Federal Reserve Bank of Boston

Communities & Banking

volume 18, number 2
spring 2007

Towns in a Maine County Unite

Holistic Assistance to Entrepreneurs

In-State Tuition and Immigrants

What It Costs You To Avoid Banks

Men Slip in College Degrees

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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Contents

Cover Illustration by Kirk Lyttle

Gender Gaps

The Gaps in College Degree Attainment Between New England Men and Women Are Rising

by Andrew Sum, Ishwar Khatiwada, Joseph McLaughlin
Northeastern University

Boys have been falling behind girls in school on a wide array of performance indicators. The data show weaker reading and writing skills, more frequent assignment to remedial classes, higher dropout rates, and lower college attendance among men.[1] Over the past three decades, women first gained on men and then surpassed them in college degree attainment.[2] For example, in 1980, 23 percent of 22- to 34-year-old males in the United States had earned a bachelor's or higher degree versus only 19 percent of women. **By 2005, 30 percent of the nation's women in this age group held a bachelor's versus only 24 percent of men.** The gaps have been widening over time and have broad implications for policymakers and society at large.

Table 1
Degrees awarded to men per 100 women's degrees,
United States trends

School Year	Associate's	Bachelor's	Master's	Ph.D.
1976-1977	108	116	112	312
1984-1985	81	96	99	192
1989-1990	72	87	90	175
1999-2000	66	75	72	127
2002-2003	67	74	70	112

Source: U.S. Department of Education, National Center for Education Statistics, "Earned Degrees Conferred."

Table 2
Degrees awarded to men per 100 women's degrees,
New England trends

School Year	Associate's	Bachelor's	Master's	Ph.D.
1984-1985	66*	87	105	192
1989-1990	60	82	84	161
1994-1995	57	86	75	149
1999-2000	64	76	68	127
2002-2003	61	74	67	114

* Data for associate's degrees are for the 1980-1981 school year.

Table 3
Degrees awarded to men per 100 women's degrees,
2003-2004, New England trends

	Associate's	Bachelor's	Master's	Ph.D.
Connecticut	50	78	71	114
Maine	59	66	43	154
Massachusetts	58	75	66	114
New Hampshire	64	72	79	147
Rhode Island	92	76	72	102
Vermont	76	79	56	83

Table 4
Degrees awarded to men per 100 women's degrees by
race/ethnicity, 2003-2004

	Associate's	Bachelor's	Master's	Ph.D.
Connecticut				
- Asian	57	83	83	73
- Black	34	55	55	67
- Hispanic	47	65	88	67
- White	53	72	59	91
Massachusetts				
- Asian	88	67	79	133
- Black	51	63	45	62
- Hispanic	41	65	62	111
- White	57	75	58	84

College Degree Attainment

In the late 1960s, U.S. women were obtaining two-year and four-year college degrees at 75 percent the rate of men but were gaining. By the mid-1980s, men were behind in associate's, bachelor's, and master's degrees, and they have continued to lose ground. Only for Ph.D. degrees do men keep outperforming women, but the gender gap in this area narrowed considerably by 2004. (See Table 1.) New England trends have been similar. (See Table 2.)

In 2003-2004, men in every New England state obtained fewer associate's, bachelor's, and master's degrees than women, although the size of the gaps varied across states. (See Table 3.) For example, the gap for Rhode Island associate's degree recipients was 92 men per 100 women, but the gap was much larger—only 50 per 100—in Connecticut. Vermont men obtained 79 bachelor's degrees per 100 for women. In Maine, the gap was 66 degrees for men per 100 women's degrees.

Although the gender gaps in degree attainment exist in each major race-ethnic group, they vary across these groups. Given the larger pool of minority college graduates in Connecticut and Massachusetts, we analyzed the data for race and ethnicity separately. In each one, the gap in associate's and bachelor's degrees was highest among Blacks and Hispanics and typically lowest among Asians.[3] (See Table 4.)

Among bachelor's recipients in Connecticut, the gaps ranged from 83 degrees for men per 100 women among Asians to a low of 55 among blacks. In Massachusetts, the associate's degree gender gap was 88 men to 100 women for Asians, 51 to 100 for blacks, and 41 to 100 for Hispanics. The low rates of degree attainment for New England black and Hispanic males should be a major concern to policymakers.

All signs point to the gaps widening in the near future. Nationally, the number of male first-time freshmen per 100 females declined steadily from fall 1999 through 2003. In New England, the gap is modestly larger but increased more gradually. (See Table 5.) In every New England state, fewer men than women enrolled as first-year students in 2003, with the smallest gap in Vermont and the largest in Connecticut.

These gender gaps in initial college attendance are exacerbated by higher rates of college persistence and degree attainment among women.[4] National projections of college degree attainment by men and women over the remainder of the decade indicate that gender gaps will widen.[5]

Labor Market Consequences of Degree Attainment

The economic value of college degrees keeps growing.[6] College-educated men and women have more hours of employment over their lifetimes and higher earnings than the less educated.[7] They are more likely to receive key employee benefits and at higher levels.

To focus on Massachusetts, we analyzed the findings of the 2005 American Community Survey (ACS).[8] We estimated the mean annual earnings of workers who had differing educational attainment and were employed year-round and full-time in 2004 to 2005. (See Table 6.)

Workers with postsecondary degrees enjoyed substantial earnings advantages over peers who had only a high school diploma. The mean annual earnings of associate's

Table 5
Numbers of men per 100 women among first-time freshmen, 1999 to 2003

	1999	2000	2001	2002	2003
United States	87	86	85	84	83
New England	83	82	83	82	81

degree holders were approximately 19 percent above those of high school graduates; whereas bachelor's degree holders' earnings were 76 percent higher.

Women with an associate's degree had slightly higher absolute dollar and percentage earnings advantages than men over their respective peers who had only a high school diploma; for higher degrees, the advantage shifts to men. Among bachelor's degree recipients, the mean annual earnings of employed Massachusetts males with a bachelor's degree were 84 percent above those of peers who had only high school; for women the difference was 72 percent.[9]

Given the large annual and lifetime earnings advantages for males with a bachelor's degree, men are not avoiding college because they think it won't benefit them. Some powerful noneconomic forces must be at work.

The Fiscal Consequences of Degree Attainment

The benefits of higher education do not accrue only to the individual degree recipient.[10] The rest of society also receives important fiscal benefits from better-educated workers. As a result of their higher earnings, college educated workers will pay considerably more in taxes. Better educated adults under the age of 65 also are less likely to receive cash income transfers and in-kind assistance from federal, state, and local governments.

We estimated the size of the fiscal benefits associated with better-educated adults by analyzing the findings of special tabulations from the March 2005 Current Population Surveys in New England, in which the U.S. Census Bureau imputed estimates of the likely amount of taxes paid by individuals based on their incomes, marital status, and family living arrangements. We also included cash transfer incomes and in-kind benefits for each adult aged 18 to 64 in New England during 2004 by educational attainment. The net fiscal benefits to the federal and state government are equal to the difference between the annual taxes paid by an individual and the value of the cash and in-kind transfers that he or she received. (See Table 7.)

Overall, the mean net fiscal benefits (total taxes/total transfers) to the government ranged from a low of -$4,618 for persons without a high school diploma to +$1,872 for high school graduates, and to highs of nearly +$12,000 for bachelor's holders and +$19,355 for those with a master's or higher. The values of these mean net fiscal benefits for men in each educational category were higher than those of their female counterparts because of their higher mean annual earnings.

Table 6
Mean annual earnings of Massachusetts residents aged 20 to 64 employed full-time 40 or more weeks, 2004-2005

Educational Level	All	Men	Women
High school diploma/GED	$40,374	$45,153	$31,834
Associate's degree	$48,113	$54,095	$41,324
Bachelor's degree	$70,878	$83,174	$54,844
Master's or higher degree	$95,687	$113,293	$73,809
Bachelor's advantage over high school diploma	1.76	1.84	1.72

Source: 2005 American Community Survey, public use files, tabulations by authors.

Table 7
Estimate of annual average tax payments, cash transfers, and noncash transfers of 16-to-64-year-old men and women in New England, by educational attainment, 2004

	All	Men	Women
Mean tax payments (A)			
<12 or 12, no HS diploma	$1,560	$2,072	$970
HS graduate/GED	$5,039	$6,022	$3,920
1-3 years of college	$6,872	$8,468	$5,586
Bachelor's degree	$13,460	$15,406	$11,724
Master's or higher	$20,101	$24,358	$15,936
Total	**$8,497**	**$9,963**	**$7,064**
Mean cash and in-kind transfers (B)			
<12 or 12, no HS diploma	$6,178	$5,555	$6,894
HS graduate/GED	$3,167	$3,145	$3,192
1-3 years of college	$2,107	$2,219	$2,017
Bachelor's degree	$1,566	$1,154	$1,934
Master's or higher	$746	$785	$708
Total	**$2,715**	**$2,641**	**$2,787**
Taxes – Transfers (C)			
<12 or 12, no HS diploma	-$4,618	-$3,484	-$5,924
HS graduate/GED	$1,872	$2,877	$728
1-3 years of college			
Bachelor's degree	$11,894	$14,252	$9,790
Master's or higher	$19,355	$23,573	$15,227
Total	**$5,782**	**$7,321**	**$4,277**

Source: March 2005 CPS Work Experience and Income Supplements, U.S. Census Bureau, tabulations by Center for Labor Market Studies.
Notes: Taxes include federal and state income tax liabilities, federal and Social Security retirement payroll deductions. Cash transfers include unemployment benefits, workers' compensation, Social Security retirement, Supplemental Security Income, veterans' payments, survivors' income, and Social Security disability income. In-kind transfers include earned income tax credits, the market values of food stamps, Medicare, and Medicaid, market values of housing and school lunch subsidies, and energy assistance.

In the Public Interest

A better educated population will improve the size, quality, and productivity of the future New England labor force. It also will use fewer government transfers and will provide increased government revenue. But in addition to those reasons, it behooves policymakers to be concerned and to investigate the impact of the continuing trend on quality-of-life issues and family formation.

There is much to learn. Why are the educational disparities for black and Hispanic men so stark? Are educated women going to be the main breadwinners in families? Should government do something? If so, what?

With the trend now well into a third decade, it seems unlikely that it will reverse itself without new public policy actions. Recognizing the problem is the first step to encouraging parents, schools, communities, and state educational policymakers to take action.

Andrew Sum, Ishwar Khatiwada, *and* **Joseph McLaughlin,** *of Northeastern University's Center for Labor Market Studies, are based in Boston.*

Acknowledgments

The authors wish to thank Sheila Palma and Paulo Tobar for their invaluable assistance.

