Federal Reserve Bank of Boston
Communities & Banking
volume 15, number 1
spring 2004

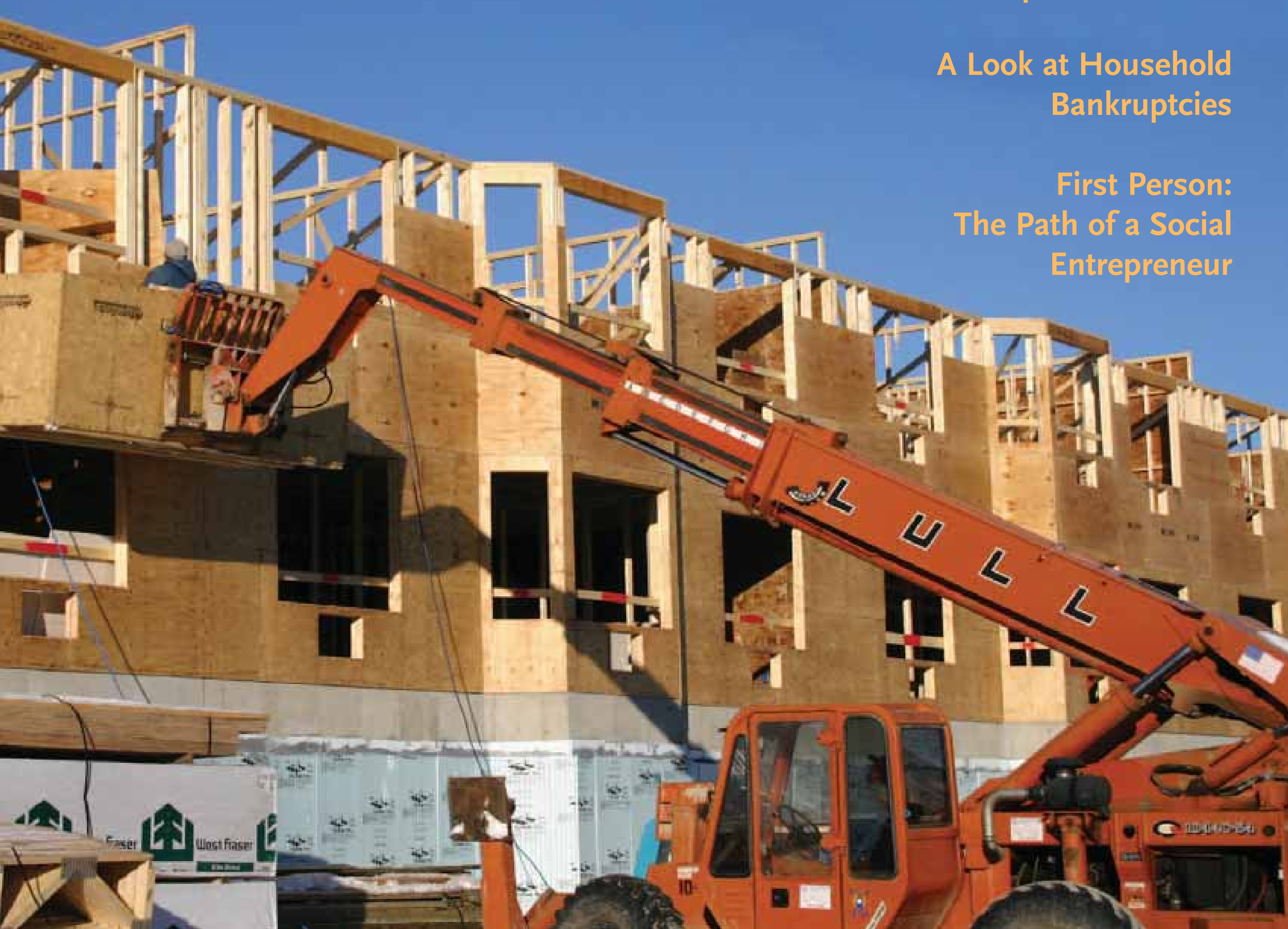
Solving the Upper Valley's Housing Needs

Also Inside:

Capital Markets for Community Development Lenders

A Look at Household Bankruptcies

First Person: The Path of a Social Entrepreneur



Contents

3 Solving the Upper Valley's Housing Needs

Like many communities, New Hampshire and Vermont's Upper Valley region is facing a serious housing shortage. Dan French reveals how an innovative housing coalition is working to find solutions that provide housing and protect the area's quality of life.

10 Capital Markets for Community Development Lenders: Questions and Answers

Southern New Hampshire University professor Michael Swack answers basic questions about capital markets and explains how community development lenders can raise their capacity by tapping into these markets.

15 A Look at Household Bankruptcies

In recent years, a record number of U.S. households have declared bankruptcy. This article explores the possible causes and potential effects of the rising rate of insolvent households.

21 The Path of a Social Entrepreneur

An entrepreneur with a social conscience, Andrea Silbert, relates the journey that inspired her to found the Center for Women and Enterprise, a nonprofit center supporting women-owned businesses.

Photo Credits: On the cover, affordable housing units under construction in Lebanon, New Hampshire. Cover photo and photography on pages 3 - 9 and 15 by Julie Weinstein.

Communities & Banking offers insightful articles on topics in community development and fair access to credit, with a focus on innovative research and effective programs and partnerships within New England.

If you would like to submit an article for a future issue of *Communities & Banking*, please contact the editor.

Mamie Marcuss
Editor, *Communities & Banking*
Federal Reserve Bank of Boston
600 Atlantic Avenue
Boston, MA 02210
(617) 973-3187
mamie.marcuss@bos.frb.org

For free subscriptions, contact:
Public and Community Affairs
Federal Reserve Bank of Boston
600 Atlantic Avenue
Boston, MA 02210
1 (800) 409-1333
bostonfed.publications@bos.frb.org

Available on the web at
www.bos.frb.org/commdev/c&b/index.htm

by Dan French
Upper Valley Housing Coalition

Solving the Upper Valley's Housing Needs

How a coalition of public and private organizations joined forces to develop housing in a region with inadequate stock and prohibitive prices.

Straddling the midsections of New Hampshire and Vermont, and bisected by the Connecticut River, New England's Upper Valley is a region of spectacular natural beauty, but it is not immune to the dilemma facing much of New England – how to address a high demand for housing without compromising the region's quality of life. In the spring of 2001, the economic implications of a severe regional housing shortage were coming to a head, and several members of the business community decided that something needed to be done. They gathered together a team of bankers, planners, nonprofits, and state and local government officials to tackle the housing crunch.

Traditional homes in the village of Norwich, Vermont.

Housing vs. Growth vs. Quality of Life: A Typical New England Tale

In the 1990s, the economy of New England's Upper Valley prospered. Longtime employment anchor Dartmouth-Hitchcock Medical Center grew, while its twin—Dartmouth College—remained strong. The region's traditional manufacturing and tourism industries flourished, and new high-tech manufacturing and biomedical industries emerged. Overall, some 10,000 new jobs were brought into the region.

Dartmouth-Hitchcock Medical Center in Lebanon, New Hampshire, is one of the region's largest employers.

However, housing production to accommodate these new workers was slow to nonexistent, and today the region faces a housing crunch. Home prices are growing three times faster than the average household income, and rents are rising 10 percent a year. Neither low-wage earners nor professionals can find affordable housing near their jobs, and many daily commutes have risen to over an hour each way. Pollution and traffic congestion have both increased, and residents find that they have fewer hours to participate in community activities, coach their daughters' teams, or see their sons' school plays.

The lack of housing is also affecting economic competitiveness in the Upper Valley. Companies are facing staffing problems and struggling with rising hiring and retention costs. Human resource directors regularly lose top job candidates, and factories cannot find line workers because potential employees cannot afford to move to the area. Moreover, managers complain that long commutes are making the workers they do have less productive. Concern is growing that these pressures may cause companies to downsize or worse, relocate out of the region.

Despite these threats to the region's well being, many are reluctant to start building the needed housing. As in most communities, Upper Valley residents want to protect the beauty of where they live and the quality of life they currently enjoy. New development is a potential threat. Housing construction eats up land, and many citizens have concerns about developing open space. More homes also mean more people, and more people could mean more costly public services. Many town governments are concerned about their ability to pay for new roads, new infrastructure, and the new residents that come with new housing.

