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CASCADE

INSIDE:

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Duisburg-Nord: From Rusted Ruins to Recreational Park

By Keith L. Rolland, Community Development Advisor

When landscape architect Peter Latz first looked at the rusting ruins of a century-old 570-acre coal, iron, and steel complex in Germany in 1991, he saw what most people saw: huge blast furnaces, iron-ore bunkers, swamps, and slag heaps. But, gradually, he began to see possibilities for re-using the existing structures within a recreational complex or park.

Today, mountain climbers scale high bunker walls and scuba divers swim in a 50-foot-deep converted gas tank. Visitors walk and ride bicycles on paths that have replaced railroad tracks, and enjoy gardens built on several levels within former iron-ore bunkers. A promenade with a beautiful view has replaced high-level railroad tracks and a new water park has been created.

Latz's design team removed 49 seven-ton iron plates from the pig-iron casting works, cleaned them to reveal beautiful colors, and placed them in a blast-furnace area renamed Piazza Metallica. They also created a 500-seat Roman amphitheater for plays, converted a power station into a festival hall, and replaced waste-water in a canal with clear water fed mainly by rainwater collected in the overhead pipes of buildings, former cooling basins, and purification tanks.

Latz described his visionary work designing the Duisburg-Nord recreational landscape park at a conference on vacant property reclamation last December. He told the audience that it's possible to bring about "a metamorphosis of existing industrial structures without destroying them." The challenge, he said, "is to adapt and interpret anew, transforming the industrial structures without destroying them," adding that ecology and technology should be combined to regenerate natural processes.

More than 500,000 people a year visit Duisburg-Nord, which is located in Germany's Ruhr district. The park, which has

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Blast furnaces and smokestacks are illuminated regularly from Friday to Sunday nights, attracting visitors to Duisburg-Nord. The illumination was created by British light designer Jonathan Park. *(photo © Latz and Partner)*

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CASCADE derives its name from White Cascade, a large mobile designed by Alexander Calder that revolves in the atrium of the Philadelphia Fed.

Comments and ideas for future coverage are welcomed. Contact Keith L. Rolland at (215) 574-6569 (telephone), (215) 574-2512 (fax), or keith.rolland@phil.frb.org.

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Message from the Community Affairs Officer

Over the past six months, the community development world has been in a state of agitation as two supervisory agencies, the Office of Thrift Supervision (OTS) and the Federal Deposit Insurance Corporation (FDIC), made or considered changes to the regulations governing Community Reinvestment Act (CRA) compliance for banks and thrifts, and two agencies — the Federal Reserve and the Office of the Comptroller of the Currency (OCC) — remained silent. The review of CRA, which started in July 2001, has undergone some interesting twists and turns, particularly because the four agencies, which normally stand together, were divided over how (or if) to change the regulations.

But now, three of the four have agreed to a common proposal. While the OTS adopted its changes last summer, the FDIC, the OCC, and the Federal Reserve Board have agreed to new proposed regulations. They have been posted in the *Federal Register* and the public has until May 10 to comment on the proposed changes.

Here is the essence of the issue and the proposed changes. The primary problem is that banks and thrifts in the $250 million to $1 billion category feel that they cannot compete on CRA with the large banks and, therefore, regulating them in the same manner is unfair and overly burdensome. Community developers feel that these midsize banks should not be held to the simple lending test of small banks because the banks' and thrifts' investment dollars are needed in their communities. As a compromise, the new proposal is recommending the following measures.

The proposed regulation:

1) Defines a small bank as one with assets under $1 billion, regardless of any holding company size or affiliation. This number will be adjusted for inflation based on the consumer price index.

2) Creates a new community development test for banks (referred to as intermediate small banks) between the size of $250 million and $1 billion. They will continue to be tested on their lending record as well. The community development test will include number and amount of loans, qualified investments, the extent to which the bank provides community development services, and its responsiveness to its community.

3) Proposes that these intermediate small banks would no longer be required to report originations and purchases of small business, small farm, and community development loans.

