

# Communities & Banking

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Winter 1996 No. 16

## Compliance and Growth

**C**ommunities & Banking addresses issues in community economic development, particularly as they relate to the roles of bankers and community leaders. In an effort to increase this publication's relevance to your daily work, the newsletter has been refocused slightly to provide timely information about emerging community economic development matters. As you read this and upcoming editions, you will notice a number of regular sections that periodically address these issues and questions:

- **Compliance Q&A:** answers your questions on regulatory compliance matters relevant to bankers and community leaders;
- **Community Developments:** lists information about additional resources related to fair lending, reinvestment strategies, and economic development;
- **Policy Update:** provides a synopsis of important legislative and regulatory developments;
- **Information Exchange:** highlights one of the community development resources offered by the Federal Reserve Bank of Boston;
- **Reader Response:** gives you the opportunity to communicate with the editor regarding newsletter content, and to suggest ideas for future stories.

Along with these regular sections, each issue of *Communities & Banking* will include a feature story addressing an important issue or policy development. Additionally, a profile will highlight an interesting program, a community organization, or an individual working in the field of community economic development.

### In This Issue

This issue presents two related factors that contribute to economic growth: CRA compliance and small business development. The new CRA regulation does so by stressing bank performance in helping to meet community credit needs, while the small business incubator supplies an environment well-suited to enterprise development.

For bankers and community leaders alike, CRA regulatory changes have raised questions about how government agencies will evaluate a bank's community reinvestment performance. This issue devotes considerable attention to the new regulation: It features a guide describing the rule's structure and options, and **Compliance Q&A** answers many frequently asked questions concerning the regulation's Strategic Plan Option.

Small business incubators have established strong track records in new business creation around the country. Small business incubators

such as The Venture Center are the subject of this issue's profile. The Venture Center, located in Greenfield, the seat of a rural western Massachusetts county, has contributed to the region's economic revitalization by assisting fledgling enterprises. The facility is filling a growing need and is now in the planning stages for a second, larger site.

Finally, **Community Developments** lists resources available for affordable housing loan consortia, homeownership counseling and education, the new CRA regulation, as well as upcoming economic development conferences.

We hope you find *Communities & Banking* interesting and informative. As always, we welcome your thoughts regarding the content of this publication, and we invite you to complete and return the new reader response card at the back of this issue. ☐

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*Communities & Banking* explores viable roles for financial institutions in community economic development. The newsletter is produced by the Federal Reserve Bank of Boston's Public and Community Affairs Department.

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Readers interested in having community development programs or projects described in *Communities & Banking* should contact:

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# A guide to the New CRA Regulation

*By now, bankers understand that the new CRA regulation evaluates a lending institution based on performance rather than process. The new regulation more closely reflects the original intent of the legislation, that banks help address the credit needs of their communities, including low- and moderate-income geographies. The challenge, therefore, is for banks to determine how best to approach the new regulation. Careful planning and institutional self-evaluation can go a long way toward success with the new CRA regulation. Understanding the structure of the new regulation and how a bank fits into it is an important first step in working effectively with it. What follows is designed to help bankers do just that by providing a framework for comprehending the nuances of the regulation.*

## Overview of the New CRA Regulation

The new regulation poses four different scenarios under which a bank's CRA performance may be evaluated: 1) under a strategic plan developed by the bank; 2) as a small bank, using streamlined evaluation criteria; 3) as a large bank, using three performance tests; and 4) as a wholesale or limited-purpose bank, using the community development test. Each of the four categories specifies bank performance criteria. The criteria under which a particular bank will be examined will depend on its size, its products, and, frequently, the bank's own determination of how it wishes to be evaluated. (See Figure I.) A lending institution has some discretion in determining under which classification its CRA performance will be

Figure I

## Overview of the New CRA Regulation

### Performance Evaluation Categories and Criteria

#### Strategic Plan Option

**Which Institutions Qualify?**  
Small and large; wholesale and limited-purpose.

**CRA Performance Evaluation Criteria**  
Lender submits a plan for regulator approval. Institution establishes measurable goals. Plan must be developed with community input.

#### Wholesale and Limited-Purpose Banks

**Which Institutions Qualify?**  
Lenders must apply for this designation.

**CRA Performance Evaluation Criteria**  
Assessed primarily on a lender's community development activities.

#### Small Banks

**Which Institutions Qualify?**  
Lenders with assets <\$250 million, or that are subsidiaries of holding companies with assets < \$1 billion.