Endnotes

[1] See Amy Benfer, "Lost Boys," www.salon.com, February 5, 2003; Chris Magnusson, "Boys and Schooling: A Gender-Based Achievement Gap," Harvard Divinity School, Cambridge, 2005; Christina Hoff Sommers, *The War Against Boys* (New York: Simon and Schuster, 2000); Andrew Sum, Neil Sullivan, et. al, *Gender Gaps in High School Dropout Rates and College Attendance Rates in Massachusetts and Its Large Cities,* Center for Labor Market Studies and Boston Private Industry Council, Boston, 2002; Alan Zarembo, "Death of the Male," *Newsweek International,* September 16, 2002; Ron Suskind, *A Hope in the Unseen* (New York: Broadway Books, 1998).

[2] See Jamilah Evelyn, "Community Colleges Start to Ask, Where Are the Men?" *The Chronicle of Higher Education,* June 28, 2002; Thomas Mortenson, "The Changing Gender Balance: An Overview," paper prepared for Fewer Men in Campus: A Puzzle for Liberal Arts Colleges and Universities, November 15-16, 1999; Andrew Sum, Neeta Fogg, Paul Harrington, et. al, *The Growing Gender Gaps in College Enrollment and Degree Attainment in the U.S. and Their Potential Economic and Social Consequences,* report prepared for the Business Roundtable, Washington, D.C., January 2002. In the United Kingdom, too, women are enrolling in college at rates well above those of men. See Richard Morrison, "Who'd Be a Boy?" *The Times,* August 15, 2001.

[3] One exception: in Massachusetts, the bachelor's degree gender gap for Asians was greater than for whites.

[4] See Christina Chang Wei, Laura Horn, and C. Dennis Carroll, *Persistence and Attainment of Beginning Students with Pell Grants,* U.S. Department of Education, National Center for Education Statistics, May 2002; Laura Horn and Rachel Berger, *College Persistence on the Rise? Changes in Five-year Degree Completion and Post-secondary Persistence Rates Between 1994 and 2000,* U.S. Department of Education, National Center for Education Statistics, November 2004.

[5] See U.S. Department of Education, National Center for Education Statistics, *The Condition of Education, 2002,* U.S. Government Printing Office, Washington, D.C., 2002.

[6] See Andrew Sum, Ishwar Khatiwada, and Joseph McLaughlin, *The Labor Market Experiences of the Nation's Young Adults Since the Publication of America's Choice*, prepared for the National Center on Education and the Economy, Washington, D.C., August 2005.

[7] Andrew Sum, et al., *Gender Gaps in College Attendance Rates in Massachusetts.*

[8] The ACS surveys were conducted by the U.S. Census Bureau using a questionnaire similar to the long-form questionnaire used for the 2000 Census. ACS surveys were completed by nearly 35,000 households across the state.

[9] The opportunity costs of attending college have declined considerably for men; they are not much higher than for women. Weekly-wage differences between young male and female high school graduates have narrowed over the past few decades.

[10] The estimated gross differences in earnings do not reflect the net impact of completing college since college students have traits, including higher academic achievement, that would be associated with higher earnings regardless of schooling. Even after controlling for these differences, 75 percent to 80 percent of the annual earnings differences remain.

by Sheila Grant, Tom Lizotte, and Erik Stumpfel

Economic Development in Maine

The Piscataquis County Model

The former Brown's Woolen Mill in Dover-Foxcroft represents the historical economic base of Piscataquis County.

Not long ago, few people would have regarded Piscataquis County as an economic development model, but today it is charting a new course for rural Maine.

With the state's smallest population (17,235) and lagging personal income growth, Piscataquis County shared in rural Maine's recent economic decline.[1] Ongoing losses in traditional manufacturing industries (shoes, clothing, paper) led to a net outmigration, reducing Piscataquis County's population by nearly 8 percent between 1990 and 2000.[2] This loss of population, especially the loss of young families with children, has accelerated other negative social trends, such as the ongoing closure and consolidation of public schools.

But today Piscataquis County municipal officials and residents have embraced a cooperative approach to regional economic development that holds great promise—not only for Piscataquis but for rural Maine generally. In fact, countywide action is an innovation for most of New England.

A Coordinating Identity

Economic development efforts are now coordinated on a countywide basis by the Piscataquis County Economic Development Council (PCEDC).

Incorporated in 1998, PCEDC is a nonprofit, individual-membership, local development corporation. The council's board of directors consists of approximately 50 Piscataquis County residents from business, professional, and governmental sectors. A 12-member executive committee chosen from the board provides day-to-day oversight and policy direction. The executive committee currently includes the town managers of four of the county's five largest towns.

The council determined early on that a full-time, in-house economic development director was essential to organize local efforts

Piscataquis functions as a single economic development entity—with more population than any one town, more than $1.8 billion in countywide assessed value, and more than $22 million in bonding capacity.

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to attract business; talk with prospective new business owners; show available sites; provide statistics on the labor market, education, and employment; and write and administer grants.

In 1999, an executive director was hired, technically as an employee of Eastern Maine Development Corporation (EMDC) in Bangor but reporting directly to the PCEDC executive committee. The executive director works from the council's office in the merged town of Dover-Foxcroft.

The staff grew in 2006, when two half-time specialist positions were added: one in tourism marketing to help the Piscataquis Tourism Task Force develop nature-based tourism opportunities; one in community development to support downtown revitalization efforts.

The Piscataquis County commissioners fund the three positions through the annual county budget, increasing the funding from $40,000 in 1998 to $100,000 in fiscal years 2005 and 2006.

A Rare Countywide Collaboration

Although county-based initiatives are common in some states, Piscataquis County's approach to economic development is unique in Maine. In general, Maine towns have full home-rule powers, and county governments can exercise only delegated powers.

So PCEDC sought and obtained special authorization from the Maine legislature for Piscataquis County to undertake and fund economic development efforts. And since 2003, through its commissioners, the county has had that power. It is now permitted to issue bonds to support local or countywide economic development capital projects and—subject to voter approval through a referendum—local match funding for state and federal grants.

Today Piscataquis functions as a single economic development entity. It has more population than any one county town, more than $1.8 billion in countywide assessed value, and more than $22 million in county economic development bonding capacity. It is on a par with Maine's larger municipalities—a boon for future economic development efforts.

Activities and Successes

The countywide sharing of risks and the pooling of resources have enabled Piscataquis County to undertake efforts that are beyond the means of any single town.

Penquis Higher Education Center

An economy in transition requires retraining of displaced workers and convenient, affordable access to postsecondary education. The PCEDC sought to overcome a lack of local postsecondary opportunities through creation of the Penquis Higher Education Center (P-HEC).

Dover-Foxcroft donated the vacant Mayo Street School to Eastern Maine Community College, and PCEDC secured $1.2 million from the legislature for renovations. Since opening in 2002, P-HEC has served more than 7,000 students. More

than 100 have graduated with a diploma, associate's degree, or bachelor of science.

In 2003, PCEDC and P-HEC created the Penquis Leadership Institute (PLI), modeled on the state initiative called Leadership Maine, to train local volunteers wishing to take a more active role in civic affairs. PLI has graduated four classes totaling 62 students, many of whom now staff local volunteer organizations and boards.

Development Sites

To address a critical shortage of available, prepermitted development sites, PCEDC is assisting in the creation or expansion of three business and industrial parks, geographically distributed in the county's three service-center communities. These include Pine Crest Business Park in Dover-Foxcroft, which opened in 2000; the existing Greenville Industrial Park, where recent efforts have focused on expansion and infrastructure improvements; and the planned Eastern Piscataquis Industrial Park in Milo. Milo purchased 140 acres for the Eastern Piscataquis park in 2004. One lot has been developed, occupied in 2005 by Mayo Regional Hospital's Milo Family Practice. The rest is in the design and permitting phase. PCEDC helped secure a $544,500 Congressional appropriation for infrastructure development, plus a transportation-bill earmark for related traffic improvements.

New Technologies

The town of Greenville is now affiliated with the Sanford Composites Technology Center, as part of Maine's targeted technologies program. Greenville and PCEDC have obtained local funding and state and federal grants for construction of a 10,000-square-foot incubator facility for wood composites businesses. The low-cost production space is for start-ups utilizing wood composite technologies and products developed and patented by the University of Maine's Advanced Engineered Wood Composites program in Orono. The incubator facility opened in May 2005, and an initial tenant took occupancy of a portion that June.

Tourism Development

Piscataquis County has Maine's highest mountain, Katahdin, and its largest lake, Moosehead, plus the Appalachian Trail's "100 Mile Wilderness" section, the Gulf Hagas National Natural Landmark area, more than one million acres of conservation and forestry easement lands, and a unique forestry and outdoor heritage.

Given such advantages, PCEDC decided to create the Cultural Heritage and Eco-tourism Committee (CHEt). CHEt's efforts include acquisition of funding for a book about 20th century Piscataquis history and the publication of *Cultural Heritage Directory of the Piscataquis Region* and *Southern Piscataquis Regional Recreation Map and Guide*, the latter created with the University of Maine Cooperative Extension and the Appalachian Mountain Club.

A 2005 state-commissioned study of ecotourism assets identified the southern part of the county as one of two proposed "implementation areas" for enhanced nature-based tourism development. And PCEDC, with financial support from the Piscataquis County commissioners, created the Piscataquis Tourism Task Force to help implement the study's recommendations through signage, travel itineraries, and infrastructure improvements at designated nature-based tourism sites.

Recently, several national conservation groups have made major purchases in Piscataquis County. The Appalachian Mountain Club now owns 37,000 acres in central Piscataquis adjacent to Gulf Hagas. A significant base of working forest landscape is being put into conservation easements. About 1.5 million acres of Piscataquis County are now in public ownership or set aside for sustainable forestry and outdoor recreation.

Local Businesses

A 1998 University Maine Cooperative Extension study indicated that 2,000 home-based microbusinesses provided 20 percent of the county's employment base. A subsequent study found that 40 percent of those microbusinesses were tourism related.

To assist home-based craft businesses, CHEt created and incorporated the Maine Highlands Guild. The guild provides juried artisan members with a strong brand identity, a coordinated marketing and sales strategy, education and networking opportunities.

In 2001, PCEDC assisted the relocation of JSI Store Fixtures, Inc., to Milo, obtaining $400,000 from Maine's community development block grant (CDBG) program to help finance JSI's purchase the vacant Dexter Shoe Company facility. JSI now employs about 80 people.