In this climate, the Upper Valley Housing Coalition is learning to navigate the complex set of factors involved in housing development, economic growth, and quality of life.

Following a large regional housing summit, the group formed the Upper Valley Housing Coalition (UVHC) to become an advocate for "smart growth" housing development in the region. Essentially, their smart growth vision calls for the development of neighborhoods that are walkable, well planned, designed on a human scale, and built to be assets to their communities for generations. Over the past two years, through research, education, and advocacy, UVHC has helped the Upper Valley balance housing development, quality of life, and economic strength.

A Voice for the Region

Consisting of two states, three regional planning commissions, and over 60 towns, the Upper Valley's system of governance is highly fragmented. However, for the people who live here, the whole valley is considered home. Life does not stop at the Connecticut River, and most residents work in one town, live in another, shop in a third, and socialize and enjoy recreational activities in yet a fourth. Life is regional, and everyone is affected by the decisions of every town. To address a housing problem in this type of climate, some basic consensus as to what new housing should look like and where it should be located is essential. To reach this kind of agreement, the region needed a voice that could put the interests of the Upper Valley first and wave the regional banner.

Modeled after successful coalitions in Silicon Valley, California, and the greater Seacoast region of New Hampshire, UVHC was designed to fill this role. With representatives from all of the communities' stakeholders—businesses, municipalities, nonprofits, elected officials, planners, bankers, and environmentalists—UVHC took on the mission of clearing the three major hurdles blocking new housing development:

- the high cost of land,
- inefficient and exclusionary zoning regulations, and
- the opposition of neighbors nervous about new building in their community.

To tackle these problems, UVHC began facilitating conversations that addressed fears and generated a greater understanding of the communities' needs and desires. UVHC also began an awareness campaign to educate people about the region's housing problem and the potential for smart growth development as a solution. And finally, UVHC began to seek out and advocate for projects that seemed to make sense for the region.

Project Endorsement Guidelines

A 2001 study of the region's housing stock had revealed that supply was 3,100 units short of demand; and, assuming that household formation and job growth continued at 1990s levels, approximately 9,000 units would have to be built to bring housing and jobs into balance by 2010. Clearly, more housing was needed. The question was—what kind and where? Some were ready to approve anything. Others, concerned that unattractive housing tracts might soon cover every hill, valley, and farm, were significantly more cautious.

Norwich Public School on the green in Norwich, Vermont.

Given these differing opinions, UVHC's first assignment was to develop a picture of responsible housing development in the Upper Valley. UVHC wanted to prevent a flurry of sprawl, or unplanned development, which it believed would threaten the character of the region. Instead, it wanted to describe what housing development governed by principles of smart growth could look like.

Over six months, UVHC gathered input from various stakeholders, hearing from housing advocates as well as from persons wary of new construction. UVHC also researched models of housing guidelines created by other coalitions and spoke directly with practitioners in the field, relying heavily on the advice of real estate agents, developers, municipal officials, planners, and residents. The goal was to create a concise, easy-to-understand document that appealed to common sense and clearly outlined the type of development desirable for the Upper Valley. The framework had to be flexible enough to be applicable of both large cities and small villages, as well as practical enough to be accepted by builders, developers, planning boards, and town commissions.

Emerson Gardens under construction in Lebanon, New Hampshire.

UVHC's work resulted in two pages of principles, titled "Project Endorsement Guidelines." Examining everything from site selection to site use to project design through the lenses of smart growth, the guidelines promote housing production that takes advantage of existing infrastructure and does not require significant town resources to accommodate new residents. According to the guidelines, new developments

- should be in or near existing or designated growth centers;
- should be reasonably close to public transportation, cutting down on traffic and pollution;
- should reflect the traditional neighborhoods and villages of the region;
- should be of mixed size, type, and cost and on an appropriate scale for each community; and
- should have a minimal impact on important natural resources.

In this regard, the guidelines recognize that relatively small units that are close together reduce the consumption of open space. The guidelines suggest densities of 10 to 20 units for multifamily housing projects and 4 to 8 units for single-family housing and advocate smaller square foot units.

With the guidelines in hand, UVHC could begin assessing housing project proposals and identify those consistent with these ideals. This ability to identify good projects, however, was only the first step.

UVHC knew that nearby residents are often hesitant to support new construction, fearing a decline in their property values, overcrowding in their schools, and hikes in their taxes. These neighbors often raise noisy protests at town meetings and fight to block developments. To achieve any construction, UVHC would first have to gain the support of the people who lived and worked in the communities where the projects were proposed. Any myths, bias, and half-truths that were currently leading to protest would

Rental units in an affordable housing complex in Lebanon, New Hampshire.

have to be dispelled, and the debate pruned down to a discussion of the actual facts of each development. The first test came almost immediately after the guidelines were adopted.

Emerson Gardens

In the fall of 2002, a two-building 160-unit apartment project named Emerson Gardens was proposed for downtown Lebanon, New Hampshire. The developer was from Manchester, New Hampshire, and represented the first of what would be an influx of developers from outside the region looking to build in an area of high demand and little local competition.

With the ink still drying on the guidelines, UVHC's major concern was winding up with the proverbial egg on its face as it put the new document to the test. What if the developer actually built something different from what was supported? What if the quality of the project was poor? Or, worse yet, what if the project was never completed, leaving a half-built construction site for someone else to clean up?

Due diligence was required. UVHC needed a full understanding of the developer, his background, and his quality of work. The coalition's staff assembled a group of business and community leaders from Lebanon and drove them down to Manchester to meet the developer. They toured two of his projects and met some of his tenants. The visit went well. Given this, and given that the project was highly consistent with the guidelines, the Coalition decided to support it.

It would be Lebanon's largest housing proposal in over a decade, and, as the city's Planning Board prepared to review the project, many predicted strong opposition and expected that the project would die or be significantly scaled back. To counter this, UVHC worked to publicize that Emerson Gardens fit the requirements that the Lebanon community had helped to lay out.

The results were inspiring. During the Planning Board hearings, no one voiced a single objection. For perhaps the very first time, the Planning Board heard only support. Through testimony and letters, many members of the business and civic community spoke in favor of the project and cited specific reasons why they thought the development was a good idea, drawing on the knowledge they had gained from talking with UVHC staff. This overwhelming support, combined with a great deal of cooperation by the developer and his team, enabled Emerson Gardens to move through the permit phase in an efficient and timely manner. The Upper Valley had made its first big step in addressing its housing problem.

With Emerson Gardens under way, the ball was now rolling, and some feared a feeding frenzy would develop as word got out about the region's housing shortage and willingness to address it. Many worried that outside developers would bring an onslaught of proposals for unattractive cookie-cutter developments that didn't reflect the community.

To address this potential problem, UVHC invited developers from all over New England to attend a series of workshops. The sessions introduced the builders to the Upper Valley's needs and to the types of housing that would be welcomed and supported. The workshops also helped the Coalition learn how to better support private sector developers in the planning, permitting, and financing phases of their efforts. A healthy understanding emerged among developers, UVHC, and the community. As a result, new development proposals started to reflect UVHC's guidelines, as well as the goals of regional planning boards, commissions, and citizens. Projects began to move smoothly through the permitting process, and housing construction was under way.

Regulations to Support Smart Growth

Many of the proposed projects employed the principles of smart growth. However, UVHC soon learned that to build smart growth neighborhoods, rules would need to be changed. Many of the towns' zoning regulations promoted low-density development and required large lot sizes and houses with huge setbacks. Often, there were minimum parking requirements and restrictive building heights, and many tracts of land were not zoned for housing. When these town regulations were created, they were meant to preserve the beauty of the Upper Valley; now, they were effectively prohibiting smart growth development designed with the same aim in mind.

To address these regulatory barriers, UVHC began working with communities to review their existing master plans and zoning policies and to assess the impacts on housing, the environment, and other infrastructure. All of the core towns in the Upper Valley have begun rewriting sections of their zoning regulations to make room for smart growth or have implemented one-time exemptions that remove hurdles for specific projects.

The Gile Tract

The town of Hanover, New Hampshire, has experienced a rapid escalation in home prices. Only persons at the upper end of the income scale can afford to buy a house in town. In 2002, the Hanover Affordable Housing Commission decided to tackle this problem.