**CRA Performance Evaluation Criteria**  
Streamlined, focusing on lending.

#### Large Banks

**Which Institutions Qualify?**  
Lenders with assets >\$250 million, or that are subsidiaries of holding companies with assets > \$1 billion. Lenders with assets <\$250 million are also eligible for this option.

**CRA Performance Evaluation Criteria**  
Lending test  
Investment test  
Service test

evaluated. Accordingly, each institution should consider carefully which option to elect, doing so based on the size and nature of the institution, its strengths, and the economic and market conditions in which it operates. The bank should then work within that category's guidelines to optimize its CRA performance.

## The Strategic Plan Option

A bank electing the strategic plan option may tailor its CRA activities to its strengths and market conditions, establishing goals for meeting the credit needs of its assessment area(s). Any size institution, as well as a wholesale or limited-purpose bank, may elect the strategic plan

option. The plan must address the bank's lending, service, and investment activities and must establish measurable goals in each of these three areas. These goals comprise the criteria against which the bank's performance will be evaluated, forming the foundation for the bank's CRA rating. Figure II outlines the process for developing and submitting a strategic plan and for evaluation under its performance standards. (See **Compliance Q&A** on page 7 for more a detailed discussion of the strategic plan option.)

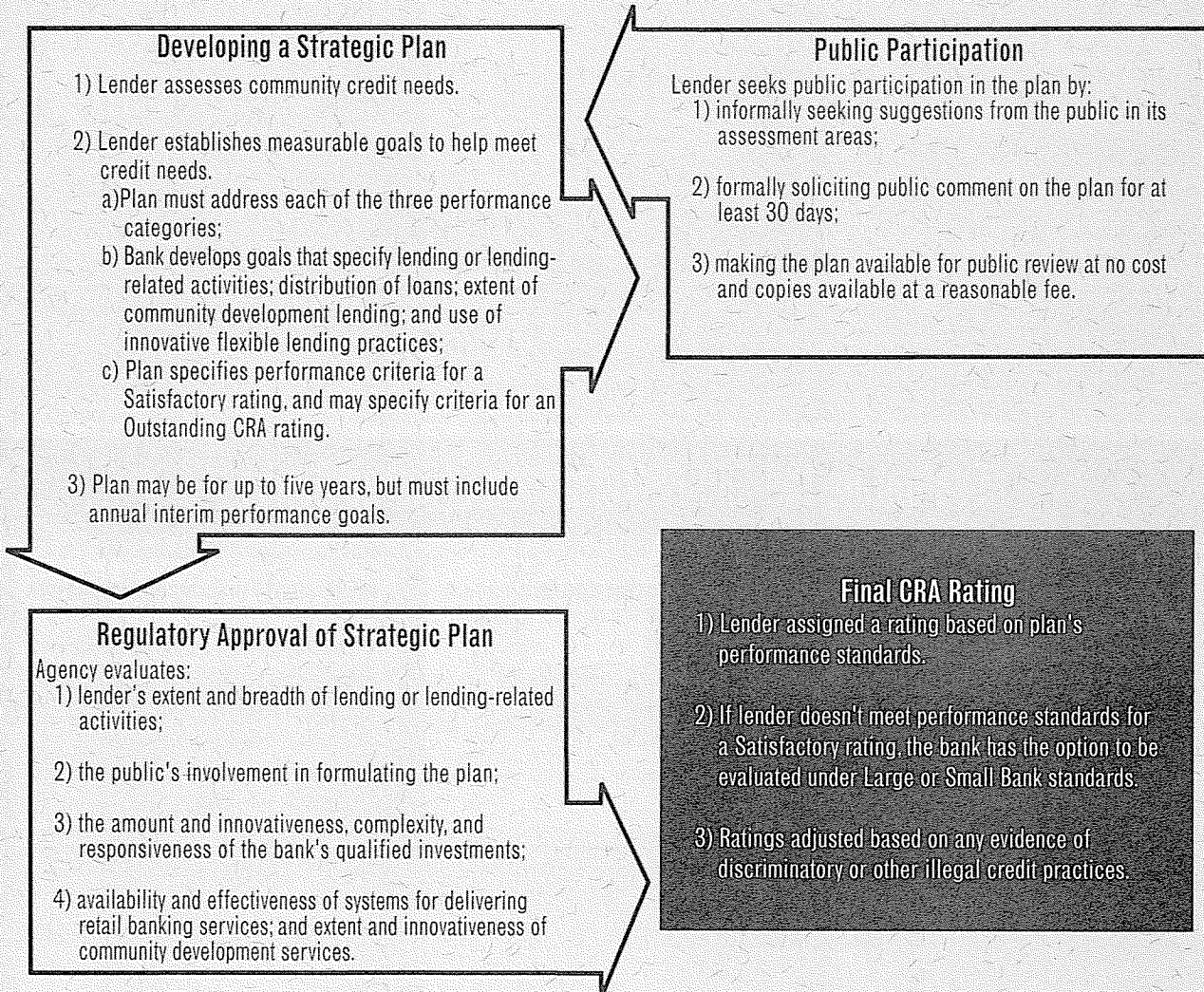
## Evaluating Small Banks

The streamlined CRA evaluation for small banks is designed for institutions with under \$250 million in

assets, and subsidiaries of holding companies that have less than \$1 billion in assets. It focuses on lending activity, particularly on an institution's efforts to help meet the credit needs of its entire community. Under the streamlined test, regulators will assess the degree to which a small bank lends in the various geographies of its assessment area, and the extent to which the bank provides mortgage loans to individuals of different income levels and loans to farms and businesses of different sizes. Examiners will assign ratings based on assessments of bank performance in five areas: 1) bank loan-to-deposit ratio; 2) bank lending activities in its assessment area; 3) distribution of loans to individuals of different

Figure II

# The CRA Strategic Plan Option



income levels and businesses and farms of different sizes; 4) the geographic distribution of a bank's loans given its assessment area; and 5) the institution's record of taking appropriate action in response to written complaints. Figure III outlines the criteria for evaluation of small bank performance. These criteria reduce a small bank's regula-

tory burden by streamlining the examination process and by reducing documentation requirements.

A small bank will be evaluated under these streamlined criteria unless it elects to be evaluated in one of three other ways: under the strategic plan option; as a large bank using the lending, investment, and

service tests; or as wholesale or limited-purpose institution. The strategic plan option provides for some flexibility and certainty by allowing the small bank to establish measurable goals for itself. The large bank test may have appeal for smaller institutions with especially strong investment and service performance. The third alternative, evaluation as