4) Changes two parts of the definition of community development. Number 1 is proposed to read: "Affordable housing (including multifamily rental housing) for low- and moderate-income individuals, *individuals in underserved rural areas, or individuals located in designated disaster areas.*" Number 4 is proposed to read: "Activities that revitalize or stabilize low- and moderate-income geographies, *underserved rural areas, or designated disaster areas.*"

If you care about this issue, now is the time to make your voice heard. The comment deadline is May 10. While all proposed changes are subject to comment, the regulators are particularly seeking advice on how to define "underserved" and "rural."

The proposal to revise rules implementing CRA may be found at www.access.gpo.gov/su_docs/fedreg/frcont05.html. Go to the Federal Register *notice for March 11, 2005, scroll down to the Federal Reserve System, proposed rules, and select the pdf document. The deadline for comments is May 10, 2005.*

Leadership and Enthusiasm Fuel Small Town's Turnaround

By Keith L. Rolland, Community Development Advisor

Only eight years ago, Ridgway, Pennsylvania, a scenic town of nearly 5,000 in the northwestern part of the state, was like a lot of small towns. Its downtown building facades were an incongruous hodgepodge of styles and colors. Businesses were closing or just holding on, and the closing in 1997 of an anchor store, G.C. Murphy, seemed like a death knell for the town.

Dale Lauricella moved with her husband to Ridgway when he was transferred there in 1991. She worked from home as a project manager and informational systems analyst for the DuPont Corporation. In 1994, at her husband's urging, the couple bought and renovated an 1865 Italianate mansion built by a lumber baron, which they currently operate as a bed-and-breakfast.

Dale Lauricella

Tim Leathers was born and raised in Ridgway but lived in Pittsburgh, where he managed a large home furnishing business. In 1996 he wrote an impassioned letter to the *Ridgway Record*, exhorting Ridgway's residents to save their town. He became so committed to the town's revitalization that he moved back to Ridgway and purchased an 1855 Greek revival homestead with his parents and a friend. In January 1997, Lauricella and Leathers organized the first meeting of the Ridgway Heritage Council (RHC).

Lauricella told attendees at a vacant property reclamation conference in December that the first meeting attracted about 25 residents and business owners. "Quite frankly, we were completely clueless about how to go about downtown revitalization," she recalled, "and were not sure we could make any impact at all. Committee members were often told they were wasting their time trying to save a town that was already dead. Downtown revitalization had been tried in Ridgway in the 1980s, and it had mostly failed. Not one business owner had been willing to participate in the earlier attempt to restore downtown buildings." However, the fact that Lauricella and Leathers were local investors gave them some credibility.

RHC obtained a technical assistance grant that was used to restructure the organization and develop a strategic plan based on the National Trust for Historic Preservation's four-point Main Street approach (design, economic restructuring, promotion, and organization). Then, in the summer of 1997, the husband-and-wife owners of Joey's Bakery asked RHC to help them restore their turn-of-the-century brick building in the heart of downtown. Leathers and Lauricella persuaded firms to donate an architectural ren-

From 1998 to 2003, RHC oversaw 80 facade projects and disbursed $147,000 in grants that leveraged total investment of about $500,000.

Ridgway, Pennsylvania

dering, awnings, and paint, and the building became RHC's first visible success.

RHC received a $45,000 grant from an area foundation that was matched by the Borough of Ridgway to fund a three-year facade program that started in 1998. The program seeks a major improvement in the appearance of downtown buildings — some are historic gems and others are unremarkable — restoring historical integrity within the constraints of owners' budgets. In the program's first year, 19 historic building facades were completed. The Borough of Ridgway has provided $15,000 to $20,000 a year for the facade program after the initial three-year funding expired.

From 1998 to 2003, RHC oversaw 80 facade projects and disbursed $147,000 in grants that leveraged total investment of about $500,000. RHC's work — the basis of three state awards in 2004 — has helped business re-

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Pennsylvania Banking Department Announces Plan to Combat Foreclosures

By Bill Schenck, Secretary, Pennsylvania Department of Banking

Mortgage foreclosures in Pennsylvania are skyrocketing. An estimated 55,000 homes were sold at sheriff sales from 2001 to 2003, and the majority of loans in foreclosure were subprime, according to a study by The Reinvestment Fund (TRF).