Also in 2001, PCEDC helped obtain a $400,000 CDBG grant for Dover-Foxcroft to help fund construction of a 15,000-square-foot production facility in Pine Crest Business Park, for Creative Apparel, Inc. This project created more than 60 new manufacturing jobs.

In 2005, PCEDC was instrumental in obtaining a $400,000 business assistance program grant to help finance acquisition of the Pride Manufacturing mill in Guilford by American Wood Turnings, Inc., thereby retaining 60 jobs.

The PCEDC has assisted in bringing more than $4.5 million in grant dollars to Piscataquis County for tourism development, renovations of the Center Theatre in Dover-Foxcroft, downtown revitalization, and more. Direct business guidance and assistance referrals by PCEDC are ongoing.

Piscataquis County's approach is evidence that a county-based economic development program can be successful in rural Maine. By organizing local resources on a countywide basis, Piscataquis County now has the opportunity to play a meaningful role in its own economic future.

Shelia Grant *is Piscataquis County Economic Development Council's community development specialist.* **Tom Lizotte**, *a member of the Piscataquis County Commission, is the director of development for Mayo Regional Hospital in Dover-Foxcroft.* **Erik Stumpfel** *is an attorney with Eaton Peabody in Dover-Foxcroft and Bangor and a PCEDC executive committee member.*

Economic development photographs are courtesy of PCEDC.

Endnotes

[1] In 2004, for example, workers earned the lowest average annual wage in the state, $24,103. See http://www.pcedc.org. The income figures on the web site are from the U.S. Bureau of the Census.

[2] After a decade of decline, Piscataquis County's total population increased by 2.5 percent between the 2000 census and the end of 2005, contrary to Census Bureau predictions. The net outmigration issue also seems to have been reversed, with a net immigration reported in 15 of Maine's 16 counties (including Piscataquis) in 2004. *The Bangor Daily News*, November 3, 2006, reports that in 2004 more than 11,600 people moved to Maine from the other five New England states, versus only 7,000 departures from Maine to those same states.

In western Maine, the Greater Franklin Development Corporation has worked diligently to retain jobs and bring in new ones.

by Peter L. Judkins
Franklin Savings Bank


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Bringing Jobs to Western Maine

Western Maine has been experiencing difficult times as the economic base transitions and many of the region's past manufacturing jobs have been lost. Even the paper industry, the last major industry that still provides manufacturing jobs, is relatively unstable. According to the July 2006 Maine Labor Market Digest, unemployment rates in Maine average 4.2 percent. Unemployment rates in western Maine range from 5.6 percent to 6.7 percent. The national unemployment rate for the same period was 4.7 percent.

Many western Maine communities are what the Maine Department of Economic and Community Development would call "vulnerable communities," or communities that have one dominant employer or taxpayer. Wilton, in Franklin County, is a vulnerable community that is still working to recover from devastating the loss of Bass Shoe, which moved its headquarters and many of its manufacturing jobs in the early 1990s.

The towns of Rumford, Jay, Skowhegan, and Madison are also vulnerable communities because their tax bases and employment opportunities are tied to the paper industry. The paper mills in Jay and Rumford were recently sold, and although the mills are expected to continue to operate in the near future, the long-term outlook and the level of employment are uncertain.

• Camden

Many of the people living in and around these towns either work at the mills or are in some way dependent on them for their livelihood. For example, loggers and foresters are affected by mill closure, as demand for their products decline and prices become so low that it is not economical to harvest the wood. Retail establishments also derive much of their business from the mill workers and others who support the ndustry. If the paper industry in Maine continues to weaken, the region's economy will suffer even more.

A Big Employer Leaves

For more than a decade, the Camden-Belfast area flourished because of credit-card company MBNA's Maine-based call center operation.

Starting in 1993, when MBNA established its Northeast Regional Marketing Center in Camden, the company increased the size of its Maine-based workforce to about 2,500. A report generated by the Maine State Planning Office in June 2004 listed it as the fifth largest employer in the state. In addition to the nearly 1,700 jobs supporting the regional center, MBNA operated call centers in Farmington, Fort Kent, Portland, Presque Isle, Orono, and Brunswick.

That all started to change following the January 1, 2006, purchase of MBNA by Bank of America, which decided to maintain most Belfast positions but to close the facilities in Farmington, Fort Kent, Portland, and Presque Isle the following March. When the Farmington call center closed, approximately 95 people lost their jobs.

Greater Franklin Development Corporation

Into the breach came the Greater Franklin Development Corporation (GFDC), an economic development group that has long worked diligently to retain jobs and bring in new ones. When it was announced that MBNA would close Farmington, GFDC didn't waste any time trying to attract a new company.

With assistance from Franklin Savings Bank, GFDC approached Bank of America about purchasing the MBNA building. Franklin Savings Bank pledged to support the project in the form of a low-interest loan and a grant from the bank's Community Development Foundation to cover the carrying cost for six months. Bank of America representatives were sensitive to the town's concern about jobs and offered the building to GFDC for a reasonable price.

With control of the building, GFDC began the process of seeking an employer to fill the space. Working with Maine and Company, a private organization that assists businesses looking for a new location, and with the state's Department of Economic and Community Development, GFDC was able to identify several potential occupants. Ultimately, it reached an agreement with NotifyMD, Inc., the nation's largest enabler of call-center-based messaging services for health-care provider organizations.

Several of NotifyMD's senior managers visited the site and were impressed—both by the building and by the reception that they received from GFDC and community leaders. Shortly after the managers' first visit, negotiations began on leasing the building. The result was a three-year lease agreement and a business plan calling for 45 jobs at the outset—with the likelihood of 200 jobs by the end of the second year.

NotifyMD has six domestic call centers offering both after-hours answering services and daytime call management. The Farmington center will be used to accommodate daytime service to allow physician practices to manage nonurgent inbound messages in a secure environment while preserving the live voice interaction.

By working together, GFDC and Franklin Savings Bank were able to meet their missions of supporting the community and helping it grow.

Peter L. Judkins *is the president and CEO of Franklin Savings Bank in Farmington, Maine.*

Ricardo Borgos
Federal Reserve Bank of Boston

Tackling Foreclosure

With foreclosure rates rising nationwide, public officials, financial institutions, and community organizations are launching prevention programs and educating housing counselors and attorneys on the issue.

For example, Boston's campaign to reduce foreclosures involves encouraging lenders to create more tailored refinance products. The program teaches homeowners how to improve their credit and how to avoid predatory lending. Nearby in Brockton, the Brockton Housing Partnership is urging people to consider buying or refinancing their homes using a trailblazing program called MyCommunity Mortgage.

The National Consumer Law Center

The National Consumer Law Center, which advocates for low-income consumers, is traveling the country to educate practitioners on predatory lending, homeowner rights, effective advocacy, and foreclosure prevention. In 2006, with a grant from the U.S. Department of Housing and Urban Development (HUD), it collaborated with NeighborWorks America on workshops for housing counselors in Dallas, Boston, Greensboro (North Carolina), Manchester (New Hampshire), and Kansas City (Missouri).

Mortgage-servicing problems are also increasing, so NCLC is offering a special workshop for attorneys on homeowner rights under the 1974 Real Estate Settlement Procedures Act, causes of actions, and common legal claims for servicing violations.

Locally, the Massachusetts Bankers Association (MBA) has collaborated with NCLC on a foreclosure prevention program that enables bank members to help homeowners suffering economic hardship by referring them to one of seven nonprofit housing agencies. However, according to Kevin Kiley, MBA's executive vice president, the program has not been utilized as much as hoped "because the majority of foreclosures stem from nonbank entities."

Boston

Boston's current foreclosure rate is low compared with other locales, and the city is working to keep it low. Back in 1992, deeds sold through foreclosure peaked at 1,679, accounting for 43.8 percent of all home sales.[1] In 2005, there were only 60

Boston Foreclosure Sales 1990 to 2005

Year	Deeds Sold through Foreclosure	Percentage of Real Estate Transactions*
1990	341	8.3%
1991	1,008	29.2%
1992	1,679	43.8%
1993	1,430	29.0%
1994	1,126	17 6%
1995	646	10.4%
1996	532	7.7%
1997	285	4.7%
1998	217	2.8%
1999	190	2.2%
2000	75	1.0%
2001	32	0.5%
2002	42	0.5%
2003	43	0.6%
2004	25	0.2%
2005	60	0.6%

*Sales of 1-, 2-, 3-family homes and condominiums.

Data Sources: The Warren Group (1990 to 2003) and Suffolk Registry of Deeds (2004 and 2005).

Photograph from iStockphoto.com

foreclosures. (See the exhibit "Boston Foreclosure Sales.") But that was an increase of 140 percent over 2004, so the city intends to stay vigilant.

In May 2006, Boston unveiled a campaign for predatory lending awareness, foreclosure prevention through credit education, and foreclosure intervention and counseling services. In October, six lenders (Bank of America, Boston Private Bank & Trust, Citizens Bank, Eastern Bank, Mt. Washington Bank, and Sovereign Bank) set aside $100 million to help Boston homeowners get a secure loan or refinance with one of several products. The lenders agreed to adhere to lending practices established by the city to minimize foreclosure risk. The Boston Homeownership Preservation Fund for foreclosure counseling and outreach also was established.

The city's Home Center is expanding the Ensuring Stability through Action in our Community (ESAC) and Homeowner Options for Massachusetts Elders (HOME) programs as well.[2] It is creating new counseling capacity at Nuestra Comunidad Development Corporation, Urban Edge, and Mattapan Family Service Center.

As of last December, the Home Center was reaching out to 6,000 Boston property owners who had recently borrowed money from traditionally high-interest-rate lenders to offer home mortgage evaluation and to direct people to appropriate counseling or refinancing services. The center also is expanding its Credit Smart financial management classes, in which participants learn to manage money, establish and maintain credit, avoid credit traps, and become successful homeowners.

A Promising Partnership

The Brockton Housing Partnership is proactively urging borrowers who use nontraditional mortgages or subprime loans—or are contemplating using one—to consider a different product.[3] It recommends MyCommunity Mortgage, a conventional fixed-rate product developed by Fannie Mae and offered through Brockton-area lenders in partnership with MassHousing. The product is a preemptive measure and is not designed to rescue those close to foreclosure.

"MyCommunity Mortgage is a safer alternative," says Peter Milewski, who oversees the Mortgage Insurance Fund and Home Ownership Business Development at MassHousing. "More important than converting people into a safer mortgage is to reach out to those contemplating a home purchase to consider this product over a subprime or nontraditional mortgage."

