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Community Development in Challenging Times

[Applause]

Thank you very much. I've heard a lot of good things about this conference. And as always, I'm very pleased to have the chance to meet with you. I've come pretty much to all these conferences -- certainly when I've been able to, and I've found them to be very useful. As you know, this meeting brings together researchers, community development professionals and public sector officials, to explore how best to strengthen struggling communities. Needless to say, that endeavor is now more crucial than ever. The past two years have been very difficult. Weak economic conditions at the national level have translated into hardships in many communities, at the same time that communities have fewer resources available for stabilization and revitalization. Considerable good work is going on nonetheless, and I'd like to offer a few examples of that today.

At the national level, the economy is recovering at a moderate pace. In particular, the labor market has been gradually improving, and the unemployment rate has declined somewhat. But unemployment remains quite high, particularly among minorities, the young and those with less education. What's more, long-term unemployment is at historically high levels. Nearly half of the unemployed have been out of work for six months or more. The housing market is also holding back the recovery. The foreclosure rate remains very high, and many homeowners who have avoided foreclosures find themselves under water -- meaning that their mortgage debt exceeds the value of their home. Obviously, the problems in the labor market and the housing market are not unrelated. In particular, lost income from unemployment is causing many families to fall behind on their mortgage payments.

As families have struggled, so have their communities. In some areas, for example, high foreclosure rates have produced significant numbers of vacant properties, depressing surrounding home prices, attracting crime and creating financial burdens for local governments. Thus, some community development groups are just now trying to hold on to past progress that they have made in building up physical and human capital, while others have lost ground and are just really in the process of beginning the rebuilding.

While the scale of the problems has been exceptional, many of the problems themselves are not new for lower-income families and communities that were already struggling. People who were vulnerable to begin with -- those with low incomes, few assets and less education -- have had a more difficult time weathering the financial storm or recovering from setbacks. The same is true for communities that are relatively poor, with fewer community assets and insufficient drivers of economic growth.

To solve problems, we must first understand them. Like many of you here today, the Federal Reserve has been engaged for some time in research and analysis of the economic challenges faced by neighborhoods and communities, as well as by individuals and families. For example, in 2008, the Federal Reserve banks and the Board of Governors, in partnership with the Brookings Institution, published a study of the effects of concentrated poverty on communities. The communities that we studied included older inner cities in the north, smaller cities in the south and west, Native American reservations, gateway neighborhoods that are entry points for immigrants, and rural areas in the Appalachia and in the Mississippi Delta. What these diverse communities had in common was that they did not share in our economy's general prosperity, even in good times. Our research identified some of the barriers to economic progress shared by these communities, including inadequate schools and workforce skills, lack of investment in infrastructure and business development, and limited institutional capacity. Not surprisingly, these communities were particularly ill-equipped to deal with the recession.

Of course, economic conditions in a given community both affect and are affected by the economic status of the individuals and families in that community. One of the most valuable sources of data on family finances is the Federal Reserve Board's triennial survey of consumer finances. To better understand the effects of the crisis on households, the Board -- in a special update to its 2007 survey -- asked the participants about their financial and personal circumstances two years later, in 2009. The findings helped to illustrate the challenges that are still facing families and communities.

According to the special follow-up survey, lower-income households continued to experience significantly more unemployment than higher-income households. In 2009, nearly one-fourth of the families in the bottom half of the income distribution had at least one member who was out of work for some portion of the year, prior to the survey. This rate was about double what was seen in higher-income households.

Declines in the value of homes and stocks sharply reduced the wealth of many Americans during the crisis. Three-fifths or more of families across all income groups reported a decline in wealth between 2007 and 2009, and the typical household lost nearly one-fifth of its wealth, regardless of income group. Moreover, one in eight of the households in the panel started the crisis with zero or negative net worth, and thus had scant resources to fall back on or to maintain their standards of living during bouts of unemployment.