Subprime mortgage loan originations rose 25 percent each year from 1994 to 2003.

In 2003 Pennsylvania had the ninth highest foreclosure rate in the nation for prime loans at 0.85 percent and the fourth highest foreclosure rate for subprime loans at 11.94 percent, according to statistics collected by the Mortgage Bankers Association.

The Pennsylvania House of Representatives adopted a resolution requesting that the Pennsylvania secretary of banking conduct a study of residential lending practices, trends in foreclosures, and documented lending practices that are disadvantageous to consumers.

The report of the Department of Banking (DOB), *Losing the American Dream: A Report on Residential Mortgage Foreclosures and Abusive Lending Practices in Pennsylvania,* surveys and researches the residential foreclosure process in Pennsylvania. It was recently submitted to the General Assembly and includes a blueprint for state action. The TRF study, which was commissioned by the DOB as part of the report to help evaluate the foreclosure problem, was also recently provided to the legislature.

Subprime lending, according to the TRF study, has grown dramatically in Pennsylvania, with subprime mortgage loan originations rising 25 percent each year from 1994 to 2003, nearly a 10-fold increase in just nine years. While statewide information was developed for the report, 14 Pennsylvania counties were studied in detail, representing most large metropolitan areas of the state and accounting for almost 60 percent of occupied housing units. Each of the counties studied had a significantly higher percentage of subprime than prime loans in foreclosure.

To combat the tide of foreclosures in the Commonwealth, the DOB report outlines action under way to better protect vulnerable consumers and proposes legislative and administrative action and topics for further study.

The DOB has reorganized to increase its enforcement capabilities. These measures include:

- A streamlined structure to bring together all personnel in the bureaus of Examinations and Supervision and Enforcement;
- A 30 percent increase in the licensing staff to ensure that licensees meet increasingly stringent standards before being approved to do business in Pennsylvania;
- A doubling from three to six in the number of customer service representatives who help consumers who call 1-800-PA-BANKS;
- A doubling from 11 to 22 in the number of licensee-examination staff to ensure compliance with state laws; and
- A new investigations unit of 11 employees to act on referrals from other DOB bureaus and outside organizations with the objective of developing civil and criminal cases.

In the last year, the Pennsylvania Housing Finance Agency (PHFA) has expanded its counseling network efforts with a focus on pre-purchase counseling, home-buyer workshops, and training to identify abusive-lending practices.

We are proposing an increase in the loan amount of residential mortgages that would be covered under Pennsylvania's Loan Interest and Protection Law (Act 6) from $50,000 to the Federal Housing Authority's annual mortgage insurance limit for Pennsylvania, which is currently $172,632. We also propose that more enforcement authority be provided to the DOB.

We recommend that the Department of Banking code allow the DOB to make public information about licensees that are actively harming consumers.

Another recommendation would require licenses for individual

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Wachovia Regional Foundation Funds Neighborhood Planning and Development

By Keith L. Rolland, Community Development Advisor

The Wachovia Regional Foundation (WRF), a private foundation that provides most of its grant dollars for the development of comprehensive community-based neighborhood plans, has begun holding educational neighborhood-planning workshops.

WRF has made over 85 grants totaling more than $31 million since the foundation was created in 1998 with a $100 million endowment during the merger of First Union Corporation and CoreStates Financial Corp. WRF's service area is the eastern two-thirds of Pennsylvania, New Jersey, and Delaware.

Denise McGregor Armbrister, WRF's executive director, said that the foundation encourages nonprofits that plan to apply for neighborhood-planning grants to attend the workshops, which she said have been oversubscribed and have resulted in stronger applications. Workshop attendees include nonprofit staff, residents, funders, and government representatives.

WRF's neighborhood-planning grants, which range from $25,000 to $100,000, pay for expenses involving consultants or staff and for organizing residents, holding community meetings, and developing advisory groups. WRF funds community-based neighborhood plans that at a minimum must address the needs of children and families, economic development, affordable housing and housing counseling, and neighborhood building. The next deadline for neighborhood-planning applications is October 14, 2005; awardees will be notified on February 1, 2006.