Figure III

## Small Bank Streamlined CRA test

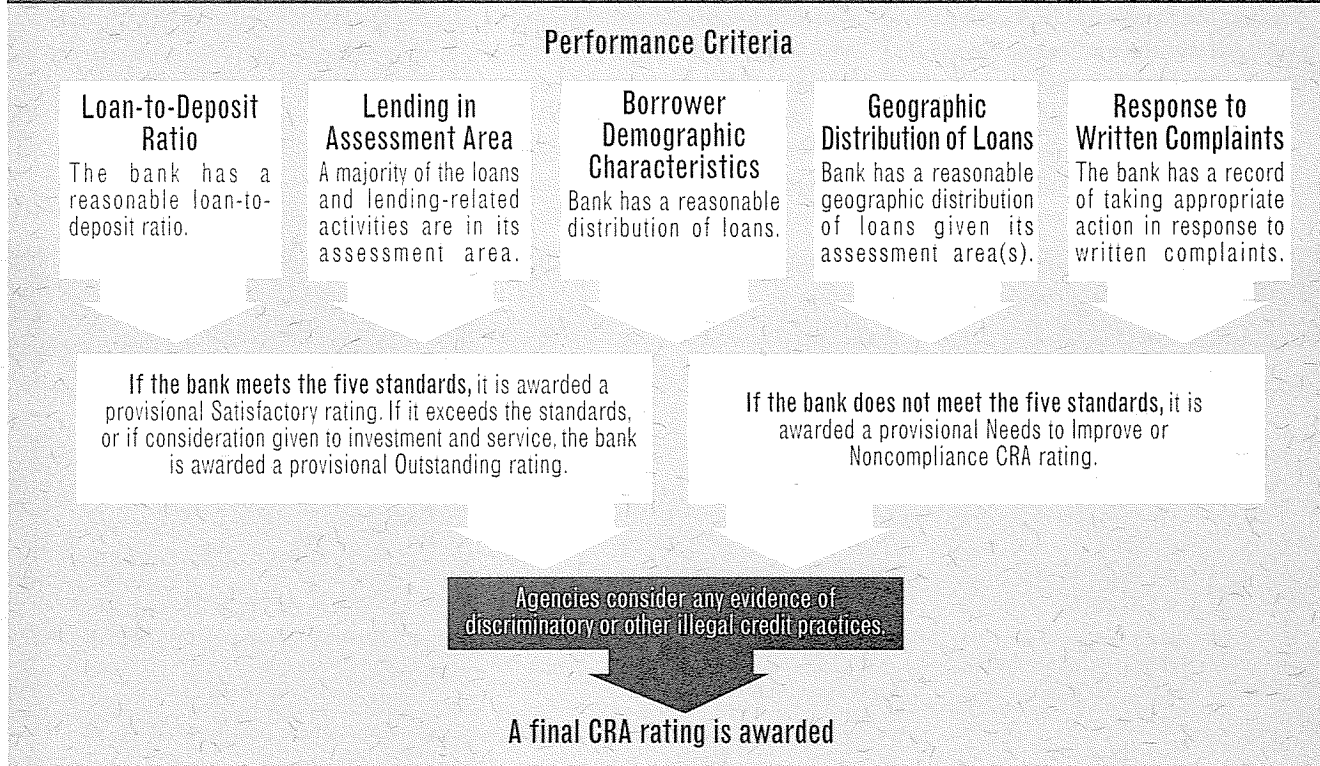


Figure IV

## Evaluating the CRA Performance of Large Banks

### Lending Performance Indicators

- Lending activity
- Geographic distribution
- Borrower characteristics
- Community development lending
- Innovative or flexible lending practices

### Service Performance Indicators

- Branching
- Branch openings and closures
- Alternative service systems
- Range of services

### Investment Performance Indicators

- Dollar amount of qualified investments
- Investment innovativeness or complexity
- Responsiveness of investments to community needs
- Degree to which investments not otherwise provided

### Performance Context

A bank's performance context is assessed in the Lending, Service, and Investment tests, and considers: demographic data; lending, investment, and service opportunities; bank product offerings and business strategy; institutional capacity and constraints; past performance and the performance of similarly-situated lenders; and the bank's public file.

a wholesale or limited-purpose institution, is designed for banks that do not provide full retail services in a community; regulator approval is required if a bank desires this designation.

## Large Bank Evaluation

An institution with more than \$250 million in assets, or that is a subsidiary of a bank holding company with greater than \$1 billion in assets, will be designated as a large bank. Such an institution will automatically be evaluated using the lending, investment, and service tests unless it specifically selects the strategic plan option or the wholesale/limited-purpose option. The lending, investment, and service

tests are applied based on the institution's performance context, which provides information about the conditions, capacities, and constraints under which a bank operates. Figure IV outlines evaluation criteria specified by the three performance tests.

