MUTUAL HOUSING ASSOCIATION OF GREATER HARTFORD

Developing leadership skills changes lives and strengthens communities.

In 2009, the Mutual Housing Association of Greater Hartford (MHAGH) recognized that building stable communities by including residents as equal partners in housing governance and leadership called for a more intensive approach to developing experienced resident leaders.[1] Founded in 1988, MHAGH originally focused its resident-participation efforts on maintenance and operations. Participation was required under the Mutual Housing Agreement, but changes in landlord-tenant laws over the years made enforcement next to impossible.

MHAGH came to the realization that instead of mandating activities, it would be more productive to recruit residents who already had an interest in community building and to offer leadership programs on a voluntary basis. Although clean-up days and landscaping activities are still important community-building tools, MHAGH has been impressed with how its Mutual Housing Leadership Academy (MHLA) empowers residents to truly govern. Another revelation: developing resident leaders is a catalyst for their personal growth and for unanticipated community impact.

The Tools for Empowerment

The MHLA is a 12-week training program in which residents participate in workshops and panel discussions based on the NeighborWorks America curriculum for training emerging leaders. The program, facilitated by MHAGH's resident-initiatives coordinator, brings in guest speakers for many of the classes. Topics include team building, leaders in real life, mapping the community's assets, project planning, public speaking, and recruiting and retaining new leaders. The fundamental skills are critical for any leader and can be used at work, home, school, and in the larger community.

During the course of the program, participants form teams and utilize their newly learned skills to create and implement a team project that is executed during the 12 weeks. Team projects must address a community need and should include strategic partnerships whenever possible. In addition to the opportunity to do a community project and attend classes, participants get to meet one on one with the facilitator to set professional-development or personal goals.

At the end of the 12 weeks, a public graduation ceremony affords academy participants a chance to showcase their projects and discuss the insights and skills they have gained.

But MHAGH's relationship with the students does not end with graduation. Academy graduates can pursue their community interests by applying for a $1,000 grant from MHAGH to seed new efforts. These grants pay for materials or equipment needed for a larger individual or community project. The graduate must raise any additional funds or volunteer his or her labor to complete the project. Additionally, some graduates decided to form the Leadership Alumni Association as a networking resource to sustain the enthusiasm and the community connections and to serve as a forum for exchanging ideas with like-minded, civically engaged people.

Although the MHLA was originally designed for Mutual Housing residents alone, it is now open to any resident of Greater Hartford. Currently, 20 percent of program graduates are MHAGH residents. The other 80 percent come from around the city. MHAGH does not require team projects that directly benefit MHAGH, and thus there is considerable freedom for people to pursue their personal community passion.

The first academy had only four participants. Now each one averages 15–20 participants. And there's a waiting list. The number is limited in order to foster meaningful discussions and to build bonds among participants. There is no cost, but there are high expectations, and participants must attend at least 10 of the 12 sessions in order to graduate.

Benefits

MHAGH is now in the process of an extensive program evaluation, conducting surveys and interviews with graduates, and attempting to catalog the many projects and extended benefits of the program. In the four years since its inception, the MHLA has graduated more than 100 leaders, and those leaders have completed dozens of community projects benefiting hundreds of Greater Hartford residents. Projects have included neighborhood family fun days, health fairs, improving parental involvement in schools, presentations on childhood obesity, and cultural-diversity initiatives. Some of the activities have extended well beyond the initial project and have continued for years. Meanwhile, five of the 11 members of MHAGH's board of directors are now graduates of the MHLA, bringing a new level of resident insight to governance.

> "The leadership training helped me discover skills I thought I did not possess and enhanced the skills I had. It also broadens my views and approach on how I think about things. The leadership training gave me tools to be confident in my endeavors."
>
> –Program Participant, Class of 2012

Such results on their own would be enough to deem the program a success. However, in the long term, certain unexpected consequences may turn out to be the most impactful. When asked how the MHLA has benefited their lives, almost all participants reported that they had gained confidence in taking on projects and working as part of a team. Participating in a group project prepares people to work in a collaborative environment, which is important both for civic engagement and in the workplace. Several graduates noted they had secured better jobs. One graduate is now employed with Public Allies, an AmeriCorps program, and is helping to bring affordable housing to New York's Hell's Kitchen. Another has joined Toastmasters and has been appointed to the Governor's Coalition for Youth with Disabilities.