The Commission designated a piece of town-owned land, known as the Gile Tract, for new housing. Preliminary plans were drawn up for a mixed income neighborhood, including a substantial percentage of affordable housing units. However, a town meeting vote was needed to allow a high-density neighborhood on this parcel of land, and there was concern that support might waver at the town meeting. Grumbling about changing the zoning was heard around town. There were the usual concerns: The proposed 60-unit development was too large or too dense; it was unsightly; it would clash with the town's classic New England architecture.

Many Upper Valley towns' zoning regulations effectively prohibited smart growth development.

However, the project received top marks on UVHC's project endorsement guidelines, and the Coalition decided to support it. UVHC ran a campaign to educate town residents about the project specifics, the effects of the proposed zoning changes, and the community's need for affordable housing. Supporters of the project were encouraged to show up to vote at the town meeting. The door-to-door effort raised awareness and even led to a front-page story in the town paper. In May 2003, 600 people showed up for the town meeting. In a voice vote, the changes needed for the Gile Tract project were approved by nearly 90 percent of those present. Today, plans for the project are entering their final stage.

Next Steps

The Upper Valley is now at a crossroads. Initial steps towards a directed vision for housing development have begun, and the path could lead to a stronger, more vibrant, and more attractive Upper Valley. However, without further work, development could take a turn towards fast-paced sprawl, or housing development could stop all together. The region needs to decide which path to take.

The Coalition is striving to engage the Upper Valley in an informed discussion about the future of the region's housing, growth, and development. UVHC is furthering this effort through neighborhood meetings, presentations, individual conversations, regional forums, and workshops. Importantly, UVHC is trying to pull more of the region's workforce into the discussion. Though still in the infancy stages of design, a new Workplace Education Initiative is underway to rally staff at each of the region's businesses. The initiative will provide information about the housing problem and encourage workers to advocate for change.

Another budding initiative is UVHC's Regional Housing Fund (RHF). Inspired by a similar project in Santa Clara, California, RHF would create a public-private partnership that would buy land and re-sell it at below market prices to pre-screened developers for housing projects. UVHC is currently working on Phase I of the fund, buying parcels of land to establish a land bank. Phase II will create a revolving loan fund, a source of small loans for housing projects. Like a revolving door, when these loans are repaid, the money will become available for new loans. Once in operation, UVHC's revolving loan fund will provide some gap financing and pay for project feasibility analyses and due diligence expenses. The RHF

New housing units in Wilder, Vermont, built with help from the Upper Valley Housing Coalition.

will allow UVHC to take direct action to affect the type, location, and affordability of the region's new housing.

Lessons Learned

In the past two years, UVHC has effectively identified and promoted smart growth housing projects. To date, five projects consistent with the guidelines have been permitted and when built, will result in 379 new units. Six other proposals, for an additional 500 units of housing, have also been reviewed and supported by UVHC and are before town planning boards. For those projects found to be inconsistent with the guidelines, UVHC has worked directly with developers to help them better align their proposals with the principles of smart growth. In the course of these successes, many lessons have been learned.

Early experiences in trying to accommodate all of the Upper Valley's communities made it clear that, while housing and development are regional issues, actual changes and implementation happen at the local level. Coalition leadership appreciated this concept and decided that only people who lived and/or worked in a town should weigh in on specific municipal issues. This idea has resonated well with various citizen boards, who respect locally borne proposals.

UVHC also realized the value of not reinventing the wheel. By examining the experiences of other organizations and adopting the resources, materials, and strategies that have been proven effective elsewhere, UVHC has seen successes in a very short period of time. Additionally, often hampered by a desire to do too much, UVHC has learned to organize its projects and set levels of priority for implementation.

Hurdles remain. UVHC's membership ranges from executives to line workers, from government officials to citizens. The Coalition must find better ways to capitalize on this broad, but unified, support network.

Future funding also presents a challenge. While financing for current projects remains strong, primarily thanks to the business community, taking on the Coalition's future initiatives will require a near doubling of revenues.

Finally, the slow pace of life in the world of planning and housing development has frustrated UVHC and its constituents. The long delays between the conceptualization of a project and its actual implementation are a stumbling block for those impatient for change.

Despite these hurdles, UVHC continues to increase its membership and staff. Work goes on to promote smart growth development that addresses the housing problem and preserves the Upper Valley as a desirable place to live and work. Many new projects have been reviewed, and many great ideas are taking shape on the region's drawing boards. It is the Upper Valley Housing Coalition's hope that these efforts will keep the Upper Valley an amenable setting for business, a wonderful place to enjoy the outdoors, and an affordable area to live.

Dan French *is the former Executive Director of the Upper Valley Housing Coalition. For more information on UVHC visit www.uvhc.org.*

Capital Markets for Community Development Lenders: Questions & Answers

Q and A

by Michael Swack
Southern New Hampshire University

Community development financial institutions (CDFIs) have grown significantly in size and scope in the past 20 years. After two decades of lending where others are often reluctant to lend, many CDFIs have demonstrated a solid capability to manage risk in their markets and have developed strong portfolios. As they continue to expand to meet the ever-increasing housing, business, and facility demands of their communities, their funding needs are growing. At the same time, the traditional sources of community development capital, such as government and foundation funding, are diminishing, and many community development lenders are looking for new strategies and techniques to raise money. Some have turned their attention to accessing funds through conventional capital markets. Can this be done? How? Is it a good idea? In this article, I will address a few of these questions.

What are community development financial institutions (CDFIs)?

CDFIs are financial institutions that are committed to meeting the credit needs of low-income individuals and communities. Typically, CDFIs are either community-based nonprofit organizations or national intermediaries with local community offices. They are sensitive to the community's financial needs, understand the local market, and are willing to invest the time and resources needed to find and cultivate sound lending opportunities in these neighborhoods. As such, they are able to develop loan and investment products that differ from conventional lenders' offerings, providing funding where traditional lenders may not. Community development loan funds, community development credit unions, community development corporation loan funds, microenterprise funds, and community development banks are all considered CDFIs. With the exception of community development banks, all of these are private, nonprofit corporations.

Where do CDFIs get their funds, and how do they operate?

CDFIs are generally financed through a mix of public and private funds that include loans, grants, and investments. They lend this money to the communities in which they work and typically oversee every aspect of the loan. Most CDFIs review applications, originate loans, book the loans, service them, and hold them in their portfolios until the loans are completely repaid. This type of top to bottom lending is known as portfolio lending.

How is this type of lending different from what conventional banks do?

In the 1970s and 1980s, banks began packaging and selling their residential mortgage loans to a secondary market, in a process known as securitization. Banks no longer had to fund each loan through their deposits. Instead, they could sell their loans to investors and use the revenue to fund more loans. The birth of securitization allowed banks to originate more loans, generate more revenue off the fees from the originations, and sell off their risk of holding fixed rate loans in their portfolios.[1] With all of these benefits, this process of originating loans and selling them, called capital markets lending, is now the standard for banks. Today, securitization accounts for trillions of dollars of transactions.[2]

So, banks are involved in capital markets lending, not portfolio lending. Let's take a step back. What exactly are capital markets?

Capital markets are simply markets where individuals, governments, and businesses trade money. Those with excess funds transfer capital to those who need it. In return, the investors expect to earn a rate of return on their money that is consistent with the amount of risk they are taking. Capital markets allow large amounts of money to be pooled, while giving individual investors an opportunity to diversify their risk. The stock and bond markets are two of the major capital markets.

Aren't there also primary and secondary capital markets–what's the difference?

The primary market is where new securities are issued. A corporation or government agency that needs funds issues these rights of ownership, interest, or dividends to willing buyers, most often in form of stock or bonds. The securities are usually underwritten by investment banks to guarantee a minimum price for the seller.

After the securities are issued, they are sold to the public in the secondary capital market. Secondary markets are where securities are traded. The vast majority of financial transactions that occur through stock exchanges, bond markets, futures markets, or other mechanisms all happen in the secondary market.

Wall Street Without Walls

Several Federal Reserve Banks have teamed up with the Fannie Mae Foundation and Southern New Hampshire University to support a unique initiative that addresses the financial needs of the community development industry. Through the work of co-directors and founders Greg Stanton and John Nelson, Wall Street Without Walls has established a volunteer core of financial experts and Wall Street executives that provide CDFI professionals with financial technical assistance and skills training. These specialists bring their expertise to the nonprofit and community development fields, where the need for sophisticated financing is great, but access remains low.