The examiner assesses the lending institution's performance in each of the three areas and assigns one of five ratings: Outstanding; High Satisfactory; Low Satisfactory; Needs to Improve; or Substantial Noncompliance. The three scores are totaled to yield a composite score, which falls into one of four rating categories: Outstanding; Satisfactory; Needs to Improve; or Noncompliance. The scoring sys-

tem grants the greatest weight to the lending test. Example 1 in Figure V depicts how the scoring system requires a bank to earn a rating of at least Low Satisfactory on the lending test to receive a composite rating of Satisfactory. Example 2 describes how a bank receiving an Outstanding rating on the lending test will receive an overall rating of at least Satisfactory.

## Wholesale and Limited-Purpose Banks

No precise criteria define a wholesale or limited-purpose bank. In general, however, a limited-purpose bank offers only a narrow product line to a regional or broader market, while a wholesale bank does not

Figure V

# Rating Large Bank Performance

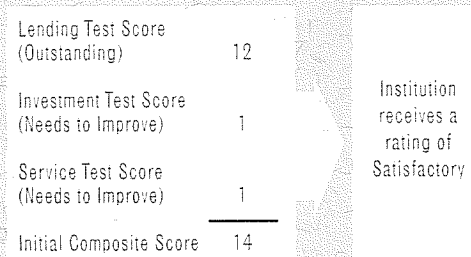
## Composite Scoring

Test Rating	Lending	Service	Investment	Composite Score
Outstanding	12	6	6	20 or more
High Satisfactory	9	4	4	Satisfactory:
Low Satisfactory	6	3	3	11 to 19
Needs to Improve	3	1	1	5 to 10
Noncompliance	0	0	0	0 to 4

### Example 1



### Example 2



lend to retail customers. An institution must submit a written application, in advance, to its regulator to be examined under these criteria.

The test for wholesale and limited-purpose institutions acknowledges that such banks have operations and business strategies that are different from those of full-service banks. The rating criteria, therefore, broadly emphasize community development activities without requiring that they meet the same standards in all three areas of lending, investment, and service as full-service banks. Figure VI depicts CRA evaluation criteria for wholesale and limited-purpose banks.