MHLA participants range in age from 16 to 80 and are incredibly diverse. There are those whose goal is to finish high school and those who have graduated from law school. We have had third-generation politicians and those who have never registered to vote. And we have helped people coming out of transitional housing as well as established homeowners. That diversity has been a plus as graduates report that they have gained a new respect for different ideas and an understanding that everyone has something of value to contribute.

Graduates also say they feel more connection to their community. Often people have a desire to make changes in their lives and in their communities but don't know where to start. The academy provides a safe learning environment to pursue such dreams. Because it is only 12 weeks, participants are encouraged to take on community projects that are manageable and have a reasonable chance of success. Success gives participants the confidence to try something different and to connect with the larger community later on.

Many graduates report that the one-on-one process of goal setting helped them to prioritize and focus. Some of the most powerful examples of participants who have set life goals have been those who have gone on to pursue two-year college degrees. MHLA partnered with Goodwin College on the school's "Golden Ticket" program. Interested academy graduates were given the opportunity to complete a two-year college degree at no cost. Three MHLA graduates are nearing completion of their associate's degrees and have seen the trajectory of their lives change dramatically. These are single mothers who had either missed the opportunity or had not succeeded in college as younger adults. They report that the skills they developed in the MHLA helped them concentrate on where they wanted to take their lives.

There have been other unexpected benefits. Through the Leadership Academy Alumni Association, MHAGH now has a ready pool of volunteers. The nonprofit has only one resident-initiatives coordinator and benefits greatly from volunteers, who help with 50-plus events at its 11 housing developments annually. Last year alone, MHLA graduates donated more than 500 volunteer hours to MHAGH.

Partnerships

The academy naturally lends itself to partnerships, and MHAGH has forged strong ones. For example, the Hartford Public Library provides training space at no cost. FoodShare, the local food bank, has provided grant funds for postgraduate community projects, and in return, MHAGH provides leadership training to FoodShare staff. The City of Hartford and the mayor's office have hosted tours for participants and have shared their insights on the workings of government.

During graduation, a three-person panel provides feedback to each participant presenting a community project and offers observations about the work and suggestions on presentation style. The panel members are chosen from a variety of Hartford organizations, including Hartford Insurance, the YMCA, Covenant Prep, and the University of Connecticut Law School. Panel participants have all commented on how much they have learned from the graduates.

Photo Terry Sparks

Terry Sparks's Mutual Housing Leadership Academy grant purchased uniforms and a banner for Hartford's Proud Drum, Drill, & Dance Society for the Prevention of Violence.

MHAGH has spent more than 25 years building affordable housing. But clearly bricks and mortar are only part of the solution to improving our communities. The Mutual Housing Leadership Academy capitalizes on the eagerness of community members to tackle their own problems. To quote anthropologist Margaret Mead, "Never doubt that a small group of thoughtful, committed citizens can change the world; indeed, it's the only thing that ever has."

Catherine MacKinnon *is the executive director of the Mutual Housing Association of Greater Hartford. Contact her at CMacKinnon@mutualhousing.org. For more information on the Mutual Housing Leadership Academy, e-mail Eliztaicha Marrero, resident-initiatives coordinator, EMarrero@mutualhousing.org.*

Endnote

[1] MHAGH brings residents, corporations, and community organizations together to provide quality affordable housing for Greater Hartford.

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SAVE THE DATE for the ninth biennial Federal Reserve System Community Development Research Conference, a unique event that aims to bridge the gap between research, policy and practice on key issues facing the country. The conference will feature original, high-quality research from a range of disciplines that can inform and affect how policy is formed and how community practice is carried out.

For more information, please visit:
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