MyCommunity involves low fixed interest rates, flexible Fannie Mae underwriting guidelines, minimal down payments, and no prepayment penalties. Fannie Mae finances the loan and MassHousing services it. Eligibility depends on credit history, but those eligible may have household incomes of up to 135 percent of the community's HUD median income. Also available is state-sponsored, low-cost mortgage insurance that carries with it MassHousing's free mortgage payment protection plan, a cheaper alternative to simultaneous second-lien loans (often called *piggybacks*).[4]

According to Milewski, the most important first step is to build a collaboration among banks, community leaders (including municipal and religious leaders), and nonprofits. Lenders must be approved by Fannie Mae or apply to MassHousing. Being involved gives banks more ways to help people find the right product.

Worcester and Lawrence also hope to tap the MyCommunity Mortgage program. Towns learned a lot from the 1990s housing market collapse, and today public officials, financial institutions, and community organizations are collaborating better to find solutions.

Ricardo Borgos *is a community affairs analyst in the Public & Community Affairs Department of the Federal Reserve Bank of Boston.*

Endnotes

[1] A lender must file a petition in court to initiate the foreclosure process. Other Federal Reserve research looks at foreclosure *initiation* numbers, whereas here we focus on foreclosure *deeds*, or final sales. The sales numbers are naturally lower because some initiations are resolved before the property is auctioned.

[2] The Home Center phone number is (617) 635-HOME (4663).

[3] The partnership includes the Bank of Canton, Bridgewater Credit Union, Citizens Bank, Crescent Credit Union, Eastern Bank, Harbor One Credit Union, North Easton Savings Bank, Rockland Trust, Security Federal Savings Bank, Sovereign Bank, The Community Bank, Webster Bank, and United Credit Union. Interest-only loans, payment-option adjustable-rate mortgages, and piggyback loans (originated simultaneously with the first-lien loan to cover the down payment) are a concern to the partnership. Adjustable-rate products typically carry low initial interest rates that adjust to higher rates after a set time period.

[4] The payment protection plan will pay 100 percent of principal and income for up to six months in the event of job loss.

Foreclosure in Rhode Island

by Carol Lewis
Federal Reserve Bank of Boston

Rhode Island is a nonjudicial foreclosure state. That results in a fast-moving foreclosure process and few official statistics. It also means that pinpointing leading causes and hotspots is tough.

According to Home Ownership Connection Director Vivien King of the Housing Network of Rhode Island—the Rhode Island association of nonprofit community development corporations (CDCs)—most calls for help are from individuals who are weeks, days, or even hours away from foreclosure.

"When clients come into our members' offices at such a late hour, it is difficult to find practical solutions because now we're not talking just about the mortgage but also legal fees."

Nevertheless, the network is doing what it can through Don't Borrow Trouble Rhode Island—a campaign against predatory lending that Boston Mayor Thomas M. Menino and the Massachusetts Community and Banking Council pioneered and that Freddie Mac expanded nationally. It provides education and free counseling services to help consumers avoid scams and resolve financial difficulties. According to King, foreclosure is at the forefront of financial difficulties. Between October 1, 2005, and September 30, 2006, the Housing Network dedicated 726 counseling hours to foreclosure alone.

Challenges

Some people in foreclosure are victims of circumstance—say, a job loss or illness. Others are victims of predatory lending. For many, their adjustable-rate mortgages are no longer affordable or they chose homes they couldn't afford. Most of the network's clients are people who refinanced and have little home equity left.

King says that although foreclosure prevention products are available, one size doesn't fit all. The network staff has to do triage. Consumers and referring agencies call (800) 436-3180 and leave contact information. A certified housing counselor returns the call within 24 hours to obtain an overview of the problem and subsequently meets with the client. If loss mitigation is appropriate, counselors help the client and lender to structure a remedy.

When appropriate, the counselor refers clients to a program partner: Rhode Island Housing & Mortgage Finance Corporation, United States Department of Housing and Urban Development, Rhode Island Legal Services, National Consumer Law Center, or Consumer Credit Counseling Services. The Housing Network keeps client information in Fannie Mae's Home Counselor Online System, a free database, and transfers information to the appropriate agency.[1]

The Housing Network follows up at monthly antipredatory/foreclosure workgroup meetings involving housing counselors, credit counselors, legal services, and housing advocates. Workgroup members present their most complex cases, and the team makes recommendations.

One interesting remedy, typically a last resort, is a lease-back option agreement with a community development corporation. If the client is affiliated with a CDC in the Housing Network's trade association, the CDC may consider purchasing the house and leasing it to the borrower until he or she is able to repurchase it.

Unfortunately, if their credit is too far gone, clients may end up in bankruptcy. But by completing preliminary filings for bankruptcy early enough, they effectively halt the foreclosure process—and gain time to sell the house and deal with debts. For some people in bankruptcy, a lease-buyback program is a good way to resolve the foreclosure problem, after which they can withdraw the bankruptcy filing.

Solutions

It is important that people not wait until the last minute to call the helpline. "The earlier they call, the better it is for them and for us in terms of looking at good solutions," King says.

And to the industry she recommends being proactive. Banks should create an array of lending products addressing different needs—clients with fluctuating incomes, clients on disability with fixed incomes, single-parent families with no disposable income for emergencies. According to King, a successful campaign on foreclosure prevention requires many partners—community agencies, CDCs, and state and local government.

Some initiatives have begun in Rhode Island. Building on the work of the foreclosure-prevention and predatory-lending workgroup, a new workgroup is exploring alternative loan-rescue products ranging from small grants to full-rescue finance products. The group, whose members come from the housing and mortgage banking industries, is also investigating national best practices for more future ideas.[2]

What's next for King? "We need to branch out to deal with more foreclosure issues, with predatory lending being a part, but not the sole focus. … Our goal for 2007 is to increase our capacity to deal with the foreclosure trouble that we know is coming."

Endnotes

[1] Home Ownership Connection tracks foreclosure phone calls and, with Fannie Mae's help, has mapped its own Rhode Island hotspots, many of which coincide with Fannie Mae's predatory lending hotspots.

[2] Fannie Mae, Rhode Island Housing and Mortgage Finance Corporation, Rhode Island Housing Resource Commission, Rhode Island Department of Business Regulation, Consumer Credit Counseling Services of Southern New England, Mortgage Guaranty Insurance Corporation, Rhode Island Legal Services, Sovereign Bank, Citizens Bank, Randolph Savings, and Bank of America.

In-State Tuition Rates and Immigrants

by Antoniya Owens
Federal Reserve Bank of Boston

In 1982, the U.S. Supreme Court ruled that, to prevent "a subclass of illiterates," all children, including undocumented immigrants, should be eligible for free elementary and secondary education. Providing immigrants with tuition benefits beyond high school, however, remains controversial across the nation.

In 1996, Congress passed a law stating that if states let undocumented students pay tuition at in-state rates, they would have to do so for any U.S. citizen who fulfills the specified criteria. So far 30 states have considered legislation that would either provide or prohibit the benefit. Ten states, including immigrant gateways like California, Texas, and New York, have voted to provide it; Georgia has restricted it to U.S. citizens and legal residents of the state.

Massachusetts, Connecticut, and Rhode Island, which make up 77 percent of New England's population, are home to 92 percent of its 1.6 million immigrants. More than 300,000 are undocumented, and about 2,000 undocumented students graduate from high school annually.[1]

Bills allowing undocumented students to pay in-state rates for college have been filed in all three states. The typical requirements are that students attend high school in the state for at least three years, graduate from a high school in the state, and file affidavits promising to legalize their status. After emotional public debate, the bills were defeated in Connecticut and Massachusetts. The Rhode Island legislature has yet to vote.

Setting Policies at the State Level

As states struggle with this issue, a national debate on immigration reform rages. The DREAM Act—pending bipartisan federal legislation—would repeal the 1996 tuition benefit restrictions and allow certain qualifying students to legalize their status. The act has been introduced repeatedly since 2001 but has not been voted on.

In the interim, how do states determine policies on in-state tuition? What arguments do they consider in their cost-benefit analyses? What does the evidence say?

Costs to the State

Opponents of tuition discounts believe the cost states too much. During the 2006 Massachusetts gubernatorial race, officials argued that the benefit could cost $15 million in forgone tuition revenue over the next four years.

Recent studies suggest that this estimate is too high. It assumes that all students likely to use the benefit—in Massachusetts, possibly 400 students—currently attend public colleges and pay full tuition. If that were the case, then for the academic year 2006 to 2007 at UMass Amherst, for example, those 400 would each be paying $9, 658 in tuition and mandatory fees as nonresidents, compared with $4,797 as residents. However, considering that undocumented immigrants' average family income is half that of natives and undocumented students are ineligible for federal financial aid, it is more likely that most do not attend college at all.

As a 2005 study by the Boston Redevelopment Authority reveals, the $15 million figure further assumes that all 400 students would enroll in the University of Massachusetts system, which is the most expensive among the state's public colleges and has the highest spread between in-state and out-of-state tuition rates.[2] According to the study, this assumption is inconsistent with the average composition of public colleges chosen by Boston public high school graduates. More than two-thirds enroll in community colleges or state colleges with tuition rates lower than those at UMass. If 400 undocumented students enrolled in similar proportions, the difference between potential in-state and full-tuition revenues would be $10.2 million.

A Massachusetts Taxpayers Foundation report calculates that allowing undocumented students to pay in-state tuition rates would increase their annual enrollment by up to 600 by 2009—less than half a percent of the state's 160,000 public college students.[3] Arguing that the associated costs would be negligible, the report concludes that the in-state tuition paid by undocumented students would generate positive net revenues—$300,000 in 2006 and up to $2.7 million by 2009.

The evidence suggests that the economic impact of allowing undocumented immigrants to pay in-state tuition would be positive, but social, emotional, and ethical implications carry the debate beyond purely economic considerations.

Taxes and Benefits

Many see it as unfair to demand that lawful taxpayers subsidize the education of those who do not pay taxes and whose presence in the country is illegal. Others worry that if fiscally strapped states forgo full-rate tuition from undocumented students, they may need to cut funding for other services.

While some concerns are valid, others are based on misperceptions. For example, undocumented immigrants pay many taxes—sales and other consumption taxes, and property taxes factored into rent, for example. Moreover, the majority also pay income and payroll taxes through Individual Tax Identification numbers or false Social Security numbers. Although false numbers cannot be condoned, their existence undermines the argument that the undocumented do not pay taxes.