Further information is available through the Federal Reserve Bank of Boston. See **Community Developments** on page 8 for details.

— Rebecca Carter

## Take Note of Important Dates

### BEGINNING JANUARY 1, 1996

- EVALUATION UNDER STREAMLINED ASSESSMENT TEST BEGINS FOR SMALL BANKS.
- BANKS MAY ELECT THE STRATEGIC PLAN OPTION BY SUBMITTING A PLAN FOR REGULATORY APPROVAL.
- A BANK MAY ELECT TO BE EVALUATED UNDER THE LENDING, INVESTMENT, AND SERVICE TESTS IF IT SUBMITS THE NECESSARY DATA.
- BANKS OVER \$250 MILLION IN ASSETS, OR BANKS THAT ARE SUBSIDIARIES OF HOLDING COMPANIES OF \$1 BILLION OR MORE, MUST BEGIN COLLECTING SMALL BUSINESS AND SMALL FARM LENDING DATA.
- BANKS MAY APPLY FOR EVALUATION UNDER LARGE BANK OR WHOLESALE/ LIMITED-PURPOSE EXAMINATION CRITERIA.

### BEGINNING JANUARY 1, 1997

- LENDERS WITH OVER \$250 MILLION IN ASSETS, OR THAT ARE SUBSIDIARIES OF HOLDING COMPANIES OF \$1 BILLION OR MORE, MUST REPORT SMALL BUSINESS, SMALL FARM, COMMUNITY DEVELOPMENT, AND, IF APPLICABLE, CONSUMER LENDING DATA.

### BEGINNING JULY 1, 1997

- ALL PERFORMANCE TESTS AND STANDARDS BECOME EFFECTIVE FOR ALL LENDERS, INCLUDING LARGE, WHOLESALE, AND LIMITED-PURPOSE BANKS.

Figure VI

## Evaluating Wholesale and Limited-Purpose Bank CRA performance

### Designation as Wholesale or Limited-Purpose Bank

#### Guidelines:

- A limited-purpose bank offers only a narrow product line to a regional or broader market.
- A wholesale bank does not generally extend home mortgage, small business, small farm, or consumer loans to retail customers.

#### Application Process:

- Apply in writing to regulatory agency requesting designation as a wholesale or limited-purpose bank.

### CRA Evaluation of a Wholesale or Limited-Purpose Bank

#### Assesment Area:

- Examination applied to assesment area and broader statewide or regional area.
- If area needs are met, community development activities outside area receive full consideration.

#### Evaluation:

- Acknowledges differences in business strategy and operation.
- Recognizes that institutions need not engage in all three activity categories.
- Rating broadly emphasizes community development activities.
- Consideration given to community development lending both inside and outside the assesment area.

### Performance Criteria

- Number and amount of community development loans, qualified investments, or community development services.
- Use of innovative or complex qualified investments, community development loans, or community development services; includes the extent to which the investments are not routinely provided by the private market.
- Bank's responsiveness to credit and community development needs.

Regulatory agency considers any evidence of discriminatory or other illegal credit practices.

### A final CRA rating is assigned

- Outstanding
- Satisfactory
- Needs to Improve
- Noncompliance

# Compliance Q & A

## The New CRA and the Strategic Plan Option

### *What is the purpose of the Strategic Plan Option?*

Agencies want to encourage banks, whether or not they elect the Strategic Plan Option, to undertake this type of planning as part of the process of assessing and addressing the credit needs of their communities. The Strategic Plan Option simply formalizes this process, allowing an institution to establish performance objectives by which a regulator will evaluate its CRA performance. Operating under a strategic plan may provide an institution with greater certainty, since the bank sets measurable goals for itself. Flexibility is also a feature of the Strategic Plan Option, since a bank has the opportunity to submit amendments to its plan when market or economic circumstances change.

### *What types of banks may submit a strategic plan?*

Any institution — large or small, wholesale, retail, or limited-purpose — may elect to submit a strategic plan. Affiliated institutions may prepare a joint plan that allocates activities, or they may submit separate plans. Multi-state banks may either submit one plan that addresses all assessment areas, or separate plans that cover one or more assessment areas.

### *How long is the term of a strategic plan?*

A strategic plan may have a term of up to five years. It must, however, specify annual measurable goals.

### *What types of goals should a bank establish for itself?*

Goals should be specific, measurable (that is, number of loans, amount of lending, or both), and responsive to community credit

needs. They should address each of the evaluation criteria — lending, investment, and service — covered in the large bank test. A bank must establish performance targets required for it to achieve a Satisfactory rating. It may also specify levels required for an Outstanding rating.