Armbrister said that WRF has close working partnerships with the nonprofits that it funds. "We do extensive due diligence early on, and our grants are performance-based with specific outcomes, deliverables, and timelines," she said.

These 1880s-era Lancaster, Pa., homes were renovated through a residential facade program of Inner City Group's South Duke Street Revitalization Project. ICG received a multiyear neighborhood development grant from the Wachovia Regional Foundation.

WRF also provides neighborhood development grants of $100,000 to $750,000 for implementing neighborhood plans. These funds, which are used for program costs (not for bricks and mortar), are disbursed over three to five years. WRF requires that neighborhood development grant applicants use neighborhood plans as the basis for development initiatives. The plans may or may not have been funded by WRF.

In 2004, WRF provided $2 million in grants to 11 recipients. It made one of its largest grants, for $750,000, to People's Emergency Center Community Development Corporation (PECCDC) in Philadelphia for the implementation of the West Powelton/Saunders Park Plan. PECCDC is using WRF funds to address critical neighborhood issues, including financial literacy, crime, security, cleanliness, and blight.

WRF made one of its largest grants, for $750,000, to People's Emergency Center Community Development Corporation (PECCDC) in Philadelphia for the implementation of the West Powelton/Saunders Park Plan.

WRF has also provided significant funding support to suburban and rural nonprofits. A $450,000 neigh-

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Small Business Administration's Loan Programs Receive Boost

By Thomas G. Tolan, District Director, U.S. Small Business Administration (SBA), Philadelphia District Office

Legislation enacted last December raised the maximum loan amount and total project size in the SBA's 504 and 7(a) programs. The new rules also made permanent a 7(a)-affiliated program called SBA*Express* and increased its maximum loan amount to $350,000.

In addition, the legislation increased national funding levels for the 504 program 21 percent, to $5 billion, and the 7(a) program 28 percent, to $16 billion. SBA programs are increasingly self-supporting owing to improved loan performance and higher borrower fees.

SBA's 504 program gives small-business owners access to the kind of long-term, below-market, fixed-rate financing that large corporations obtain through the bond markets.

504 Loans

SBA's 504 loan program provides businesses with long-term, fixed-rate financing for major fixed assets, such as land and buildings. SBA's maximum share of a qualifying project is now $1.5 million for nonmanufacturing firms, $2 million for nonmanufacturers that meet public policy goals, and $4 million for manufacturers. Public policy goals[1] include business district revitalization, export expansion, and rural development and businesses owned by women, veterans, and minorities.[2]

Typically, a 504 project includes a loan secured with a senior lien from a private-sector lender for up to 50 percent of the project cost, a loan secured with a junior lien from a certified development company (CDC) for up to 40 percent of the cost, and a contribution of 10 percent equity from the small-business owner. SBA requires all 504 borrowers to create or retain one job within two years of the project's funding for every $50,000 (up to $100,000 in some cases) of CDC financing.

Why should a business consider a 504 loan? Growing businesses are often unable to qualify for traditional financing because of typical requirements of down payments of 30 percent or more. SBA's 504 program gives small-business owners access to the kind of long-term, below-market, fixed-rate financing that large corporations obtain through the bond markets. Advantages for borrowers include a lower down payment, fixed-rate financing that avoids the uncertainties of future market fluctuations, and a longer repayment term that brings debt service in line with the cash flow generated by the asset.

There are several advantages for the commercial lender as well. Lenders can reduce risk by financing a smaller portion of the project while maintaining a first-lien position on 100 percent of the assets being financed; retain commercial-account relationships while participating in long-term financing; participate in projects that exceed legal or administrative lending limits; sell their first-mortgage portion on the secondary market; broaden the community's tax base; and stimulate the local economy through job creation and retention.

504 Success Stories

Custom Processing Service Inc. (CPS) — Gregg Shemanski and Jeffrey Klinger established an Exeter Township, Pennsylvania, micronizing firm with three employees in 2000. (Micronizing is the process of pulverizing materials so they can be used in products such as paint, ink, and plastics.) In 2003, CPS installed new equipment and now operates what is believed to be the world's largest "air mill" in the micronizing

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Employees of Kane Is Able Inc., a warehouse, trucking, and packaging business in Scranton, Pennsylvania, prepare materials for shipping.