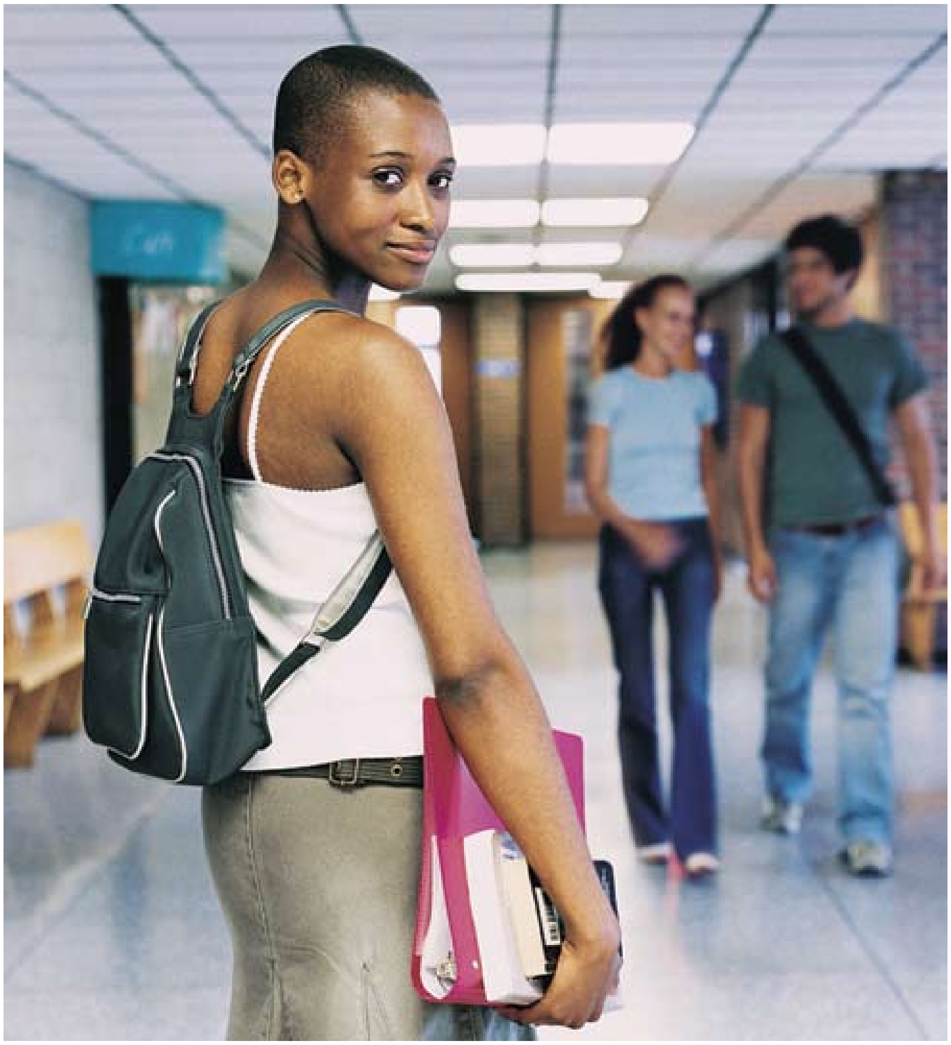
But do they consume more in public services than they pay in taxes? A 1997 National Research Council report estimated the average lifetime fiscal impact of immigrants. The report found that, at the state and local level, the average immigrant, legal or undocumented, consumes about $25,000 more over his lifetime in services such as education, public safety, and fire protection than he contributes in taxes.[4] At the federal level, however, the average immigrant pays about $105,000 more in taxes than he receives in benefits. Additionally, much of the federal tax revenue is redistributed back to the states. How such tertiary effects tip the tax-benefit balance of the average immigrant is unclear and requires more study.

An Interstate Magnet?

Does allowing undocumented students to pay tuition at resident rates turn a state into a haven for out-of-state undocumented immigrants? In 2005, *The Boston Globe* conducted a review that confirmed the generally accepted wisdom that most immigrants relocate because of jobs rather than tuition breaks.[5]

Eligibility criteria almost always require students to have attended a high school in the state for several years. This automatically precludes many out-of-state students from applying and reduces the likelihood of a given state becoming a magnet. Furthermore, many eligible undocumented students who already reside in a state do not take advantage of the benefit, either because they don't know about it or because they fear deportation.

In fact, in five out of the six states providing data, the study found limited effects on enrollment. Texas was the only state with a substantial increase: About 8,000 undocumented students enrolled in fall 2004, up from 1,500 three years earlier. By contrast, in a state of more than 2.4 million illegal immigrants, University of California campuses registered only 357 undocumented students. In fall 2005, Kansas public colleges enrolled 221 undocumented students. The numbers were even smaller for New Mexico (41), Washington (27), and Utah (22).



the legal population. Questions abound: What message is sent by helping the undocumented? Should America be a land of opportunity only for those who enter it legally? How do we square that with our growing need for educated workers?

Given the emotions that the issue generates, states will likely make their decisions on the basis of principle and public opinion as much as on evidence or economic and cost considerations. Hoping for a uniform federal policy instead of an inconsistent patchwork of state laws, several states are urging Congress to act without further delay.

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Impact on the Economy

A common argument in support of tuition benefits is that such policies have a positive long-term impact on a state's economic strength and competitiveness. Numerous studies have touted the gains that immigrants in general bring to New England. And educated immigrants, through their increased productivity, contribute still more.

MassINC has reported that immigrant college graduates in Massachusetts earn $40,179 a year on average—nearly three times more than an immigrant high-school dropout.[6] Higher incomes result in higher tax revenues and lower public assistance expenditures. The BRA report estimates that, on average, a college-educated immigrant worker pays the state $1,527 more in annual taxes than his uneducated counterpart. Children of illegal immigrants would therefore "repay" the tuition discount within a few years by paying taxes on a higher income.

Higher educational attainment is also associated with lower crime levels, stronger civic engagement, and higher citizenship rates among foreign-born populations. Considering the small enrollment that in-state tuition policies typically generate, their aggregate long-term economic and social benefits will likely be small. However, given the importance of immigrants to the region's economic and demographic health, they may not be negligible.

The evidence suggests that the economic impact of allowing undocumented immigrants to pay in-state tuition would be positive, but social, emotional, and ethical implications carry the debate beyond purely economic considerations.

Advocates argue that undocumented students were brought here years ago by their parents, and so parents, not students, should be held accountable. Opponents retort that government resources are limited and the tuition benefit may unfairly disadvantage

Endnotes

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Photograph by Joshua Bernard

Safe Growth and Natural Disaster

by Kristina Egan
Massachusetts Smart Growth Alliance

In May 2006, the Merrimack Valley of Massachusetts was drenched with rain. Rivers swelled to an all-time high. Flood waters overwhelmed sewage systems, caused pipes to burst, and gouged out supports to bridges.[1] Federal reimbursements to cities, towns, and individuals in the disaster areas were estimated at $90 million.[2] Often it is vulnerable populations whose homes are damaged and who suffer most from the breakdown of infrastructure.

Scientists are predicting more-frequent and more-intense disasters. And since the 2005 Gulf Coast f ooding, insurance companies have become increasingly alarmed.[3] On Cape Cod, some firms are dropping policies on existing homes and refusing to insure new ones. The Massachusetts Office of Coastal Zone Management is concerned about the increasing intensity of storms, and a high-level commission is developing recommendations on issues such as "sea-level rise, erosion, f ooding, and failing seawalls."[4]

While policymakers are wondering how to do a better job of preparing for the worst, the real estate professionals, housing advocates, business leaders, and planners in the smart growth movement have been asking, How can we build the best cities and suburbs possible? The two groups are beginning to realize that they need to meet and discuss the idea of *safe* growth. After all, the same 1,500 miles of coastline that are vulnerable to storms also host the old fishing villages and ports that are targets for redevelopment.

Good planning necessitates identifying the land that should be off-limits to development, whether the purpose is to protect the natural environment, limit public infrastructure costs, or keep floods and other disasters from spinning out of control.

Out of Harm's Way

Federally subsidized flood insurance and public infrastructure investments have had the unintended consequence of encouraging people to settle in hazard-prone areas. Population growth and consumer preferences compound the problem. Coastlines might host as much as 75 percent of the U.S. population by 2025, according to some estimates. For some high-risk locations, like the Gulf Coast's bayou, where generations of families with unique cultures are entrenched, staying out of harm's way is easier said than done.

Communities can redirect growth and development to more appropriate locations, but first they need to know where the hazard-prone areas are. In Massachusetts, there is currently no one information resource. Most existing floodplain maps were produced more than 25 years ago. Fortunately, the Federal Emergency Management Agency has launched a national effort to modernize floodplain mapping using geographic information systems. New England's states and regional planning agencies are now receiving grants to develop predisaster mitigation plans to map floodplains and areas vulnerable to hurricane surges and high waves.[5] The plans superimpose existing buildings and the build-out scenario (showing where future development will occur under current zoning) on the hazard zones. That way, residents will be able to see where current and future development is inconsistent with disaster prevention.[6]

Once the places prone to disaster are identified, communities have several tools for preventing harm. One option, albeit the most expensive one, is to take the land off the private market by putting it into public ownership. Using a land conservation easement (which restricts use but allows the property owner to keep the title) is less expensive than outright purchase. Often hazard-prone land is also environmentally sensitive habitat for animals, plants, and birds, so financial partnerships with private land trusts and conservation groups are a possibility.[7]

Another option is to downzone the land, but the potential impact on property values makes that approach controversial. Nevertheless, the more homes, roads, and parking lots that are built on a floodplain, the less that flood waters can be absorbed in the soil, increasing the likelihood of harm to people and property.[8] That is why some communities are experimenting with an approach called *transfer of development rights*. Owners of property on unstable slopes in Scottsdale, Arizona, for example, can now take the right they have to develop new units under current zoning and sell that right to property owners in safer, less environmentally sensitive parts of the city.

Another option is to construct stronger, disaster-prone buildings and retrofit existing structures—putting homes near the ocean on stilts, removing mechanical systems from flood-prone basements, and anchoring and wind-bracing buildings. In some cases, seawalls, tide gates, and improved storm-water drainage systems can help, but such investments may have negative environmental impact.

Green Infrastructure and Development

Barrier islands, beach dunes, salt marshes, wetlands, and intact floodplains are built-in protection. This green infrastructure holds back flood waters, softens pounding waves, absorbs storm surges, and protects the integrity of existing ecosystems. Salt marshes, for example, can help communities adapt to higher sea levels by spreading out over time. Increasingly, people are recognizing that nature needs space and that hemming in dynamic ecosystems with sea walls, buildings, and asphalt may not be the best idea.

