

Perspectives on Community Development

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Community Affairs Research Conference
Federal Reserve System
The Capital Hilton
Washington, D.C.
March 28, 2003

On behalf of the Federal Reserve Banks and the Board of Governors of the Federal Reserve System, let me welcome you to the second day of our Community Affairs Research Conference. As Alicia mentioned in her introduction, my grounding in the community development arena extends back to the 1970s, when I was the assistant secretary for policy development and research at HUD. So I'm particularly pleased to have the opportunity to discuss this crucial area today.

In reviewing the program for this conference, I thought back to the efforts that we had at HUD 30 years ago and felt that it might be helpful to touch briefly on some of the extensive changes that have taken place in the economy, our institutions and community development programs over this period of time. I make no claims that my list is comprehensive. But perhaps a bit of historical background will be helpful in putting our efforts in perspective and in charting new areas for research.

- First, one pervasive trend is the breakneck speed at which technology and telecomm capabilities have advanced. E-mail started to get broad acceptance in the 80s and the Internet in the 90s. This has changed everything from how we communicate with family and friends to how we find a mortgage.
- Second, the banking industry has gone through tremendous consolidation. There were 13,787 separate charters in 1973, compared with 8,223 today – a 40 percent reduction. The industry also has evolved with regard to community development programs. The Community Reinvestment Act was not enacted until 1977.
- Third, our financial markets are much more efficient today. They facilitate greater access to capital internationally and within countries, and specifically in the housing industry Fannie Mae became a for-profit, publicly traded company in the early 1970s. Community development financial institutions were started during this same period. In addition, over the past 30 years we have seen the establishment of the CDFI Fund and significant growth in bank community development programs

throughout the country.

- Fourth, our population is much larger, much wealthier, and much more diverse today, and female labor force participation is much higher.
- Fifth, home ownership rates are higher – 67.9 percent in 2002, for example, versus 64.5 percent in 1973.
- Sixth, government housing assistance programs have made a dramatic shift away from building housing for low-income families to providing vouchers and rental assistance directly to families so that they can seek housing most suitable to their needs.
- And finally, there is a much more extensive network of community development organizations to help low-income families. For example, Neighborhood Housing Services was just getting started in the early 1970s.

As you can see from just a quick overview, there have been enormous changes over the past 30 years or so, and most of them have been quite positive. My personal view is that the environment for community development programs is much more favorable today, and we have learned a great deal from our past experience.

Nevertheless, there still is a need for careful research on economic and community development programs, and for objective evaluation of their effectiveness. Along those lines, I'd like to announce that the Chicago Fed is coordinating a System-wide initiative to develop a web page for research on financial education. We believe it will be an important resource for those building or evaluating programs in this area. A press release on the initiative is available here today.

Now I'd like to focus on three of the topics on our agenda today that relate to the changes I discussed earlier: home ownership, community development financial institutions and immigration.

Home ownership

Let's begin with home ownership, which is now at the highest rate in the nation's history. As we know, home ownership is key to wealth accumulation among lower-income households, where the home is most likely the primary asset. But the confluence of policies to promote home ownership, such as tax incentives, CRA and other consumer regulations designed to ensure wider access to credit, has given rise to new issues. We now have high rates of foreclosure and abandonment in some communities; we have a sub-prime mortgage market, and so-

called predatory lending.

High default and foreclosure rates have brought about foreclosure intervention and loss mitigation initiatives, as well as counseling programs to prepare families for the rigors of home ownership. Yesterday's presentations included an analysis of FHA's loss mitigation program, which has apparently had positive effects for homeowners, investors and communities.

We also saw compelling evidence of the impact of homebuyer counseling in stemming delinquencies and defaults. It is encouraging to see renewed efforts by researchers and development oriented organizations and agencies to better capture data relevant to evaluating community development programs and initiatives. Only then can the outcomes be quantified and accurately assessed. Still, I think we have room for improvement regarding the quantity and quality of the data collected.

Community development financial institutions

The second topic I want to address is community development financial institutions (CDFIs).

One area we'll be looking at today is the impact of CDFIs on households and communities. Financial services, especially easy access to financial services by low and moderate income households, is an area of keen interest to the Federal Reserve.

The simple transaction account opens an array of opportunities for previously unbanked households to build a banking relationship and access competitive, mainstream financial services. In turn, this can make it easier for households to increase their net worth.

CDFIs provide transaction accounts and other services in low-income communities. But CDFIs also face pressures relating to profitability, and must balance that against their mission to serve inherently higher-risk borrowers while providing vital, ancillary services. We'll hear more about this today.

Immigration

And, finally, we will hear more about a topic that we at the Chicago Fed have a particular interest in: immigration and the financial assimilation of new Americans.

We have a more diverse nation today and immigration to the United States is occurring at an unprecedented pace. Research has shown that, in most cases, immigrants have greatly benefited our nation and

economy. For example:

- They generally have a high labor force participation rate,
- They have a high propensity to start new businesses and be self employed,
- They use relatively small amounts of public services and transfers, and
- They do not generally cause unemployment among native citizens.

Recent history has shown that we must compete effectively with other developed countries for skilled labor. One implication is that we must take steps to assure the smooth assimilation of immigrants financially, culturally and otherwise, while we simultaneously address complex security issues. As national immigration policy is shaped, we must consider the needs and concerns of local and regional stakeholders as well.

Business and civic leaders in Chicago and the surrounding Midwest region are keenly interested in our immigration policies. So is the Chicago Fed. In fact, we are in the midst of establishing a research and outreach competency center within the Bank to focus on, among other issues, the financial assimilation of immigrants in the region and the nation.

So, some of the questions we intend to address regarding new Americans are:

- What contribution do new immigrants make to our current living standards, worker productivity, and economic growth?
- Who benefits and who is harmed (if any) by the arrival of new immigrants?
- How can we promote the social and economic mobility of immigrants and their families?

We will aggressively pursue these issues and leverage our efforts using a variety of partners and partnerships.

So I'm pleased to see that several of the presentations today will touch on issues faced by immigrants seeking to establish new business enterprises.

Conclusion

These issues and many others discussed over the course of this 1-1/2 day conference will continue to drive research and policy in the community development arena.

I'd like to thank you all for being here, and also thank those who did so much to create what I think is a compelling conference.

In closing, let me leave with you a few ideas on factors that continue to impact the community development field, underscoring the need for our best thinking and program design:

- As I said earlier, technological advances continue to accelerate. Combined with globalization, they are changing the landscape for community development practitioners.
- And the banking industry will continue to consolidate, impacting banks' relationships with community development organizations.
- Organizations, all with the best intentions, still compete head-on for the same scarce resources; success in future community development may hinge on enhanced sharing of information and other key resources.

In short, we must be vigilant, creative and efficient in the way we conduct community development programs, learn from our mistakes and successes, and be mindful of data needs as an integral part of program development.

Thank you.