### *What is the extent of public participation required in developing a strategic plan?*

Institutions must solicit community input in developing their plans, but the institution alone will make decisions about how it will help meet community credit needs. In reviewing public participation, the agencies will assess whether an institution has made an appropriate investigation of community needs and whether the goals of the plan serve those needs.

Two forms of public participation are required: informal input and formal written comments. Informal public involvement helps the bank understand the credit needs of its community as it develops the plan. The formal 30-day comment period allows the public to submit written remarks on the bank's plan. A bank must first notify the public, via local newspapers, of the plan's availability for examination, and then it must keep copies of the draft strategic plan at each of its branches for public review.

### *What is the process for submitting a strategic plan for approval?*

A bank submits a strategic plan to its regulating agency at least three months prior to the plan's effective

date. The plan must include a description of the formal comment process, whether the plan was amended as a result of those comments, and the initial plan. The criteria on which an agency evaluates a strategic plan are: 1) the extent of lending activity; 2) the amount and innovativeness of qualified investments; and 3) the availability and effectiveness of services. A bank will receive a decision from its agency within sixty days.

...a strategic plan may provide an institution with greater certainty, since the bank sets measurable goals for itself.

### *When may an institution amend an approved strategic plan?*

When economic or market circumstances change, an institution may submit an amendment to its approved strategic plan. Public participation, similar to that sought during development of the original plan, is also required for an institution to amend its plan.

### *When will a bank first be evaluated under an approved strategic plan?*

An institution must have been operating under an approved strategic plan for at least one year prior to an examination. If an examination is scheduled before that time, the institution will be evaluated under whichever category (that is, large institution or small institution) would otherwise apply.

## More Information on the New CRA and Community Economic Development

### ■ ■ Affordable Housing ■ ■

*Affordable Housing Loan Consortia Sourcebook.* This guidebook introduces loan consortia, and instructs lenders in establishing and operating them successfully. By sharing risk with other lenders, a consortium can allow a financial institution to tap into market niches it might not otherwise reach. The sourcebook also profiles more than 30 loan consortia of varying types and sizes around the country. From the National Association of Affordable Housing Lenders. To order, call 202-328-9171. \$45 for members, \$59 for non-members.

*Partners.* A computer software program designed to serve as an analytic tool for financial institutions, community groups, and other community development professionals in counseling low- and moderate-income applicants. The program can quickly determine if potential homebuyers can qualify, mathematically, for a home purchase loan. The program also identifies 10 qualifying alternatives to help applicants who may not qualify for a loan based on current financing criteria. *Partners* includes loan amortization schedules, equity build-up calculations, and secondary market considerations. From the Federal Reserve Bank of Boston. To order, call 617-973-2130.

Fannie Mae's Northeastern Regional Office sponsors about 30 seminars each year for lenders. Topics include underwriting, condos and co-ops, managing default, and other lender concerns. Though these courses are designed to serve lenders working with Fannie Mae, they are open to anyone with an interest in the topic. For information, call Suzanne Klett at 202-752-2695.

### ■ ■ Economic Development ■ ■

*The National Business Incubation Association* offers memberships and numerous resources for business incubators and the businesses housed in them. Publications include how-to guides for organizations wishing to establish an incubator facility, business incubation research reports, and information for entrepreneurs. To request a Resource Catalog, or to inquire about membership, call the National Business Incubation Association at 614-593-4331.

*Urban Economic Development Summit,* March 3-5, 1996, Washington D.C. Sponsored by the National Council for Urban Economic Development. This election-year summit will address the effect of national policies on communities, and what can be done to influence them. The conference will also explore state and local issues, notably the competition to attract relocating businesses with tax incentives and other measures. For more information, call 202-223-4735.

### ■ ■ New CRA Regulation ■ ■

*Community Reinvestment Act Regulations, Joint Final Rule,* issued by the Office of the Comptroller of the Currency, U.S. Department of the Treasury; Board of Governors of the Federal Reserve System; Federal Deposit Insurance Corporation; Office of Thrift Supervision. Revisions provide guidance to financial institutions on the assessment of their CRA-related activities. To receive a copy, contact Rebecca Carter, Federal Reserve Bank of Boston, Community Affairs Department, P.O. Box 2076, Boston, MA 02106-2076; 617-973-3813.