Additionally, some towns are reducing the amount of water that flows into rivers and sewers during storms. Developers have long used the technique of building manmade retention ponds to capture storm water. *Low-impact development* takes the concept to the next level with site planning that increases the natural absorption of water into underground storage—which retains water while recharging aquifers. Low-impact development techniques include clustering buildings to reduce the footprint of impervious surface and to maximize open space; using permeable substances for driveways and patios; narrowing roads and removing curbs; and installing rain barrels and roofs that have gardens on top.

Investing in Safe Growth

Good planning necessitates identifying the land that should be off-limits to development, whether the purpose is to protect the natural environment, limit public infrastructure costs, or keep floods and other disasters from spinning out of control. It's not just about where we build, but how we build. Prevention is just as important—if not more so—than postdisaster planning.

An essential complement to this approach, however, is ensuring adequate land is available and suitable for development. Otherwise, actions to prevent disaster will only limit growth. For growth to be safe, public infrastructure investments in sewer, water pipes, roads, public transit, schools, and the like should be targeted to locations that are out of harm's way. And, for growth to be smart, development needs to put homes, jobs, and shopping close to one another, while providing affordable housing and transportation options to all. Putting safe and smart together can ensure that the most vulnerable populations are out of harm's way and can revitalize communities at the same time.

The challenge for proponents of smart growth is to recognize that not all locations now understood as smart are also safe. More planners need to take disaster prevention into account. In California, for example, where floods and earthquakes are not uncommon, cities and towns are required to integrate a safety element into comprehensive plans. Closer to home, Plymouth and Falmouth have started transfer-of-development-rights programs to encourage development outside of coastal hazard zones; Scituate and Quincy are helping residents elevate homes and flood-proof them.[9] Integrating hazard prevention into current smart growth policies and funding decisions at the state level, is the next step.

After Katrina laid bare how bad planning hurts the poor, Anna Quindlen wrote, "The long view is not about patching levees, or building houses or assigning blame. It's about changing the way we all live now."[10] The best way to start changing is to begin the dialog between disaster prevention experts and smart growth proponents.

Kristina Egan *is the director of the Massachusetts Smart Growth Alliance, a statewide coalition of affordable housing, civil rights, environment, and planning groups.*

"The long view is not about patching levees, or building houses or assigning blame. It's about changing the way we all live now."

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[1] See "May 2006 Extreme Rain Event and the Response of the Coastal Waters in the Massachusetts Bays System," http://www.mass.gov/envir/massbays/pdf/springrains_2006.pdf.

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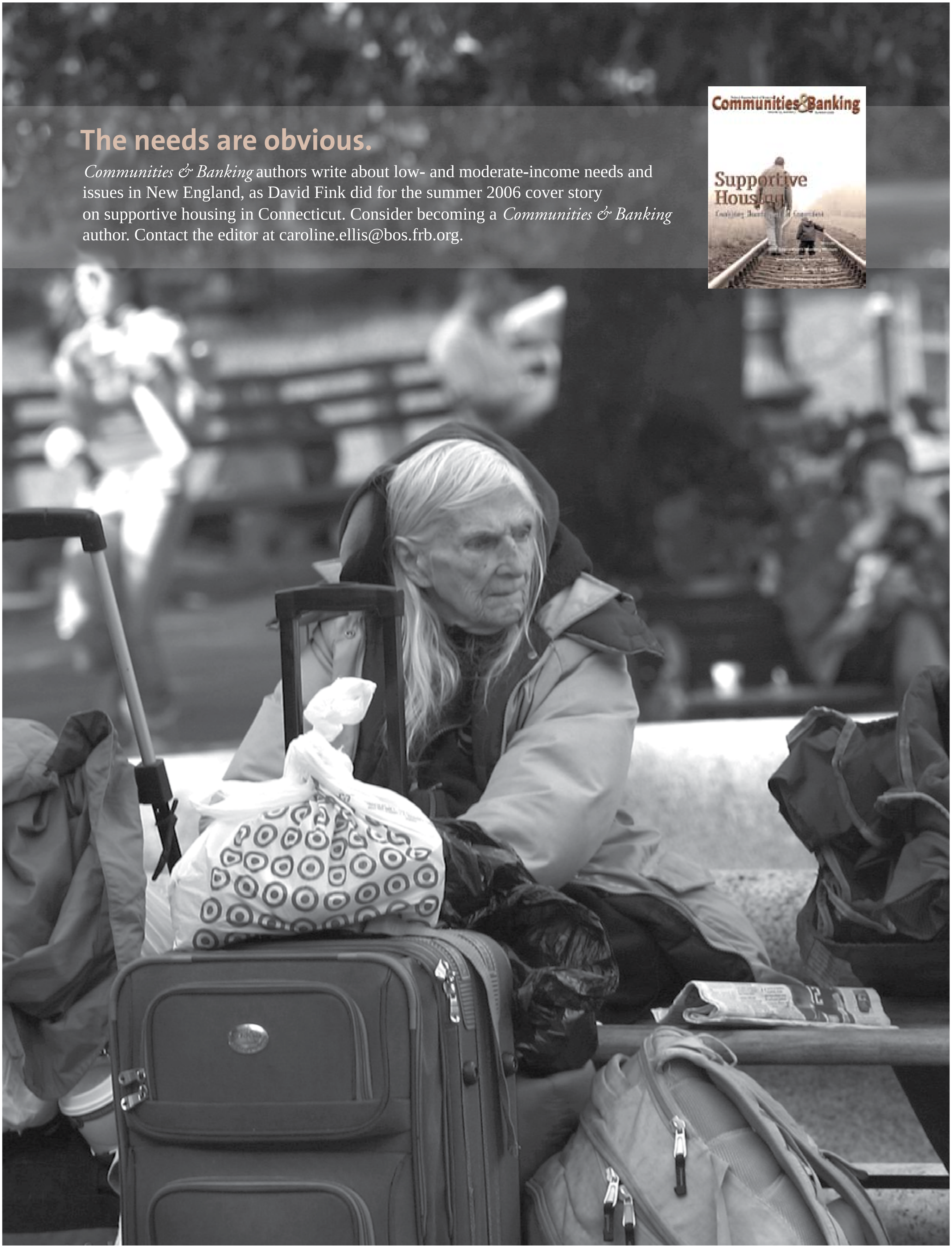
The needs are obvious.

Communities & Banking authors write about low- and moderate-income needs and issues in New England, as David Fink did for the summer 2006 cover story on supportive housing in Connecticut. Consider becoming a *Communities & Banking* author. Contact the editor at caroline.ellis@bos.frb.org.



Photograph by Heidi Furse

Beacon Hill Lane, Block Island, Rhode Island—an affordable housing development that made use of environmental finance.

by Sam Merrill
New England Environmental Finance Center

Environmental Finance for Affordable Housing

Among communities concerned about funding affordable housing, a new approach is getting attention. It's called **environmental finance.**

Environmental finance is often defined as the process of making money more readily available and using it more efficiently to pay for environmental goods and services. It is applied in a wide variety of organizations, agencies, and disciplines, and may be accomplished through activities not conventionally termed finance.

For example, municipal leaders may convene a group of stakeholders to determine how to address the lack of capital available for local water infrastructure. The process of coming up with a financial solution that has broad public support involves working toward an agreement about how dollars will be spent on the environment—in this case, water.

For years, wealthy landowners have benefited from environmental finance—through conservation easements, for example, that preserve land and reduce tax burdens. Today groups that serve low- and moderate-income households also are tapping into it.

Environmental finance categories of potential benefit to lower-income people include sewer- and water-affordability finance and brownfield-redevelopment insurance finance. But a discussion of land-conservation finance may offer the best opportunity to illustrate the larger set of possible benefits. In New England, where open space is getting scarce, the link between land conservation and affordable housing is especially germane.[1]

Conservation Development

A concept known as *conservation development*—preserving land as part of a housing development—has been gaining adherents in recent years. In nearly all cases, it has not been the result of regulation but is a grassroots, volunteer-driven trend. And increasingly, conservation developments are focused on affordable housing.

One reason is that there is a new understanding among land trusts, state agencies, municipalities with open space bond funds, and other conservation entities of the need for a more holistic approach to land conservation and housing. Conservationists are recognizing that affordable housing is needed in rural as well as urban areas and that it is possible for different groups to meet mutually beneficial goals. More organizations are approaching developers with progressive ideas about how to combine conservation, housing development, and other community goals as land becomes available.

The interest in conservation-based affordable housing is a response to escalating housing prices and their impact on communities—fewer young people staying in town, fewer public employees living locally, and so on. Many conservation groups are finding that they can protect land while creating town meeting places, fostering a sense of community, and conserving farming, forestry, and rural character.

Conservation leaders and municipal officials in these communities have observed that providing adequate financial resources for land conservation can help create affordable housing on the same parcels. An additional impetus for conservation-based affordable housing, especially in urban and coastal areas, is that land has soared beyond the pocketbook of the local conservation organization. Combining conservation monies with funds reserved for affordable-development has become a land-protection option.

Photographs by Sandra M. Kelly

Three New England Examples

The following three communities have pieced together the funding for conservation-based affordable housing.

Block Island, Rhode Island

About 15 years ago, a conservation-minded landowner with an interest in helping low- and moderate-income households on the island made a 12-acre parcel available to conservation and affordable-housing-development partners at a bargain price of $275,000. The majority of the funds came from the Champlin Foundation. Additional funds were generated when the Block Island Land Trust (a municipal agency authorized to protect open space) purchased the conservation easement using funds from a 3 percent real estate transfer fee. In what became known as the Beacon Hill Lane project, seven of the acres were permanently protected; the remainder were developed with seven single-family homes at initial prices of $133,000.

Benefits to low- and moderate-income households were immediate. On an island where rising real estate values had made buying land a significant burden for many families, seven new homes suddenly were within financial reach. Mechanisms were established to keep the units affordable, including limiting their resale value for as much as 30 years.

Although several willing partners are necessary for this type of arrangement, the example illustrates that mainstream land-protection mechanisms can help provide housing for low- and moderate-income families. For any such approach, trust among prospective partners is an essential ingredient.[2]

Jay, Vermont

In 2005, the Vermont Land Trust sold the town of Jay two parcels totaling 282 acres and donated 20 additional acres outright. The town identified three main goals: to protect land for public recreation, deer wintering, and town forestry; to provide affordable housing in response to rising home prices; and to promote careful, deliberate growth patterns. Roughly 240 acres were placed in permanent protection, to be managed for wildlife habitat and forestry objectives.