[1] The public policy goals can be found at www.sba.gov/library/soproom.html in SOP 50 10 (4) E.

[2] The definition of minorities that is used for the 504 and 7(a) programs can be found at www.sba.gov/businessop/programs/8a.html.

Standard and Poor's Gives AAA Rating to Community Reinvestment Fund Offering Backed by Affordable Multifamily Loans

Community Reinvestment Fund, USA (CRF), a Minneapolis-based nonprofit that creates a secondary market for loans made by community-based development organizations, has become one of the first nonprofits to assemble a real estate mortgage investment conduit (REMIC) of affordable multifamily loans totaling $87 million. CRF obtained a Standard and Poor's AAA rating on 75 percent of the loans.

Last summer, CRF closed an offering of commercial mortgage pass-through certificates totaling $86,855,307. Of this amount, $64,140,307 (75 percent of the total) received an AAA Standard and Poor's rating. Equal amounts of $8,590,000 (10 percent) received an A rating and a BB rating. The remainder of the offering was unrated.

For-profit entities commonly assemble REMIC securities with underlying market-rate housing loans, but it is very uncommon for nonprofits to do so, a Standard and Poor's official said.

All of the loans in CRF's offering were for multifamily low-income housing tax credit properties. The offering was backed by 46 multifamily property loans, primarily in California, Florida, Wisconsin, and Washington state. Of the 46 loans, 54.6 percent were located in California, 28.2 percent in Florida, 12.8 percent in Wisconsin, and 4.4 percent in Washington. Twenty-two of the 46 loans were originated by the California Community Reinvestment Corporation and 10 were originated by the Wisconsin Housing and Economic Development Agency.

The loans were seasoned for at least five years, and none was more than 30 days past due during the 12 months prior to the offering.

Frank Altman, president and CEO for CRF USA, said that the Standard and Poor's-rated offering enabled CRF USA to attract new investors. One of the new investors, Northwestern Mutual, said that CRF's offering provided it with a highly efficient and attractive channel for ensuring that its investment produced a substantial community impact while generating a market rate of return.

A number of foundations and financial institutions — including Fannie Mae Foundation, F.B. Heron Foundation, MetLife, US Bank, and Wachovia Bank — provided the warehouse financing that allowed CRF to generate a loan pool large enough for a rated transaction.

The offering was the 17th in a series assembled by CRF, although it was the first CRF offering rated by Standard and Poor's.

For information, contact Vickie Jones of CRF at (612) 305-2052 or vickie@crfusa.com; www.crfusa.com; Mr. Tabare Borbon, director, Standard and Poor's, at (212) 438-7970 or tabare_borbon@sandp.com.

Most Consumers Don't Understand Credit Scores

Most Americans do not understand what credit scores measure, what good and bad scores are, and how scores can be improved, according to a survey of 1027 adults commissioned by the Consumer Federation of America and Providian Financial.

The survey, which was conducted by the Opinion Research Corporation International last year, found that:

- Only 34 percent of the surveyed adults understood that credit scores indicated the risk of not repaying a loan
- Few consumers know what constitutes a good credit score
- Many consumers do not have a clear idea of how to improve their credit score

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SPOTLIGHT ON RESEARCH

CRA and Racial Housing Patterns

Marvin M. Smith, Ph.D.
Economic Education Specialist
Community Affairs Department

It has been 28 years since the enactment of the Community Reinvestment Act (CRA). CRA encourages financial institutions to meet the credit needs of the local communities they serve, including low- and moderate-income neighborhoods, consistent with safe and sound operating procedures. CRA was a response to lenders' failure to provide adequate credit in inner city communities — which were poor and overwhelmingly minority — and also part of an overall effort to promote fair lending.[1] According to one report, CRA has been credited with generating $1.7 trillion in new loans to economically distressed areas.[2] CRA empowered several bank regulatory agencies — the Federal Reserve, the Federal Deposit Insurance Corporation, the Comptroller of the Currency, and the Office of Thrift Supervision — to monitor and rate how effectively lenders adhere to the legislation.[3] These agencies have recently proposed changes in the rules underlying CRA examinations.