As part of its efforts, Wall Street Without Walls is developing a series of training sessions for community lenders. The first, *Orientation to the Capital Markets*, is a one-day program that provides CDFIs with an overview of financial markets and gives them information about raising capital in these markets. The program also offers participants technical assistance to help them get started.

The first of these training sessions was held at the Federal Reserve Bank of Boston in May 2003. Community development lenders from all over New England were invited to attend. A preliminary survey of the region's community development organizations showed that most were heavily reliant on grants and donations for funding, and that many had recently seen a drop in their financial support. Sixty percent of the respondents had recently searched for and found new sources of funding, but only a minority had successfully accessed the capital markets for this liquidity. Given these conditions, the Wall Street Without Walls training provided community lenders with a timely opportunity to learn how they could address their funding needs through capital market investors.

The response from attendees of this first *Orientation* was positive. "The class provided relevant information for our changing times," said one trainee, while another stated that the class provided her with "valuable information and ideas about potential opportunities to leverage new resources."

Since May, Wall Street Without Walls has held training sessions at Federal Reserve Banks across the country, assisting community development lenders in Baltimore, Atlanta, New York, and San Francisco. Recently, a two-and-a-half-day follow-up course was developed, and the first *Capital Markets Training Institute* was held in March at Southern New Hampshire University and co-hosted by the Boston Fed. These trainings and the volunteer core are equipping local CDFIs with the financial knowledge and expertise they need to better serve their communities. For more information about the Wall Street Without Walls program and training opportunities, visit www.wallstreetwithoutwalls.com.

This seems a little abstract. Can you give an example of how this works?

Sure. Let's take a look at the residential mortgage system in the United States. This system is made up of a primary market and a secondary market. In the primary mortgage market, funds are provided directly to the new homeowner, who in turn issues a security to his bank—his mortgage.

The secondary market is the market where this mortgage loan can be bought and sold by investors. The bank that made the loan in the primary market wants to sell the mortgage and use the money to originate more loans. Because the mortgage is backed by the homeowner's real estate, it is an attractive security for investors. In most cases, one of the two largest secondary mortgage market institutions—the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation—will buy the mortgage from the bank. "Fannie Mae" or "Freddie Mac," as they are commonly known, then bundles the loan with others to form a large pool of similar mortgages. Fannie Mae and Freddie Mac then sell mortgage-backed securities to public investors in order to finance their future purchases.

You mean, my mortgage with my local bank is being traded by investors around the country?

Yes. The idea behind this secondary market is that while home loans are local loans, the system of finance for them need not be. National capital markets provide funds for local housing markets. With the proceeds from the sale of their mortgages, primary lenders replenish their money supply and use it to make more loans. Without this secondary market, primary lenders would have to keep all of their loans in their portfolios. They could make loans only from the money they had in deposits, restricting their ability to serve the needs of new homeowners.

O.K. I think I understand these primary and secondary capital markets. But aren't CDCs and CDFIs already involved in them?

Yes, in a limited way they are. CDFIs are primary market lenders. They receive money from foundations and government agencies and lend it to individuals and communities that need funds.

That seems to work in my community, so what's the problem?

Well, foundations and government have limited funds. You probably have noticed this. You may also have noticed that there is still demand for capital in your community. People want to buy homes and start businesses. Organizations want to develop housing and community facilities. CDFIs are mostly portfolio lenders. And, while they have become good at assessing risk and managing healthy portfolios, they are limited by the amount of money they receive in grants and donations. They cannot fill all of their lending needs. Many CDFIs could expand their lending and better serve their communities if they complemented their portfolio lending with some capital markets lending. After all, there's a lot of money out there in the capital markets—and we could use it.

Remind me what you mean by capital markets lending.

A CDFI involved in capital market lending would employ methods, such as securitization, that would distribute its loans among a range of investors, instead of holding all of the loans in its portfolio. By selling their loans on the secondary market, CDFIs can increase their liquidity.

We want Wall Street to buy our loans. What's the hitch? What do we have to do to get them to buy? Discount our loans?

No, not necessarily. Sure, investors will want to pay less than the face value of a loan if they think the loan won't perform. But CDFI loans perform and yield good returns. CDFIs simply have to demonstrate this success in a way that investors will understand.

How can CDFIs do that?

First, the whole CDFI industry needs to change some collective behaviors in order to access these markets. In general, here's what the capital markets are looking for:

Performance Data

Capital markets like a lot of information and data. Investors want to know how CDFIs perform over time. What are the rates of delinquency, default, and recovery? Right now, most CDFIs have weaker standards of data collection and measurement than these markets want and often have different definitions of what constitutes a delinquency or default. To show the strength of their loans, CDFIs must illustrate performance using standard industry data and definitions.

Standardization

This is a big one. Capital markets like vanilla. Not caramel, not strawberry, not chocolate. Vanilla. Investors want CDFIs to standardize things within the industry so that they can better understand the products and appropriately assess risk. The capital markets want not only standard data collection but standardized performance tracking tools; uniform ways of servicing, underwriting, and assessing risk; and a set method of collection.

The CDFI industry does not currently have any specific standards for these practices. However, trade associations of CDFIs like the National Community Capital Association are becoming larger and more sophisticated. They have begun to promote operating practices among their members that enhance the industry's ability to meet the capital markets' standards. It is the first step toward standardizing CDFI processes and procedures.

Volume

Capital markets like to deal with big numbers. They want pools of loans that are $50 million or more in value. By comparison, CDFIs deal with very small numbers. Some CDFIs are developing mechanisms for pooling their loans in order to offer investors the big numbers they desire.

Pricing

The capital markets need products that are priced properly to risk and offer an attractive return. Can CDFI loan products offer a rate of return that would satisfy the market? The first response might be "no." But, in fact, several CDFI portfolios are offering competitive rates of return. Not all CDFI products will meet the pricing criteria, but many can and do. CDFIs must identify and market these products.

Credit Enhancements

To make CDFI products more attractive, investors may want certain credit enhancements. Credit enhancements, such as insurance or letters of credit, are tools that make loans less risky to investors by ensuring that regular payments will be received. CDFIs could leverage some of their government and foundation money as credit enhancements in, perhaps, a better use of these funds.

Where should we start? How can CDFIs break into the capital markets?

Let's look at two of these barriers:

Volume

To achieve larger volume, CDFIs can and have created cooperative mechanisms where a number of CDFIs pool their loans and sell them to an institutional investor similar to Fannie Mae. By enticing an investor with large volume and low risk resulting from the geographic dispersion of the loans, pooling can be a cost-effective way for smaller CDFIs to increase their liquidity.[3]

Credit Enhancements

A common tool used to promote the sale of loans is financial guarantee insurance. This insurance ensures that payments are made to investors who buy pools of loans. CDFIs could negotiate a financial guarantee through an established insurance company and provide a credit enhancement on a pool of community development loans. The enhancement would help the pool achieve a good rating from one of the rating agencies, which would signal that the pool was a sound investment.[4] The favorably rated security could now more easily be sold in the financial markets, where many insurance companies and mutual funds buy only highly rated securities.

This all sounds good, but I still have concerns. For example, I have developed and maintained close working relationships with my borrowers. Won't I lose this when I sell my loans?

Not at all. In most instances, you will continue to directly service your own loans. You will need to maintain a close relationship with your borrowers, providing them technical assistance and monitoring their performance, in order to ensure a healthy return to your investors.

O.K. But won't I have to adjust my portfolio to meet the specific "appetite" of the market, as opposed to the needs of the borrowers and communities I serve?

Not necessarily. Many CDFIs will continue to do portfolio lending even if they are able to sell some of their loans. That is, they will still have loans that meet certain unique needs or circumstances and require the CDFI to service and hold the loan to maturity. In fact, a CDFI might have many of these. But, many community development lenders have developed certain pre-packaged loan products, such as housing or facility loans. These loans are underwritten in a consistent way and are "standard" within the CDFI's own portfolio. These are the types of loans that would best be packaged and sold to investors in the capital markets.

Will institutional investors really buy CDFI loans? Has anyone actually done anything yet?