Thirty-five acres were conserved for intensive community recreational use, and 20 acres were apportioned for affordable housing. The housing proposal had two market-rate units and four affordable units with an initial sales price of $100,000, well below market rate. The price was made possible by a collaboration that included the Vermont Housing Finance Agency, the Neighborhood Reinvestment Corporation, and the Gilman Housing Trust, which together enabled substantial subsidies for the affordable homes.

Although only a few affordable units will be brought to the market, the project illustrates the strictly local nature of many efforts in applied environmental finance. That is, in order to make significant changes in housing options for low- and moderate-income households, a local, parcel-by-parcel focus and an aggressive use of partnerships can make more money available.

South Burlington, Vermont

In South Burlington, 48 apartments were built in a multifamily complex on a 22.7-acre parcel. Thirty-eight of the apartments are affordable, providing below-market-rate rents to income-eligible households at several income tiers. Ten acres on the parcel were protected as a natural area for purposes of f ood control, rare and unusual habitat, and a trail for hiking and river viewing (dramatic limestone bluffs with 100-foot drops).

Density of the units helped control costs and lessen impact on natural features of the site. This complex project was financed through at least six significant funding sources (including the Vermont Housing & Conservation Board, the Lake Champlain Housing Development Corporation, the U.S. Department of Housing and Urban Development, a low-income housing tax credit equity, the Vermont Housing Finance Agency, and a developer loan), illustrating the need for sophisticated financial management and multiparty coordination on projects that aim simultaneously to protect land and provide affordable housing.

It is clear that, in the arena of land-conservation finance, low- and moderate-income households stand to benefit from the recent innovations. Environmental finance is a tide that can lift many boats. In the case of affordable housing, it lifts people who have been priced out of regional housing markets.

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Endnotes

[1] The examples are excerpted from K.J. Breichle, *Conservation-Based Affordable Housing: Improving the Nature of Affordable Housing to Protect Place and People* (Arlington, Virginia: The Conservation Fund, 2006), http://www.conservationfund.org?article=3192&back=true.

[2] For more information on trust in partnerships, see http://efc.muskie.usm.maine.edu/Trust_and_Risk.htm.

Estimating the Cost of Being Unbanked

Illustration by Joe Guidry

by Tyler Desmond and
Charles Sprenger
Federal Reserve Bank of Boston

A surprising number of people do not use banks, and it can cost them. Estimates of U.S. households lacking a formal banking affiliation with a federally insured depository institution run from 10 percent and 25 percent. The people in these households, the "unbanked," resort to alternative financial-service providers, retail outlets such as groceries and convenience stores, and banks where they hold no account but make use of services such as check cashing and bill payment.

Several studies have attempted to understand these individuals and examine what costs they incur by not having a checking or savings account. Clearly, policy aimed at bringing formal financial services to the unbanked (such as the Department of Treasury's recent effort to promote special accounts for direct deposit of government checks, electronic transfer accounts) hinges on these cost-accounting exercises. The unbanked will benefit from having an account only if the costs of not having one are greater than the costs of having one. A better understanding of the direct and indirect costs is key to helping this population.

Characteristics of the Unbanked

Virtually all studies show that, compared with people who have bank accounts, the unbanked have below average income and education, are younger, more likely to reside in urban areas, and disproportionately nonwhite.[1] Though a relatively homogeneous group, the individual members give varied reasons for not having accounts—they dislike banks, they lack proper identification for opening an account, they prefer the convenient hours of alternative financial services, they like the privacy of keeping money at home.[2]

But people's primary justifications for remaining unbanked relate to their income and the perceived cost of bank accounts.[3] Many individuals weigh the costs of being banked (monthly fees, minimum balance requirements, and possible overdraft charges) against the costs of being unbanked and decide in favor of the latter. But are they able to correctly identify the full spectrum of costs? Organizations interested in helping this population need to know the answer.

Direct Costs

Direct costs of being unbanked (costs that are clearly quantifiable and immediate) consist primarily of the fees associated with basic banking services such as check cashing and bill payment. Most studies combine fees related to check cashing and money orders (for bill payment) to estimate direct costs. In calculating the cost of cashing checks, it is important to separate government and payroll checks from personal checks as the fees are often different. Check cashing outlets, termed neighborhood financial-service centers, tend to charge the most for check cashing services. The fee for personal checks can be as high as 10 percent of face value while government or payroll checks cost up to 1.5 percent of face value.[4] Banks and credit unions may also cash checks for people who do not hold accounts, typically at a much lower price.[5]

Money orders purchased for bill payment are somewhat more uniform in

Estimated Cost of Being Unbanked

Researcher	Monthly Cost	Yearly Cost	Costs the Researcher Accounted For
Edward S. Prescott (1999)	$2.50	$30	Money orders (checks cashed for free)
Joseph J. Doyle (1999)*	$14.33	$172	Check cashing fees (one payroll check per month)
Michael S. Barr (2004)	$20.83	$250	Check cashing fees (one payroll check per month)
Barbara A. Good (1999)	$26.50	$318	Check cashing fees (one government, two personal checks) Three money orders

* Joseph J. Doyle, et al., "How Effective is Lifeline Banking in Assisting the 'Unbanked'?" *Federal Reserve Bank of New York Current Issues in Economics and Finance* 4, no. 6 (June 1999).

terms of cost. They are sold in retail outlets, neighborhood financial-service centers, banks, and the like and have fees ranging from less than $0.40 to slightly more than $1. Businesses such as grocery stores often discount the price of money orders to attract cash-only customers.

The direct cost of being unbanked can vary from relatively low to extremely high, depending on how many money orders individuals purchase, how many checks they cash, what sort of checks they are, and where they cash them. (See the exhibit "Estimated Cost of Being Unbanked.")

Indirect Costs

Indirect costs are less tangible than direct costs, partly because they are likely to be incurred at a point in the future. Since estimates of direct cost vary so widely, they are inconclusive in determining whether a formal banking relationship would benefit the unbanked. Therefore policymakers and economists should include less tangible costs when assessing the value of bank accounts to the unbanked. The most important indirect costs relate to people being less able to save or build a credit history.

Though having a bank account does not necessarily mean an individual will save, many of the unbanked themselves say that it is "important" in facilitating saving. Formal saving is positively correlated with critical asset-building behavior. Individuals who save in a savings account are more likely to have other types of financial accounts, such as certificates of deposit and insurance contracts. They are more likely to own homes and cars, and they are also more likely to use formal sources of credit.

Unbanked individuals, however, are forced to use other methods if they wish to save. Keeping cash or jewelry at home is one example, but such methods offer no interest and leave individuals more susceptible to theft.[6]

Additionally, the unbanked miss the benefits that a bank account offers for building a credit history. Credit histories can legally be used not only for loan decisions but also for employment and housing decisions.[7] When initiating a loan, individuals with a credit history are more likely to have access to bank loans or other formal sources of credit.[8] Unbanked individuals frequently lack sufficient credit histories to satisfy the requirements of traditional lenders and are often obliged to resort to high-interest, informal loan products. These expensive loans can easily balloon out of control, at times becoming more costly than their initial value.[9]

When someone gives up the asset-building benefits associated with having a bank account, indirect costs increase.

Effective Policies

Direct and indirect costs of being unbanked, when examined together, may help organizations determine the efficacy of their programming. To ensure that policy is both effective and well targeted, both types of costs need to be accounted for. Organizations attempting to bank the unbanked should consider not only the direct costs of being unbanked but also the less easily measured indirect costs. Direct-cost estimates should be based on the costs of check cashing and bill payment, and indirect costs should be an estimate (however imperfect) of the lifetime costs related to forgone asset building. When taken together, these estimates will be valuable in designing programs such as banking outreach and account provision.

Tyler Desmond *served as a 2006 summer intern at the Federal Reserve Bank of Boston, where* **Charles Sprenger** *is a research associate in the research department.*

Endnotes

[1] Ellen Seidman et al., "A Financial Services Survey of Low- and Moderate- Income Households," The Center for Financial Services Innovation, July 2005. See also Federal Reserve Bank of St. Louis, "Understanding the Dependence on Paper Checks," July 2004. (http://fms.treas.gov/eft/reports/EFTResearch 7.27.04FINAL.pdf).

[2] See Seidman, "A Financial Survey," 2005, and Dove Associates, Inc., "ETA Conjoint Research: Final Report and Market Model, Unbanked Federal Check Recipients," OMB #1510-00-71, Washington: U.S. Department of the Treasury, May 26, 1999.

[3] Bucks 2006, Seidman 2005, FRB St. Louis 2004, and Prescott 1999 all say this.

[4] Barbara A. Good, "Bringing the Unbanked Onboard," *Economic Commentary*, Federal Reserve Bank of Cleveland, issue Jan 15, 1999.

[5] Edward S. Prescott and Daniel D. Tatar, "Means of Payment, the Unbanked, and EFT '99," Federal Reserve Bank of Richmond, *Economic Quarterly* 85, no. 4 (fall 1999): 49-70.

[6] Anne Stuhldreher and Jennifer Tescher, "Breaking the Savings Barrier: How the Federal Government Can Build an Inclusive Financial System" (Washington, D.C.: New America Foundation, February 2005).

[7] See Fair Credit Reporting Act, Section 604.

[8] Michael Barr, "Banking the Poor: Policies to Bring Low-Income Americans into the Financial Mainstream" (Washington, D.C.: Brookings Institution, 2004).