In the wake of potential changes to CRA regulations, it might be instructive to consider what CRA has accomplished. A number of studies offer evidence that CRA is achieving its stated objective of increasing mortgage and other loans to minority borrowers and low-income neighborhoods.[4] However, recent research has focused on a different aspect of CRA's impact. Instead of centering on the increased availability of credit to minorities in low-income communities, this line of inquiry explores whether CRA's benefits enable minorities to gain access to traditionally white neighborhoods. What follows is a summary of the findings from a study by Samantha Friedman of Northeastern University and Gregory Squires of George Washington University.[5]

Theories of Residential Patterns and Racial Mobility

Friedman and Squires cite two factors that help explain the lack of studies to date dealing with CRA's influence on minorities gaining access to white neighborhoods. First, previous studies have focused more on the flow of credit to minorities and less on the racial/ethnic composition of the neighborhoods in which they settle. Thus, their main concern was with CRA's economic rather than racial effects. Second, it wasn't until the 1995 revision of CRA that the issue could be studied directly. In 1995, the spatial emphasis of CRA was altered. Lenders would receive CRA credit for loans made not only to low- and moderate-income areas but also to low- and moderate-income borrowers regardless of the economic status of their neighborhoods. The latter made it possible to track minority borrowers residing in predominantly white neighborhoods.

Friedman and Squires rely on several theories of segregation and residential mobility drawn from the field of sociology to investigate the variation in minority access to predominantly white neighborhoods. One set of theories has the common theme that minorities' access to predominantly white neighborhoods is linked to their personal circumstances as related to income, wealth, and personal preferences. Moreover, these models suggest that the desire for access to largely white neighborhoods is motivated by the prospects of gaining more amenities and the

[1] Other major legislative initiatives that preceded CRA but shared the same goal included the Fair Housing Act of 1968, the Equal Credit Opportunity Act of 1974, and the Home Mortgage Disclosure Act of 1975. They all sought to combat discrimination against minorities.

[2] "Banking on Local Communities," *New York Times*, April 15, 2004.

[3] CRA ratings are important to banks and thrifts, in part, because their record is taken into account by regulatory agencies when the institutions apply to open a new branch or merge with or acquire another financial institution.

[4] See Joint Center for Housing Studies, 2002, *The 25th Anniversary of The Community Reinvestment Act: Access to Capital in an Evolving Financial Services System*, Cambridge, Mass.: Joint Center for Housing Studies; Robert E. Litan, et al., 2001, *The Community Reinvestment Act After Financial Modernization: A Final Report*, Washington, D.C.: U.S. Department of the Treasury; and Susan Haag, 2000, "Community Reinvestment and Cities: A Literature Review of CRA's Impact and Future," Washington, D.C.: Brookings Institution Center on Urban and Metropolitan Policy.

[5] "Does the Community Reinvestment Act Help Minorities Access Traditionally Inaccessible Neighborhoods?" forthcoming in *Social Problems*.

greater potential for accumulating wealth. Consequently, these models imply that "metropolitan areas with relatively larger shares of more affluent minorities should have a larger proportion of minorities residing in predominantly white neighborhoods than metropolitan areas with comparatively lower shares of affluent minorities." Friedman and Squires refer to these models as the economic/ecological perspective.

Another model offers an alternative perspective known as place stratification. It "maintains that a hierarchical ordering exists among groups within society, and that more advantaged groups use their power to maintain social and physical distance from the least advantaged groups." Thus, the advantaged groups will seek to segregate themselves from those that are least advantaged. In the study's parlance, effective residential segregation between white and minority neighborhoods limits minorities' opportunities to relocate to largely white areas.

In the study's parlance, effective residential segregation between white and minority neighborhoods limits minorities' opportunities to relocate to largely white areas.

Furthermore, the presence of large minority populations tends to encourage whites to more actively pursue policies that will perpetuate the residential segregation. Friedman and Squires point to some policies used in the past for this purpose, such as restrictive covenants, land-use regulations, and zoning ordinances. Thus, it implies a negative relationship between the size of the minority population and their access to predominantly white neighborhoods. All told, this perspective underscores the continuation of a "dual housing market" where whites and minorities are directed to separate neighborhoods.