Yes, it can work, and it has. For example, both the Community Reinvestment Fund (CRF) of Minneapolis, Minnesota, and Self-Help of Durham, North Carolina, have successfully accessed capital markets and are providing increased liquidity to the community development field. To attract institutional investors, CRF began pooling and underwriting loans that had been originated by a range of smaller community development lenders around the country. They have amassed over $300 million worth of loans and sold them to the secondary markets, bringing in capital for these small lenders. Self-Help developed and marketed a standard home mortgage product to attract investors and has underwritten over $1.5 billion in these mortgages for low-income communities. Both organizations' efforts have attracted a number of institutional investors to invest in these community development projects, including Prudential Securities, MetLife, and Equitable Insurance.

It sounds like this might work! Where can I find additional information?

The Financial Innovations Roundtable at Southern New Hampshire University's School of Community Economic Development is working on these issues and developing concrete ways for CDFIs to access capital markets. If you would like to learn more about current and future innovations, visit the Financial Innovations Roundtable's web site at www.finir.org. If you are interested in participating directly in our ongoing initiatives, please contact me, Michael Swack, at m.swack@snhu.edu.

End Notes

1 Securitization protects banks from interest rate volatility, reducing risk. Before securitization, banks would make a loan at 6% for 30 years. Several years later, they might suffer a loss, paying their depositors more than 6% if interest rates went up.

2 Moy, Kirsten and Alan Okagaki. 2001. "Changing Capital Markets and Their Implications for Community Development Finance," The Brookings Institution. Available at www.brookings.edu/urban.

3 Stanton, Gregory. 2003. "Unblocking Obstacles to Capital Markets for Community Development Lenders," Community Economic Development Press, School of Community Economic Development, Southern New Hampshire University. For reprints contact arc@snhu.edu.

4 Ibid.

Dr. Michael Swack *is the director of the School of Community Economic Development at Southern New Hampshire University.*

Mamie Marcuss
Federal Reserve Bank
of Boston

a look at household Bankruptcies

For most Americans, bankruptcy exists only in nightmares and the depression-era stories of our aging relatives. Our personal experience is limited to an unlucky stroll around the Parker Brothers' Monopoly® board, and we more often associate it with a struggling business than with our own family's finances. However, in 2003, a record 1.6 million U.S. households filed for bankruptcy to seek protection from their creditors and relief from their mounting debt. This figure has quadrupled in the last 20 years, and almost 9 percent of all households have now experienced a bankruptcy.[1] With financial insolvency becoming a reality for more Americans than ever before, it is worth taking a brief glimpse at the household bankruptcy decision. According to bankruptcy specialists and scholars, today's households are filing for the same reasons they were two decades ago. However, changes in the credit industry and the public mindset have potentially reduced the costs of bankruptcy—making it a more attractive option for families in financial crisis.

[1] As of the 1998 Federal Reserve Survey of Consumer Finance.

Bankruptcy: A Definition

Webster Merriam's English language dictionary equates bankruptcy with a state of financial ruin. However, the word traces its roots back to medieval Italy. An indebted Italian craftsman would find that his workbench, "banca," would be broken, "rotta," if he couldn't repay his debts. Fortunately for today's debtors, the modern concept is more forgiving:

One of the primary purposes of bankruptcy is to relieve the honest debtor from the weight of oppressive indebtedness, and permit him to start afresh.

U.S. Supreme Court, 1934.

As eloquently described by the chief justice, today's bankruptcy is a legal process intended for individuals and businesses who are unable to pay their creditors. Rather than fight an uphill battle to repay overwhelming debts, the U.S. bankruptcy system offers the unfortunate debtor a chance at a clean slate. The debtor has an opportunity to settle his liabilities and end his cycle of debt.

When households file for bankruptcy, 70 percent of them file under Chapter 7 of the U.S. Bankruptcy Code. In these cases, the debtor liquidates all of his assets, using them to pay off his creditors. He is allowed exemptions for certain life necessities under state and federal law, but everything else is used to reconcile as much debt as possible.[2] Any unsecured debt, such as credit card and medical bills, that remains after the liquidation is forgiven—free and clear—in a court-ordered discharge. The slate is not entirely clean, however. Secured debts, including home mortgages or car loans, as well as late child support payments and certain student loans, generally are not discharged. The debtor is required to repay these or risk foreclosure or other potential penalties.

The remaining 30 percent of household debtors file under Chapter 13. These debtors set up court-monitored payment plans to pay back their creditors over time. Unlike Chapter 7 filers, these debtors do not liquidate their assets, but instead pay their creditors out of their paychecks for the next three to five years. At the end of the payment plan, any remaining unsecured debt is discharged. Under both Chapters, once a debtor receives a discharge, he cannot receive another for six years. There is no additional safety net.

[2] These necessities typically include an allowance of housing, clothing, furniture, and personal items, but vary in generosity from state to state. For example, New Hampshire allows a $50,000 homestead exemption, while in Texas, the entire homestead is exempt, regardless of value.

The Bankrupt Household: Who and Why?

Most individuals who file for bankruptcy are in the prime of their working years. They are between the ages of 25 and 55. One half are homeowners, and over a third are married. While less likely to be college graduates, more than 80 percent of filers have completed high school, and 52 percent have had some post secondary school education. By these metrics, the bankrupt population is not markedly different from the general population. However, the vast majority of bankrupt households are low income. A 2001 survey of bankruptcy filers found that nearly 85 percent of the filers had household income levels that were below the 40th percentile of all households. The median income of these households was only $24,108—virtually half the U.S. median household income.

These characteristics are fairly consistent with those of the bankruptcy population 10 years ago, and it seems that the recent rise in the number of filings cannot be explained by a change in the composition of households that file for bankruptcy. Nor can it be explained by any major shift in the reasons why households file. The majority of debtors continue to cite the same three causes of their financial woes: job loss, medical problems, and divorce.

Among the three, the most pervasive reason for household bankruptcy is a sudden income disruption caused by lost employment, working hours, or overtime pay. Elizabeth Warren, a Harvard Law professor and bankruptcy specialist, surveyed bankrupt families with children and asked them what ultimately led to their bankruptcy. Seventy percent of respondents stated that they filed after losing a job, receiving a pay cut, or experiencing some other job-related problem. Similarly, Boston Fed economist Joanna Stavins studied bankruptcy filers in the Federal Reserve Survey of Consumer Finance and found that unemployment was the strongest predictor that someone would default on a loan—the first step on the path to bankruptcy.

This academic research is corroborated by Ara Berberian's experience counseling clients at the Consumer Credit Counseling Service of Southern New England, an agency providing low cost financial counseling services. "Many people think that our clients are folks who have just overspent," he says. "They envision people who have bought themselves expensive clothes and a big screen TV and run up huge tabs on their credit cards, but it's not really like that. Some of the most common reasons why people end up in trouble are that they lose a job or overtime pay, or one spouse reduces their hours after the birth of a child."

Like job loss, life's other unexpected curve balls can lead to bankruptcy. A sudden family medical condition or death was the second leading cause of bankruptcy cited by the families in Warren's study. The third was divorce and family break-up. In concert with these statistics, Stavins also found that either having health insurance or being married reduced the probability of debt default.

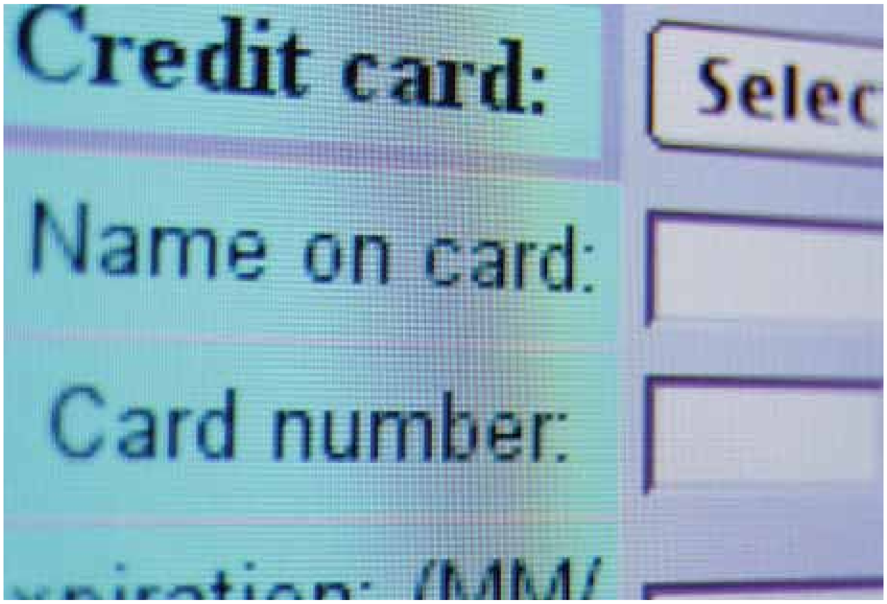
These same major bumps in the road have been causing bankruptcies for decades. Perhaps, then, the rising number of filings reflects a recent rash of bad luck befalling American households. But data from the 1990s do not support any signs of such a hex, according to Todd Zywicki, a researcher at the George Mason University School of Law. Zywicki examined data on each of the top three culprits and found that none of them conclusively accounted for the growing number of household bankruptcy filings.