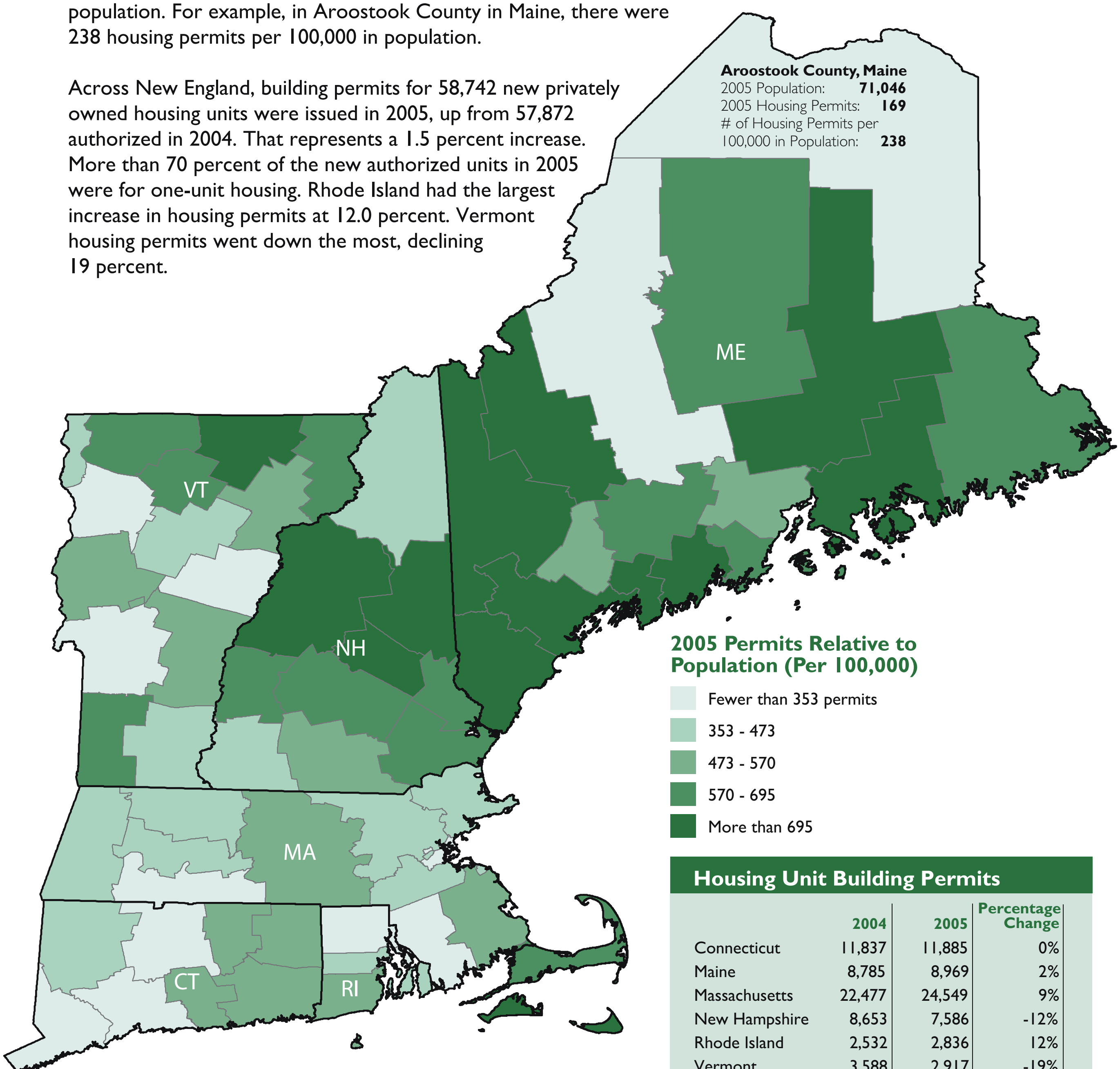
[9] Payday advance loans, for example, often charge between 213 percent and 913 percent annually. Credit cards offer comparable lending services to those who have a normal credit history at an average rate of 11.5 percent. See Brian Bucks, Arthur Kennickell, and Kevin Moore, "Recent Changes in U.S. Family Finances: Evidence from the 2001 and 2004 Survey of Consumer Finances," *Federal Reserve Bulletin* 92 (February 2006): A1-A38.

Mapping New England

2005 Housing Permits in New England

This map shows the number of housing permits in 2005 relative to population. For example, in Aroostook County in Maine, there were 238 housing permits per 100,000 in population.

Across New England, building permits for 58,742 new privately owned housing units were issued in 2005, up from 57,872 authorized in 2004. That represents a 1.5 percent increase. More than 70 percent of the new authorized units in 2005 were for one-unit housing. Rhode Island had the largest increase in housing permits at 12.0 percent. Vermont housing permits went down the most, declining 19 percent.



Housing Unit Building Permits

	2004	2005	Percentage Change
Connecticut	11,837	11,885	0%
Maine	8,785	8,969	2%
Massachusetts	22,477	24,549	9%
New Hampshire	8,653	7,586	-12%
Rhode Island	2,532	2,836	12%
Vermont	3,588	2,917	-19%
New England	**57,872**	**58,742**	**2%**

Source: State of the Cities Data Systems (SOCDS) Building Permits Database and U.S. Census Data
Map: Ricardo Borgos, Federal Reserve Bank of Boston

Mavra Adams of Almost Edible Soaps in St. Johnsbury, Vermont, with an admirer.

by Ashley Bliss
Women's Rural Entrepreneurial Network

The Rural Entrepreneur

Overcoming Isolation

All entrepreneurs need certain core tools for success. A business plan, for instance, is essential for sharpening goals and providing a road map to the future. But for people living in rural areas, the difficulties of creating a viable business are often more complex than for other entrepreneurs.

Women's Rural Entrepreneurial Network was begun in 1994 by three women in the North Country who worked with unemployed low-income women on welfare and who saw a need for more job opportunities.

Many of the unique rural challenges can be traced to one factor: isolation. Regardless of a rural microbusiness owner's region, state, or town, sparse population is a serious barrier to success. She will struggle to find markets that barely exist, she will attempt to engage a customer base half an hour or more away, and she will feel very alone in an economic landscape that may have been in decline for decades.

For some workers in rural areas, where salaries are not usually high, starting a business on the side is essential to supporting the family, and patching incomes together is common. For others, entrepreneurship is a way of breaking the cycle of poverty in what is often a minimum-wage, service-based local economy.

Entrepreneurship can be self-empowering. The task for organizations engaged in rural microenterprise development, then, is to foster that sense of empowerment.

Holistic Assistance

Much traditional entrepreneurial support is based on a model emphasizing technical assistance or training. Although flexibility has gradually increased, it is not uncommon for entrepreneurs to be put through a predetermined program from which they graduate after a year and be sent off to run a business.

The focus of traditional programs is on marketing, cash flow, financial acumen, business plans, and other such practicalities. Rural businesspeople need more. Many benefit most from a multidimensional relationship with the organizations that serve them. They prefer an array of course options, and they appreciate being encouraged to think about their *whole* selves.

At least, that is the experience of the Women's Rural Entrepreneurial Network (WREN), a microenterprise development organization in New Hampshire's White Mountains that assists rural businesses—350 businesses so far. WREN has gone farther than most in offering course flexibility. Members choose only the portions of the entrepreneurial curriculum best suited to developing their particular business; and all programs are self-directed and short-term.[1] One advantage of this approach is that it reduces costs and travel over long rural distances—and cuts time spent away from the running of a business.

WREN was begun in 1994 by three women in the North Country who worked with unemployed low-income women on welfare and who saw a need for more job opportunities. At the time, the options were seasonal and service-based jobs or high-stress nurses' aide positions. Many low-income women feared taking such jobs and losing the state assistance and childcare benefits that they needed to make ends meet. A training program to teach them how to be successful entrepreneurs seemed logical, and with a small grant, the WREN pilot program was started in Littleton, New Hampshire.

After the first year, 12 new woman-owned businesses were up and running, and by 1997, WREN had become a flourishing membership organization, with annual dues of $12 to support activities. It has continued to grow to 550 members in 13 states—both supporters and active participants.

As WREN expanded, it moved to the neighboring town of Bethlehem, purchasing and renovating two storefronts on Main Street. The headquarters site includes offices, a technology center, and a basement space for photo shoots. WREN has plans to purchase an additional building with incubator space and more retail footage. The empty lot next door will be converted into an outdoor marketplace.

Sally Fishburn runs her woodworking business, S.A. Fishburn, Inc., out of Danville, Vermont.

The move to Bethlehem got WREN thinking about microenterprise development in the larger framework of rural economic development, and it began to work with the town's revitalization organizations to uplift Main Street businesses. The efforts created a welcoming atmosphere for visitors, and through collaborations with local arts organizations, the creative economy got a boost.

Reaching the Market

Isolation makes market access a constant challenge for rural business owners, so organizations helping them need to go beyond standard marketing lessons.

One idea is to operate a retail store, such as WREN's wrenOVATION, where 154 artisans currently sell their wares. Another idea is a fine art gallery for individual and group shows by organization members. At WREN, having a store and gallery has generated more than half a million dollars in income, with 60 percent going directly to the entrepreneurs.

Other ideas for helping people in remote areas to access markets include: working with the state on getting broadband access; building an online business directory where members can post a business description, contact information, and a photo; and creating online or print publications for members to write articles or tip columns to attract customers.

Becca Van Fleet of Becca Van Fleet Pottery in Eaton, New Hampshire, has built her business with the help of the Women's Rural Entrepreneurial Network.

Partnering with the funding community on innovative programs for microentrepreneurs is also key. For example, WREN has worked with Women and Company, a division of Citigroup, in a national program that creates small equity awards for microentrepreneurs. Applicants are required to submit in-depth proposals that include specific project goals and outcomes, a complete budget, and a work plan. In the first year, WREN made nine $1,000 equity awards; in the second year, it made 10, in amounts between $500 and $2,500. It also tracked how the cash circulated and found that $7,500 of the $10,000 awarded ended up in the community.

Other partnerships include working with the Small Business Development Corporation on helping clients to get access to banks and with MicroCredit-NH on a peer-lending program.

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Yoga and Beyond

To improve the overall quality of life and reduce isolation for rural entrepreneurs, it is also useful to let the entrepreneurs teach and take classes that are not necessarily related to running a business. WREN has several personal-development options, including yoga and aromatherapy. The gallery receptions, holiday parties, and brown bag lunches also provide opportunities for people to connect and feel less isolated.

In WREN's experience, the rural business owners most likely to have long-term success are not always the ones with the most developed marketing plans or even the strongest bottom lines. They often are the ones with the healthiest outlook on their lives and on their livelihoods. Hence the key to successfully fostering entrepreneurship in rural regions is to use a multifaceted approach. Groups that do so not only help their members but also serve the broader goal of uplifting rural regions and economies.

www.bethlehemcolonial.org

The Colonial Theatre, the nation's oldest continuously operating movie house, found new life through a partnering of WREN and the Bethlehem Redevelopment Association, becoming a regional cultural center.

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Portrait photography in this article by Meghan Hamilton, Rodeo & Co. Photography.

Endnote

[1] Technology classes include introductory and advanced classes in Microsoft Office, elements of graphic design, introductory and advanced PhotoShop, how to use a digital camera, how to edit photos, and how to use a scanner, a photo printer, and other hardware, as well as one-to-one project-oriented trainings. Business classes include cash f ow analysis, beginning bookkeeping skills, and budgeting. Marketing classes help members tackle challenges peculiar to rural areas. There are also in-depth seminars on Internet marketing. Other course options include introductory html, how to create business cards and brochures, and public speaking.

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