However, both perspectives do not account for public policies designed to enforce fair lending and fair housing, which, in turn, might facilitate minorities' access to largely white neighborhoods. Even if such policies are taken into account, the question becomes "whether minority access to traditionally inaccessible neighborhoods is due to improvements in their socioeconomic status, or to better enforcement of the Fair Housing Act and a lessening of the existence of discriminatory barriers." To examine this question empirically, Friedman and Squires believe that, given the sociological knowledge of racial/ethnic inequality, an explicit link is needed between fair lending and fair housing policy and home-buyer mobility. They think CRA is that link.

Data and Methodology

Friedman and Squires use two databases for their analysis: the 2000 Home Mortgage Disclosure Act (HMDA) reports and the 2000 census. Since the authors want to focus on single-family home buyers, they limit their analysis to conventional loans originated to purchase one- to four-family homes, the HMDA category that best suits their purposes. Friedman and Squires acknowledge that restricting their examination in this way precludes FHA and other government-insured loans, which typically go disproportionately to minority borrowers. This limitation, they say, likely understates the possible link between CRA and minority access to traditionally inaccessible neighborhoods.

The authors use univariate, bivariate, and multivariate statistical techniques in their analysis.[6] In the multiple regression analysis, Friedman and Squires estimate separate regressions for blacks and Latinos to examine the impact of CRA coverage on minority access to predominately white neighborhoods in designated metropolitan areas while controlling for key influential variables. Their dependent variable is the proportion of conventional home-purchase loans originated to blacks and Latinos in largely white neighborhoods. This dependent variable is regressed on explanatory variables associated with the economic/ecological perspective and place stratification models as well as CRA's influence.

Included in the first two categories are the following variables: the (log of the) average income of the minority group; the (log of the) population size of the metropolitan area; a dissimilarity index to reflect the extent of residential segregation; the proportion of the minority group in the metropolitan area; the proportion of the population residing within suburbs in the metropolitan area; and two variables that capture the housing supply in the area, namely, the proportion of occupied housing units within each area that are owner-occupied and the number of owner-occupied housing units "for sale only" in the area divided by the sum of the total number of owner-occupied housing units and the number of vacant units "for sale only."

The third category represents the key independent variable and is measured by the proportion of loans within the metropolitan area in 2000 that were originated by CRA-covered institutions.[7] The authors analyze 101 metropolitan areas in the

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[6] Only the results of the multivariate analysis are reported here. For other results, see the full study.

[7] CRA-covered institutions are those whose loans are monitored by one of the following: the Office of the Comptroller of the Currency, the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision.

FHLB Initiative: Blueprint Communities

In a Federal Home Loan Bank of Pittsburgh (FHLB-P) initiative, multi-sector teams in up to 20 Pennsylvania communities with a population of 1,000 to 20,000 residents will receive training this fall to help them develop vision statements and strategic plans.

As part of the Blueprint Communities initiative, the teams will receive training in leadership skills such as gaining consensus, resolving conflicts, and capacity-building in carrying out neighborhood strategies, financing development projects, fund-raising, and measuring outcomes. The training, which takes five days over a three-month period, will be provided in Pennsylvania by the Heartland Center for Leadership Development, which is based in Lincoln, Nebraska.

To be eligible, a community team must have at least five individuals, including a banker, a community developer, and a person representing residents' interests. Eligible communities have not developed comprehensive strategies within the past two years.

Interested community representatives should contact the FHLB-P by April 28. Communities will be selected by June 30.

Communities participating in the initiative will receive training and expenses with a fair market value of $7,500, according to the FHLB-P. Approved applicants will be required to pay a $500 administrative fee.

The initiative's funding partners include Pennsylvania Rural LISC, Sovereign Bank, and PNC Bank, N.A. Program partners include the Federal Reserve Bank of Cleveland and the Federal Reserve Bank of Philadelphia.

For information, contact the community investment department of the FHLB-P at (800) 288-3400 or blueprint@fhlb-pgh.com; www.fhlb-pgh.com/blueprintcommunities.html. For information on the Heartland Center for Leadership Development, go to www.heartlandcenter.info.