For example, the unemployment rate in the United States fell to record lows during the mid 1990s. Fewer families should have been hurt by job loss or affected by corporate downsizing during this period, not more. Similarly, Zywicki found that the divorce rate fell 25 percent between 1979 and 2002, suggesting that fewer households are experiencing this type of family break-up. While he did find that Americans' health care costs have risen, making an unanticipated trip to the emergency room all the more painful, the rise cannot sufficiently explain the increase in filings.

Becoming a More Attractive Option?

Americans are not experiencing a greater number of these triggering events, but more families do seem to be turning to the bankruptcy courts when calamity strikes. According to Warren, perhaps this should not be a surprise. She estimates that 17 percent of all U.S. households would see a significant improvement in their current financial situation if they filed for bankruptcy. When families weigh the potential cost and benefits, the financial advantages of filing bankruptcy may be clear, and arguably the costs have decreased in recent years.

For starters, the expense of finding information about filing has noticeably declined. In 2004, people have greater access to information about bankruptcy than ever before. Advertisements for bankruptcy lawyers and services plaster phonebooks, pop-up ads, and billboards, while the Internet has put a plethora of information at our fingertips. Moreover, with the number of filers on the rise, a growing "word-of-mouth" network is informing the financial decisions of more and more families. Fully one-half of the filers surveyed by Warren first learned about bankruptcy through the first-hand experience of a friend or



family member. Given the increased awareness of bankruptcy, it is not surprising that the number of filings has risen.

The negative social image of bankruptcy has also lessened, reducing the public ramifications for many families. Economists David Gross and Nicholas Souleles recently found evidence that supports a decline in the social stigma associated with bankruptcy, in part explaining the rise in filings in the 1990s. The public softening toward bankrupts has been obvious to practitioners. Fleet Bank's head of consumer lending risk management, Steven Alexander, believes, "One of the major reasons for the rise in filings in recent years is that there is no longer as much stigma attached to it."

While these intangible costs are important, changes in the credit industry have reduced the monetary cost of filing for bankruptcy. Specifically, the 1980s and 1990s saw an escalating use of credit cards and the emergence of a sub-prime lending industry. Both events changed the bankruptcy cost equation for many families.

Changes in the Credit Industry

At the end of the bankruptcy process, a debtor's unsecured debt is forgiven, including credit card bills. As a result, the more unsecured debt you have, the more attractive bankruptcy becomes. In recent decades, Americans have taken on more credit card debt. According to Federal Reserve statistics, between 1985 and 2000, revolving debt rose from 20 to 40 percent of total non-real-estate consumer debt. Likewise, the percentage of households that carry at least one credit card jumped from 15 percent in 1970 to 76 percent by 2001. Credit cards have quickly become consumers' preferred form of currency, and the place where more households are choosing to carry debt. This shift toward credit cards has upped the amount of unsecured debt in the family portfolio, increasing the benefits of a bankruptcy discharge.

Accordingly, the credit card industry has been hit hard. In 2002, creditors lost $18 billion in bankruptcy court. And while $1.5 billion was recovered from filers in 2001, a mere $350 million of this went to unsecured creditors. "By far, the biggest impact is on our credit card business," says Alexander. "Banks have raised their projections for bankruptcies and charge-offs to try to cover these rising costs. However, a lot of smaller community banks' credit card programs are simply turning into retail outlets for larger credit card distributors who can better afford to take on the risk."

Despite this rising risk, the credit card industry has sustained its health, and today there are over 6,000 credit card issuers. Americans have greater access to credit than ever before, and stiff competition has made this type of credit blind to geographic and social factors. Today, you can get a credit card whether you live in Maine or Montana and regardless of your socio-economic status. However, given the copious supply, many Americans may be taking on more credit than they can handle. A study by economists Sandra Black and Donald Morgan showed that credit card holders have become a riskier bunch over time. In 1995, credit card holders were poorer, carried higher credit card balances, and maintained a higher debt to income ratio than they had in the late 1980s. The ready access of credit may be increasing some households' vulnerability to debt default and bankruptcy.

Emergence of Sub-Prime Lending

In addition to the credit card revolution, the sub-prime lending industry has also changed the bankruptcy equation for many households. Lenders in this business make loans at higher interest rates. As such, they provide a line of credit to individuals who may be ineligible for prime-rate loans, including former bankrupts. A red flag on an individual's credit report for 10 years, a bankruptcy has nearly always resulted in an automatic turndown for loans. Today, however, many sub-prime lenders will extend loans to these debtors, and bankrupts can now find needed credit soon after they file.

This availability has reduced the cost of bankruptcy for many households. Being locked out of credit is a formidable situation, and the thought of being barred from loans to purchase a house, buy a car, or pay for school proved a major deterrent for many households. Today, sub-prime loans are available to fill these credit needs—in some cases, within a year of filing. The financial implications of lost access to credit are no longer as pertinent as they once were. "People know that they can buy a home even if they choose to file," says Berberian.

High Costs Remain

While the various costs of bankruptcy have declined, households that file still face significant challenges in their financial future. Importantly, credit will still be harder to come by and more expensive. Many banks and credit card companies continue to automatically turn down applications when a bankruptcy appears on a credit report, and it may be several years before the bankrupt household can access the prime lending market again. "Sub-prime lenders will lend to former bankrupts after 1 to 3 years. However, most banks won't for the first 5 to 6 years," says Alexander. "At that point, they will consider it only if the individual has established good credit since the filing."

The sub-prime loans that are available carry higher interest rates by definition and will cost more over the life of the loan. Likewise, credit card offers made to this population often contain high rates and fees. The higher priced credit can confound the budgeting efforts of a family that has already cut its financial safety net.

Some amount of bankruptcy's social stigma also remains, affecting families in a number of ways. Potential employers will learn of a bankruptcy in their review of an individual's credit record and perhaps raise some embarrassing questions. Similarly, landlords who run credit checks on perspective tenants will see the bankruptcy and may be less willing to rent their properties to former bankrupts, closing the door on housing opportunities. Bankruptcies are also a matter of public record. Debtors may find that their names are published in the newspaper, and most debtors' identities will turn up in any Internet search of filers. The stigma of bankruptcy may be weakening, but many negative perceptions remain.

For this reason, "the vast majority of our clients view bankruptcy as their very, very absolute, last resort." says Berberian. "Probably nine times out of 10 when we tell them bankruptcy is an option, they tell us, 'It's not an option for me.'"

A Role for Financial Education

Given the remaining burdens of bankruptcy, solutions are needed to stem the rising tide of households that are finding themselves in financial trouble. Both research and experience have shown that the best way to reduce the occurrence of debt default is to teach individuals the basics of debt and asset management. Financial education may be an effective way to curb the escalating number of household bankruptcy filings.

There is backing for this approach. "I'm a big supporter of using financial education to prevent bankruptcies," says Fleet Bank's Steven Alexander. "Most customers who build up debts want to work it out with us. They want to pay back the loan. But sometimes, they just don't know where to start. The industry definitely sees an important role for financial education."

Financial training is especially needed for the growing number of households that have already experienced bankruptcy. According to Alexander's banker's rule of thumb: "Those who have had one bankruptcy are more likely to have another." The empirical data support this claim. Joanna Stavins found that former bankrupts had higher debt to income ratios and higher unpaid credit card balances and were more likely to

default on future payments than other households in her study. To aid these chronic filers, some federal legislators have proposed requiring financial education classes as part of the bankruptcy process.

Currently, credit-counseling agencies provide one of the major sources of financial education for potential bankrupts and struggling households. Each year, two million people turn to these agencies for help.

Financial education is the best way to reduce the occurrence of debt default.