Unemployment and declines in wealth obviously can make it difficult for a household to pay its debts on time. The survey update found that lower-income households fell behind on their payments at a substantially higher rate than higher-income households -- perhaps not surprising. Among households with debt, about 11% of those with incomes in the bottom half of the income distribution fell 60 days or more behind on at least one of their obligations, in 2009, compared with only about 3% of those in the highest 10th of the income distribution.

Just as lower-income households weather financial storms with more difficulty, the same is true of communities. Even before the crisis, some neighborhoods, towns and cities were already in distress. Those areas already lacked sufficient assets, such as strong public schools and community facilities, and rising unemployment and falling tax revenues reduced the funds available for public services, even as the needs increased. Often, residents were disproportionately under-banked or un-banked and relied on expensive, alternative financial service providers. In communities with already low housing values, due -- for example -- to oversupply caused by population shifts, the wave of foreclosures that began in 2007 sent the number of vacant properties soaring, causing a raft of additional problems.

In short, the financial crisis in the recession touched many families and communities. But those that were struggling before the crisis were often disproportionately affected.

The challenges for those working to address the many evident problems in troubled communities can be daunting. When so many social and economic problems are interconnected -- high unemployment, foreclosures, crime, loss of tax revenues and social services, lack of economic opportunity -- deciding where to start to improve the situation can be quite difficult. Certainly, no single program or approach will address all of the problems. But realistically, we have to pick places to begin, with the expectation that finding solutions in one area will confer wider benefits. For example, providing responsible credit for individuals and small businesses, through community development financial institutions, can stimulate economic activity that in turn generates local tax revenues. Those tax revenues can be spent on programs to put vacant properties back into active use, helping to reduce crime; or on job training or economic development programs, leading to more employment and wage income that can help homeowners avoid foreclosures.

As the Board's eyes and ears around the country, the Federal Reserve Banks have kept us well-informed here in Washington of the variety of ways that local communities are meeting the challenges of tough times in their troubled communities. Though the following is only a small sample of the work going on around the country, I have a few stories that I'd just like to briefly share with you, in the hope that the success of some communities in addressing these problems may lead others to emulate them.

In Massachusetts, for example, a community development financial institution called Boston Community Capital is pursuing an innovative strategy to prevent occupied homes from becoming vacant and creating a strain on the community. Through special financing entities, it buys foreclosed-upon but still-occupied homes from lenders at market value. The initiative, dubbed Stabilizing Urban Neighborhoods -- or SUN -- is focused on six low-income neighborhoods in Boston that have the city's highest concentration of foreclosures. Taking advantage of the diminished home values, the group buys the properties and then resells them at affordable prices to existing occupants -- both owners and tenants -- who can demonstrate that they have suffered hardship. This program prevents properties from becoming vacant and provides families with a sustainable and affordable housing situation. It is designed to start small, but it can expand, as needed.

Another example: In the South, ACCION Texas-Louisiana -- a nonprofit organization -- has been focused on assisting entrepreneurs to start small businesses and helping existing small businesses to expand. ACCION lends to entrepreneurs whose businesses are too small or too new to qualify for a regular bank loan. Minority-owned businesses receive more than 80% of its loans, and almost half of the lending goes to women-owned businesses. Since 2009, this organization has expanded from Texas into Louisiana, to respond to small businesses affected by Hurricane Katrina. The recession put extra pressure on ACCION, as existing borrowers were having increasing trouble paying back their loans. At the same time, demand for its services increased, as newly laid-off workers were seeking loans to start their own small businesses. The organization responded by expanding its services: Opening a business support center and business incubators, providing more comprehensive technical assistance, developing new business partnerships, reaching into new markets and strengthening its underwriting platform, to reduce waiting time for applicants and to reduce its own costs.