*Examination Procedures for the New Community Reinvestment Act Regulation,* issued by the Office of the Comptroller of the Currency, U.S. Department of the Treasury; Board of Governors of the Federal Reserve System; Federal Deposit Insurance Corporation; Office of Thrift Supervision. Procedures outline guidelines for compliance examiners to follow when conducting a CRA examination. To receive a copy, contact Rebecca Carter, Federal Reserve Bank of Boston, Community Affairs Department, P.O. Box 2076, Boston, MA 02106-2076; 617-973-3813.

*CRA Examination Schedule, First Quarter, 1996,* issued by the Office of the Comptroller of the Currency, U.S. Department of Treasury; Board of Governors of the Federal Reserve System; Federal Deposit Insurance Corporation; Office of Thrift Supervision, and the Commonwealth of Massachusetts, Division of Banks. This schedule specifies which institutions will be examined for CRA performance by their respective regulators. To receive a copy of the schedule, contact Rebecca Carter, Federal Reserve Bank of Boston, Community Affairs Department, P.O. Box 2076, Boston, MA 02106-2076; 617-973-3813.



# A Growing Enterprise: The Small Business Incubator

There were only about ten such facilities across the U.S. in 1980. In 1995 there are more than 500. An average of one new facility opens each week; they now occupy more than 29.5 million square feet and thrive in urban, suburban, and rural economies.

It is not the latest restaurant or coffee house chain. But it is the trend in enterprise development — the small business incubator.

Small business incubators supply nascent businesses with environments suited to survival and growth during the critical early phases of operation. Incubators offer flexible tenancy arrangements, below-market rents, shared office services, and, increasingly, management and technical assistance.

Business incubators may be established as either for-profit or non-profit enterprises, and are often funded by a combination of private and public resources. Across the country, existing facilities serve nearly 7,800 companies in service, light manufacturing, and high technology industries. And more than 4,600 such companies have graduated from incubators to traditional tenancy arrangements.

Incubator facilities are often tailored to the characteristics of local economies. For example, Science Park Development Center, a Yale University-related technology incubator in New Haven, Connecticut, is well-situated to utilize the resources of the University and to foster high technology enterprise development. The Business and Technology Center, located in the inner city of Omaha, Nebraska, on the other hand, is targeted to the needs of low-income urban residents. Such urban incubators often

house a combination of crafts, food production, and light manufacturing enterprises. Although they vary in their location, size, and focus, small business incubators all have one thing in common: They encourage enterprise.

## An Evolving Role

Originally established primarily to provide low-cost facilities to start-up businesses with below-market rents and reduced-cost services, the role of the incubator has evolved. Sally Hayhow of the National Business Incubation Association notes that below-market rents are receding in importance. "What business incubators offer today is more important than low-cost space. They now have a full complement of tools to work with — from their own micro-loan funds to links with the financial community. They can now work with their clients toward entrepreneurial self-sufficiency by aiding these firms in establishing themselves." Today, sophisticated business assistance, which can consist of ongoing management support, development of targeted business plans, legal support, and mentoring programs, forms the core of many business incubators.

## The Venture Center: Helping Western Massachusetts Grow

At The Venture Center, located in Greenfield, Massachusetts, the seat of rural Franklin County, the concept of the small business incubator has taken root. In a region known for its sweet corn, it is not surprising that the motto at this incubator is

"Home-Grown Jobs." Growing them at home is exactly what has occurred at The Venture Center, where local entrepreneurs have created more than 60 jobs.

Although the highly paid manufacturing jobs that long sustained the area began to disappear in the 1970s, the area's livability kept workers and their skills in the Greenfield region. Their expertise, and an entrepreneurial spirit, sprouted ideas for new enterprises. According to Kathleen Jaworski, Executive Director of The Venture Center, worker skill and motivation made self employment a viable option for some of the area's former industrial employees.

"What business incubators offer today is more important than low cost space....They can now work with their clients toward entrepreneurial self sufficiency..."

Sally Hayhow, NBIA

The Venture Center grew out of a recognition of the need to foster this kind of local entrepreneurship. According to Ms. Jaworski, the Franklin County Community Development Corporation, which established the Center, identified the need among local start-up businesses for adequate space and services in order to establish themselves and grow — a combination that was all but impossible to find in the aging and empty factories of Franklin County. But the former site of Bete Fog Nozzle Company offered a facility suitable for numerous purposes — offices, production, warehousing

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*How will a bank's CRA performance with respect to its strategic plan be assessed?*

An examiner will evaluate a bank's performance with respect to its measurable annual goals and will review the bank's accomplishments for each full year that has elapsed since the previous examination. Performance will be evaluated based on the degree to which the institution has met or exceeded its goals.