The agencies aim to give these families a better understanding of their financial situations and the tools that they will need to start improving their financial pictures. The Consumer Credit Counseling Services of Southern New England goes through an extensive income and expenditure analysis with every client. "We ask them about everything: How much are you spending on stamps, hair cuts, socks, veterinary bills for that free cat you picked up at the shelter?" says Berberian. "In the end, most people say, 'Wow! I really didn't realize I was spending that much.'"

The Credit Research Center at Georgetown University showed that credit counseling is helping many American households to climb out of debt. Individuals who sought the advice of a credit counselor, and did not sign up for a debt management plan, significantly improved their credit profiles over a three-year period. These individuals decreased their debt, reduced their number of delinquent payments, and improved their credit scores.

Ideally, however, financial basics should be learned before any loan is ever obtained, and long before bankruptcy is looming on the horizon. First-time homebuyer courses are one model of pre-emptive financial education. These classes help families to learn the responsibilities of homeownership and to gauge an appropriately sized mortgage. Controlling for other factors, Abdighani Hirad and Peter Zorn showed that graduates of pre-purchase homeownership counseling were less likely to become delinquent on their mortgages. Steven Alexander hopes, "This type of training could be created around all types of lending and equip borrowers with the skills they need to manage any loan."

Many national and local programs have begun providing pre-emptive financial education, and many are targeting the next generation of borrowers—school-age children. Financial education alone will not halt the rising bankruptcy rate, and it certainly can not stop the unpredictable from occurring. Job loss, health problems, and family break-ups will continue to affect America's families and threaten their financial stability. Financial education can, however, help each household to prepare for the challenges that lie ahead.

References:

"A Brief History of Bankruptcy in the U.S." Excerpt from *The 2001 Bankruptcy Yearbook & Almanac.* Available at: http://www.bankruptcydata.com/Ch11History.htm.

Aizcorbe, Ana M. et al. 2003. "Recent Changes in U.S. Family Finances: Evidence from the 1998 and 2001 Survey of Consumer Finances." *Federal Reserve Bulletin*. The Federal Reserve Board (January).

Bankruptcy Statistics from the Administrative Office of the U.S. Courts, available at: http://www.uscourts.gov/bnkrpctystats/bankruptcystats.htm.

Black, Sandra E., and Donald P. Morgan. 1999. "Meet the New Borrowers." *Current Issues in Economics and Finance*, Federal Reserve Bank of New York (February).

Fay, Scott, Erik Hurst, and Michelle J. White. 2002. "The Household Bankruptcy Decision." The American Economic Review, vol. 92 no. 3 (June): 706 - 718.

Fay, Scott, Erik Hurst, and Michelle J. White. 1998. "The Bankruptcy Decision: Does Stigma Matter?" Working Paper, Department of Economics, University of Michigan (January).

Furletti, Mark. 2003. "Consumer Bankruptcy: How Unsecured Lenders Fare." Discussion Paper, Payment Cards Center, Federal Reserve Bank of Philadelphia (November).

Gross, David B. and Nicholas S. Souleles. 2002. "An Empirical Analysis of Personal Bankruptcy and Delinquency." *The Review of Financial Statistics*, vol. 15, no. 1 (Spring): 319-347.

Hirad, Abdighani, and Peter M. Zorn. 2001. "A Little Knowledge is a Good Thing: Empirical Evidence of the Effectiveness of Pre-Purchase Homeownership Counseling." Presented at the Federal Reserve System Community Affairs Research Conference, 2003.

Income data from the U.S. Census Bureau, available at: http://www.census.gov/hhes/www/income.html.

Livshits, Igor, James MacGee, and Michele Tertilt. 2003. "Consumer Bankruptcy: A Fresh Start." Working Paper 617, Federal Reserve Bank of Minneapolis (January).

Staten, Michael E., Gregory Elliehausen, and E. Christopher Lundquist. 2002. "The Impact of Credit Counseling on Subsequent Borrowor Credit Usage and Payment Behavior." Credit Research Center, Monograph #36, Georgetown University McDonough School of Business (March).

Stavins, Joanna. 2000. "Credit Card Borrowing, Delinquency, and Personal Bankruptcy." *New England Economic Review.* The Federal Reserve Bank of Boston (July/August).

Sullivan, Teresa A., Deborah Thorne, and Elizabeth Warren. 2001. "Young, Old, and In Between: Who Files for Bankruptcy?" *Norton Bankruptcy Law Advisor.* West Group (September).

Warren, Elizabeth. 2003. "Financial Collapse and Class Status: Who Goes Bankrupt?" *Osgood Hall Law Journal,* vol. 41 no. 1 (Spring): 116 - 146.

Warren, Elizabeth, and Amelia Warren Tyagi. 2003. *The Two-Income Trap*. Basic Books, Cambridge, Massachusetts.

Zywicki, Todd. 2003. "Why So Many Bankruptcies and What to Do About It: An Economic Analysis of Consumer Bankruptcy Law and Bankruptcy Reform." *Law and Economics Working Paper Series,* George Mason School of Law.

The Path *of a* Social Entrepreneur

Andrea Silbert
The Center for Women & Enterprise

I want my children to grow up thinking that a CEO can be a woman. In some ways, the reason I started the Center for Women & Enterprise (CWE) is as simple as that. I believe that women-owned businesses are an important tool for change. Female leaders in the corporate world challenge us to see beyond society's traditional gender roles, while, on a small scale, owning a business can give a woman the power to improve her life. While men have headed organizations for centuries, only recently have large numbers of women assumed this role. As more women begin to run businesses, they will need tools, training, technical assistance, and access to markets and capital. It is CWE's mission to provide this support.

CWE is a nonprofit organization that helps women start and grow businesses, but more broadly, it seeks to address the growing feminization of poverty. Women, and their children, are disproportionately represented among the world's poor. Worldwide, women have less access to advanced education, training, and livable wages, yet they are more likely to be raising children on a single in- come. Divorce is a leading cause of poverty for U.S. women and children because often mothers do not have the job skills needed to support their families after a break-up. If we can give all women solid financial and business knowledge, we can break down the barriers to economic self-sufficiency and success.

In reality, my reasons for founding CWE are scattered throughout my life. I grew up in Brookline, Massachusetts, with images of civic duty all around me. The community was active, and neighborhood families were always passionately involved in one public interest issue or another. My parents were dedicated to public service and were career doctors with the Veterans Health Administration. From an early age, I discovered a love for social issues and politics, devouring the newspaper daily and getting involved wherever I was able.

In college, this interest in social issues combined reactively with a newfound passion for entrepreneurship. What began as a campus job in the advertising branch of a student-run company catapulted me into a major leadership role by my senior year, working over 20 hours a week as the president of Harvard Student Agencies. I loved it. Running a business was complex and fulfilling, and starting my own seemed like it would be an exciting challenge. After graduation, I took a job on Wall Street to strengthen my understanding of finance—knowledge I knew I would need as an entrepreneur.

Wall Street gave me invaluable skills, but the ultimate focus on the bottom line didn't fulfill my ideals. My interest in public service remained strong, and I searched for a way to combine my entrepreneurial vision with a service-oriented cause. I decided to take a job in Costa Rica, and the eye-opening experience exposed me for the first time to the plight of women in poverty. I went back to school and returned to Latin America equipped with a pair of

Andrea Silbert, Chief Executive Officer of the Center for Women & Enterprise.

masters' degrees, ready to focus on women and poverty.

A fellowship took me to Brazil, where I worked at The Passage House, a nonprofit organization with a mission to improve the lives of homeless "street" girls. My job was to help provide the girls with marketable skills, such as tailoring and catering, and create small businesses that generated income and allowed them to leave the poverty of the streets. It was the toughest job I have ever had. I saw too many women living on the very margins of society. Throughout the experience, however, I began to see small businesses as viable solutions to address poverty both abroad and in the United States. If we could help the poorest of women in Brazil, why couldn't encouraging American women to start businesses have the same uplifting effects?

With this is mind, I returned home in 1994 and took a job helping prospective entrepreneurs apply for small business loans at the nonprofit Nuestra Comunidad Development Corporation in Roxbury, Massachusetts. I soon realized that American women needed more than loans and capital. In Brazil's informal economy, a woman could start her business by getting a loan, buying a pushcart, and selling her goods on the street. She didn't have to negotiate complex regulations or face markets crowded with competition. But back in the United States, women entrepreneurs needed to be much more sophisticated to survive the highly competitive and regulated market. Education and training were crucial.