In my home state of South Carolina -- as in many parts of the country -- the effects of the crisis have varied from community to community. For example, the city of Charleston -- a popular tourist destination known for its historic architecture and fine cuisine -- that city is faring relatively well, overall. Even so, both unemployment and poverty in the greater Charleston area increased significantly between 2007 and 2009. Median income in the nearby city of North Charleston, which has struggled ever since a naval base closed in 1996, is about three-fourths that of Charleston. In some older neighborhoods, families have moved out, leaving behind many vacant properties. Some parts of the metropolitan area are experiencing economic growth, but the benefits of that growth are not reaching all communities. While some major corporations have expanded into the area, inadequate education and training, as well as lack of public transportation, are making it difficult for many residents of low-income and minority communities to take advantage of new job opportunities. Local development groups have been working to ameliorate the situation. For example, Metanoia CDC, a community development corporation, is located in the heart of the old naval communities of North Charleston, and its work has visibly improved the situation of the hardest-hit communities. Metanoia's holistic range of programs and community leadership, quality affordable housing and economic development appear to be contributing to decreasing crime, rising student grades, and homes for first-time homebuyers. The group focuses on building assets, both physical and human, such as transforming vacant buildings into homes for families and helping students in a young leaders program improve their performance in school.

In the San Joaquin Valley of California, the unemployment rate is now hovering around 18%. In 2009, in response to an ongoing foreclosure crisis, nonprofit agencies; local, state and federal agencies; academics; real estate professionals; financial institutions; small business and workforce development professionals; and loan servicers got together to organize the San Joaquin Valley Foreclosure Task Force. The original intent was to coordinate efforts on a regional scale, to avoid preventable foreclosures. This work continues, and the group is now expanding its efforts to also help families that have already gone through a foreclosure. This year, the task force is beginning a series of foreclosure recovery workshops across the valley. Families will learn about local programs and assistance, including job training and employment assistance. Credit counselors will help them to begin to repair their damaged credit. And in cases in which they may be victims of fraud, they will receive guidance and referrals to legal aid attorneys.

One more example: In Cleveland, local leaders in the Slavic Village neighborhood have been dealing with some of the highest foreclosure rates in the nation since the 1990s. Cleveland saw population loss for five successive decades, resulting in an oversupply of housing. With the onset of the financial crisis, the problem began to worsen dramatically. By 2007, Slavic Village was the ZIP code with the highest number of foreclosures in the nation. By 2010, more than 1,500 properties -- in a neighborhood of 11,000 homes -- needed to be demolished. This community has a history of strong neighborhood organizations, and as might be expected, its residents, community leaders, nonprofits, local governments and companies stepped up their efforts. In one partnership, community groups are using data provided by a local university to identify borrowers at risk of foreclosure and are reaching out to them, door-to-door, to see what might be done to prevent a foreclosure. In another example, residents and community leaders in Slavic Village alerted county prosecutors to fraudulent lending in the neighborhood. As the crisis continues to play out, community leaders have found ways to reuse vacant land, adding gardens, yard expansions and bike trails, among the neighborhood's declining number of homes, and making it safer and more attractive for the residents. Business leaders are helping as well, by purchasing and demolishing properties adjacent to the gardens and trails, and supporting the renovation and expansion of a nearby school and recreation center.

I've just cited here just a few examples of work that is really making a difference at the grassroots, all around the country. These examples show that though the challenges in troubled communities are indeed very daunting, we are far from being helpless, and through the good efforts of many people, much is being accomplished.

For our part, we at the Federal Reserve will remain closely attuned to the economic health of all communities, including low- and moderate-income communities. Each of our Federal Reserve banks works with local leaders and community groups to provide relevant research, data and support, with the Board backing up these efforts across the country.

Again, as I said, the broader economy is in a moderate recovery, and we have recently seen some welcome -- if gradual -- improvement in the labor market. But our economy is far from where we would like to it to be, and many people and neighborhoods remain in danger of being left behind. The work of community groups, local leaders and businesses, and others, is a critical component to a broad-based national recovery. In addition to our work in regulating banks and in conducting monetary policy, so as to achieve maximum employment and price stability, the Federal Reserve will continue to assist these efforts, through local community outreach, by using its convening power, and through research, like that being discussed at this conference. If we all work together, I believe we can find effective ways to repair the damage done by the crisis to the economic prospects of many families and communities. Until vulnerable families and troubled communities have regained lost progress, the economic recovery will remain incomplete. Thank you. [Applause]