*Must a bank fully meet all of its goals in order to receive a Satisfactory rating?*

An institution must substantially meet its performance objectives in order to receive a CRA rating of Satisfactory. Goals are considered substantially met if performance on most goals exhibits variances that, in the aggregate, are not significant to the overall plan. In considering the significance of unmet goals, the

examiner will assess their number, their relative importance to the plan, and the reasons for the performance shortfall.

*What rating does a bank receive if it does not substantially meet goals for a Satisfactory rating?*

The bank may then be reevaluated and assigned a CRA rating based on the performance criteria an examiner otherwise would have applied (either the large-bank test or the small-bank streamlined evaluation) in the absence of a strategic plan. If an institution elects not to be evaluated under these alternate assessment criteria, the examiner will assign a rating of Needs to Improve or Substantial Noncompliance, depending on the degree to which the bank did not meet its goals.

*If a lending institution has more than one assessment area, and its performance levels vary from one*

*assessment area to another, how will it be rated?*

The examiner will consider several factors, including: 1) the credit needs of and the lending, investment, and service opportunities in the different assessment areas, particularly in low- and moderate-income and rural areas; 2) lending, investment, and service activity in the different assessment areas; and 3) the relative importance of the institution in each assessment area in meeting the credit needs of the community, particularly in areas with a limited number of financial service providers. The examiner will consider these factors to establish the relative importance of each assessment area in assigning the institution's overall rating.

—Rebecca Carter

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— and the flexibility to accommodate a variety of sizes of small businesses. The Venture Center supplies front-office operations for its tenants, warehouse facilities, shared use of conference room space, shared use of heavy equipment, and building management services. In addition, Franklin County CDC offers courses in small business management and a micro-loan program. The CDC also offers assistance in developing business plans, a key element of firm success. Ten to fifteen firms operate at any given time in the 35,000 square foot facility. Individual businesses range from custom furniture design and production, to a materials testing lab, to a high-quality silk-screen operation. And all of the enterprises reflect the region's economic tradition of high-quality products produced with skill and care.

Many business tenants have flourished at The Venture Center, with several firms graduating to larger

sites. Small Corporation, for example, belying its name, outgrew its space at The Venture Center and built its own facility at Greenfield Industrial Park. And The Venture Center is growing along with the businesses it serves. Operating consistently at close to 100% occupancy (nationally, according to the National Business Incubation Association, occupancy rates range from 73% to 89%), The Venture Center's building and services are in demand in Franklin County.

Plans are under way for a second incubator facility in Greenfield. Ms. Jaworski anticipates that the new operation will offer up to 50,000 square feet of office, production, and warehouse space, and will be able to accommodate somewhat larger, growth-oriented firms in addition to very small enterprises. The larger facility would also mean that the incubator would provide more services, including marketing and technical assistance, and would link tenants with outside sources of financing.

The kind of economic development encouraged by business incubators like The Venture Center may be especially stable. As Ms. Jaworski states, "We believe that firms with roots in Franklin County will contribute to lasting growth for the region. Because the business owners live here, and have remained here through good times and bad, their commitment to the economic revitalization of the region is especially strong. When these small businesses hire a new worker, they don't view themselves as simply providing a job; they recognize they may well be hiring their neighbor."

### **Banks and Business Incubators: A Logical Link**

As business incubators establish strong track records in small business creation, bank affiliations with such facilities can be an effective way to address some community reinvestment obligations, notes Ms. Hayhow of the National Business

- Rebecca Carter

For more information about small business incubators and how to establish one, call the National Business Incubation Association at (614) 593-4331. See Community Developments on page 8 of this issue for more information about resources available through this as-

sociation. "It's a reciprocal relationship that can benefit both parties," states Matlock. They can help fledgling businesses establish themselves to the point where they can qualify for traditional bank financing. "It's a reciprocal relationship that can benefit both parties," states Matlock. For more information about small business incubators and how to establish one, call the National Business Incubation Association at (614) 593-4331. See Community Developments on page 8 of this issue for more information about resources available through this association.

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**BUSINESS REPLY MAIL**

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POSTAGE WILL BE PAID BY ADDRESSEE

Federal Reserve Bank of Boston

Attention: Rebecca Carter

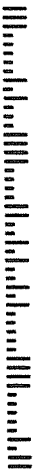
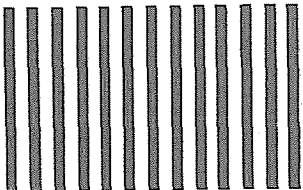
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