With this realization, I developed a vision for my first entrepreneurial venture: a comprehensive nonprofit center serving women in all stages of business growth. Early grants from the U.S. Small Business Administration and Bank of Boston funded our start-up and allowed us to hire a few dedicated staff members. We officially launched the Center for Women & Enterprise in 1995, and I had found a career as a social entrepreneur.

If we can give women financial and business knowledge, we can break down the barriers between women and economic self-sufficiency and success.

We started with one office in Boston and a budget of $350,000, and we grew from there. We created the Community Entrepreneurs Program to train women who wanted to start businesses to achieve economic self-sufficiency. For established entrepreneurs, we organized networking opportunities and created advanced training programs focused on accessing capital and penetrating markets. We built a team of volunteer consultants to provide one-on-one business counseling to our clients, while extending them free legal advice through an innovative partnership with the Boston law firm of Testa, Hurwitz & Thibeault. I co-developed a national venture capital forum, Springboard Enterprises, Inc., to showcase women's fast-growth technology businesses. CWE also joined forces with the Women's Business Enterprise National Council to certify New England's women-owned businesses for corporate and government contracts.

Today, CWE has locations in Boston and Worcester, Massachusetts, and Providence, Rhode Island, and serves over 1,800 women a year. Over 40 percent are low income, and nearly a third are single parents. Their businesses range from small start-ups that provide wages for their low-income owners to multi million dollar corporations. CWE has labored to develop a set of services that will fully meet their diverse needs over the lives of their businesses.

Becky Curboy first came to CWE when she was given the chance to lease a driving range. Divorced, on welfare, and with a rusty set of job skills after years as a stay-at-home mom, Becky knew she couldn't raise her four children on a minimum wage job, but decent earnings had been elusive. Running her own business was a promising route to self-sufficiency. CWE taught Becky the practical skills and business know-how she needed to successfully launch the Royal Springs Family Golf Center. Now, fully supporting her family on income from the

Group instruction at the Center for Women & Enterprise.

Training session at the Center for Women & Enterprise in Boston, Massachusetts.

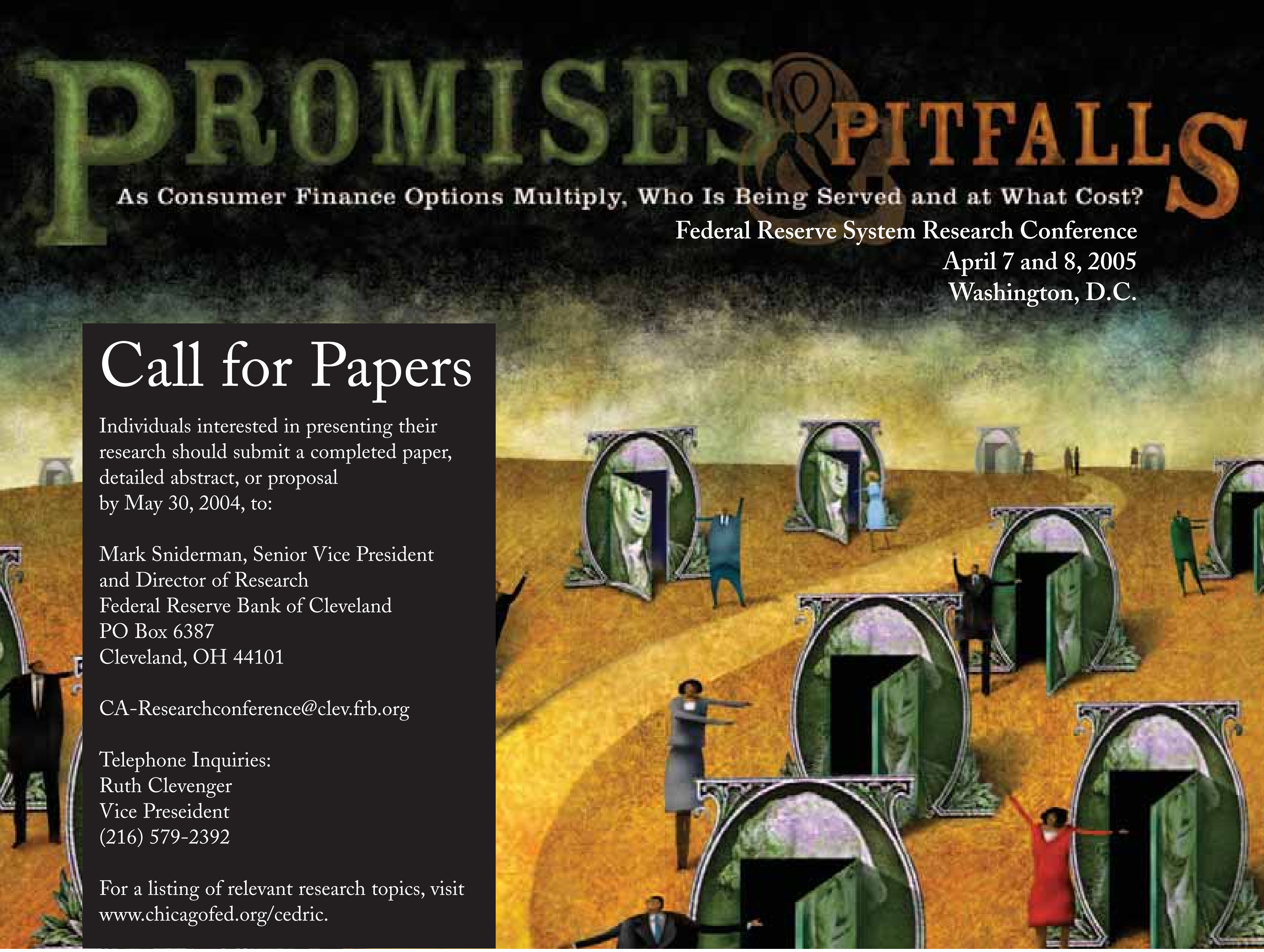
business, Becky returns often to CWE for advanced services and training. Most recently, CWE helped her to secure a loan to buy the property she had previously leased.

Clients like Becky not only highlight the success of entrepreneurial training but also serve as inspiration to me. I am moved by the determination and dedication of individual women to succeed regardless of their economic disadvantages. Our clients also continually remind me that entrepreneurial education is a powerful tool for social and economic change. I believe that grassroots business development is important to New England's future. New paths to economic well being are needed for the region's low income workers, and fostering new enterprises can address this need and help the region's economy thrive.

All of my years of life, work, and study have finally meshed with my goals and ideals, coming together in this career of social entrepreneurship. And my journey continues. After almost nine years at the helm of CWE, I've decided to retire as CEO in April and take on new challenges in the realm of family and small business social policy. The organization is at its strongest ever financially and programmatically, making it a natural time for a transition. CWE will continue to grow and is already heading in many new directions, launching initiatives to train displaced workers, spark college women's interest in entrepreneurship, and reach women in Spanish-speaking communities. Having watched our organization grow, I feel a true sense of pride in all that CWE has achieved. I will never forget the committed women, supporters, volunteers, and staff who have made, and will continue to make, CWE's success possible.

The vision: a comprehensive nonprofit center serving women in all stages of business growth.

Andrea Silbert *is Chief Executive Officer of the Center for Women & Enterprise. You can learn more about CWE by visiting www.cweonline.org.*



Call for Papers

Individuals interested in presenting their research should submit a completed paper, detailed abstract, or proposal by May 30, 2004, to:

Mark Sniderman, Senior Vice President
and Director of Research
Federal Reserve Bank of Cleveland
PO Box 6387
Cleveland, OH 44101

CA-Researchconference@clev.frb.org

Telephone Inquiries:
Ruth Clevenger
Vice Preseident
(216) 579-2392

For a listing of relevant research topics, visit www.chicagofed.org/cedric.

To be notified when the latest issue of *Communities & Banking* and other Federal Reserve Bank of Boston publications are available on the web, sign up for the Bank's free E-Mail Alert! service at www.bos.frb.org/genpubs/email/index.htm.

Communities & Banking

Public and Community Affairs
Federal Reserve Bank of Boston
600 Atlantic Avenue
Boston, MA 02210

Change Service Requested

FIRST CLASS
U.S. Postage Paid
Boston, MA
Permit No.
59702