For release on delivery
12:30 p.m. EDT
April 29, 2011

# Community Development in Challenging Times

Remarks by

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at the

Federal Reserve Community Affairs Research Conference

Arlington, Virginia

As always, I'm pleased to join you at the Federal Reserve's biennial Community Affairs Research Conference. 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 more crucial than ever. The past few 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 will 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 remains 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 foreclosure find themselves "under water," meaning their mortgage debt exceeds the value of their homes. 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.

**The Challenges to Communities**

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 now are simply trying to hold onto past progress that they have made in building up the physical infrastructure and human capital of their communities, while others have lost ground and are beginning the process of 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 were already 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.[1] The communities 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 Appalachia and the Mississippi Delta. What these diverse communities had in common was that they did not share in our country's general prosperity, even in good times. Our

[1] David Erickson, Carolina Reid, Lisa Nelson, Anne O'Shaughnessy, and Alan Berube, eds. (2008), *The Enduring Challenge of Concentrated Poverty in America: Case Studies from Communities across the U.S.* (Washington: Federal Reserve System and Brookings Institution), www.frbsf.org/cpreport/docs/cp_fullreport.pdf.

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.[2] 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.[3] The findings help illustrate the challenges facing families and communities.

According to this special 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 that of higher-income households.

Declines in the values 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

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[2] The Survey of Consumer Finances is available on the Board's website at www.federalreserve.gov/pubs/oss/oss2/scfindex.html.

[3] For a summary, see Jessie Bricker, Brian Bucks, Arthur Kennickell, Traci Mach, and Kevin Moore (2011), "Surveying the Aftermath of the Storm: Changes in Family Finances from 2007 to 2009," Finance and Economics Discussion Series 2011-17 (Washington: Board of Governors of the Federal Reserve Board, March), www.federalreserve.gov/pubs/feds/2011/201117/index.html.

households in the panel started the crisis with zero or negative net worth and thus had scant resources to fall back on to maintain their standard 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. Among households with debt, about 11 percent 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 nearly 3 percent of those in the highest tenth 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 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 needs increased. Often, residents were disproportionately unbanked or underbanked and relied on expensive alternative financial service providers. In communities with already low housing values--due, for instance, to oversupply caused by population shifts--the wave of foreclosures that began in 2007 sent the number of vacant properties soaring, causing additional problems.

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

**Responding to the Challenges**

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 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 of the variety of ways local communities are meeting the challenges of tough times in troubled communities. Though the following is only a small sampling of the work going on around the country, I'd like to share a few of these stories with the hope that one community's success may lead others to emulate it.

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 and expand as needed.

In the South, ACCION Texas-Louisiana, a nonprofit organization, has been focused on assisting entrepreneurs 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 percent of its loans, and almost half of the lending goes to women-owned businesses. Since 2009, the 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 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 reduce its own costs.

In my home state of South Carolina, as in many parts of the country, the effects of the crisis varies from community to community. For instance, the city of Charleston, a popular tourist destination known for its historic architecture and fine cuisine, is faring relatively well overall. Even so, both unemployment and poverty in the greater Charleston area increased significantly between 2007 and 2009.[4] 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 do not reach all communities. While some major corporations have expanded into the area, inadequate education and training, as well as the lack of public transportation, make it difficult for many residents of low-income and minority communities to take advantage of new jobs. 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 hardest hit communities. Its holistic range of programs--in community leadership, quality affordable housing, and economic development--appears 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

[4] For the Metropolitan Statistical Area, the poverty rate increased from 12.5 percent to 15.6 percent between 2007 and 2009 (for one-year estimates, see U.S. Census Bureau (2007), American Community Survey (Washington: Census Bureau); and U.S. Census Bureau (2009), American Community Survey (Washington: Census Bureau)) The unemployment rate in the area rose from roughly 4.5 percent to about 11 percent between December 2007 and June 2009 (Bureau of Labor Statistics and Haver Analytics).

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 hovers around 18 percent. In 2009, in response to the 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 organized 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 begin repairing their damaged credit. And, in cases in which they may be victims of fraud, they will receive guidance and referrals to legal aid attorneys.

As a final 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, making it safer and more attractive. 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 have cited just a few examples of work that is making a difference at the grass-roots level all around the country. They show that, though the challenges in troubled communities are indeed daunting, we are far from helpless, and much good work 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.

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 it to be, and many people and neighborhoods are in danger of being left behind.  The work of community groups, local leaders and businesses, and others is a critical component to a national economic recovery.  In addition to our work in regulating banks and in conducting monetary policy so as to achieve maximum employment with 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 work together, I believe we can find effective ways to repair the damage done by the crisis to the economic prospects of families and communities.  Until vulnerable families and troubled communities have regained lost progress, the economic recovery will remain incomplete.