DISTRICT NEWS

PNC Bank, N.A. is making up to $100 million available for below-market loans to businesses creating and retaining jobs in New Jersey, while the **New Jersey Economic Development Authority** (NJEDA) is providing up to a 50 percent guarantee of each loan with a maximum exposure of $10 million. Loans of $100,000 to $2 million are being made to businesses with annual sales up to $20 million in the program, known as the New Jersey Business Growth Fund. For information, contact Paul Presti, central New Jersey territory loan product manager for PNC, at (732) 220-3300 or paul.presti@pnc.com; www.pncbank.com/njgrowth or www.njeda.com ... The **Housing Alliance of Pennsylvania** has released *Reclaiming Abandoned Pennsylvania II, From Liability to Viability: A Technical Resource Guide for Action,* which provides municipalities with the latest research and best practices on dealing with residential abandonment with an emphasis on tools available under Pennsylvania law. Co-authored by Liz Hersh, the alliance's executive director, and Karen Black, a consultant, the report may be seen at www.housingalliancepa.org. Written copies are also available from the Alliance (info@housingalliancepa.org or call (215) 576-7044) … The Philadelphia Fed's Community Affairs Department has published a technical brief on **USDA Rural Development's Community Facilities Guaranteed Loan Program**, which can be used in rural areas with a population of up to 20,000. To see the brief, go to www.philadelphiafed.org/cca/capubs/tbriefs.html; for written copies, contact Yvette Cooper at yvette.cooper@phil.frb.org … **Mark Pinsky**, president and CEO of the National Community Capital Association, has been selected to chair the Federal Reserve Board of Governors' Consumer Advisory Council, which advises the Board on the exercise of its responsibilities under the Consumer Credit Protection Act and other matters … **Joe Murphy** has retired from his position as regional community reinvestment officer for M&T Bank; he has a part-time position as executive director of the Community Lenders Community Development Corporation and is a volunteer with several nonprofits with which he worked … *Revitalizing Commerce for American Cities: A Practitioner's Guide to Urban Main Street Programs* may be seen at www.fanniemaefoundation.org … **NCALL Research, Inc.**, Dover, DE, has become certified as a community development financial institution by the CDFI Fund … The Reinvestment Fund (TRF) has started a **Pennsylvania Fresh Food Financing Initiative** to increase the number of supermarkets or other grocery stores in underserved communities across the state. TRF is working in partnership with The Food Trust and the Greater Philadelphia Urban Affairs Coalition. For information, contact Hannah Burton at (215) 568-0830 or hburton@thefoodtrust.org; www.trfund.com/financing/fffi/fffi.htm.

Duisburg-Nord: From Rusted Ruins to Recreational Park

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promenades leading into adjacent communities, has sparked a renaissance of neighboring moderate-income communities.

The project was developed in stages, which limited the amount of funding needed at any one time. Half the cost of maintaining buildings and the park is financed by rental fees paid by cultural and commercial groups that organize large rock or classical music concerts, plays, ballets, exhibitions, as well as by restaurants.

Latz, his wife Anneliese, and their son Tilman work together in a landscape architecture firm near Munich. Latz is a long-time professor of landscape architecture at the Technical University of Munich and has been a visiting professor at the University of Pennsylvania and Harvard University. He has worked with American architectural students on, among other projects, abandoned mine and steel sites in McKeesport, Pennsylvania.

In an interview at the conference, Latz said: " 'Landscape' exists in one's head. When people see a landscape, they give it meaning. People who have different education or countries of origin see the same thing differently."

In order to think creatively about re-using a large deteriorated area, Latz recommends that many people familiar with a site "look at it over a long period of time, in different seasons and hours of the day. Ideas will come to them from their imagination, and they will interpret the site in a new way."

The conference, Vacant Property in Pennsylvania Cities and Towns: Reinvestment Strategies, Successes, and Challenges, was organized primarily by the Housing Alliance of Pennsylvania and the University of Pennsylvania's Fels Institute of Government. An article on Duisburg-Nord appeared in The New York Times Magazine *on May 16, 2004. For information, contact Anneliese Latz at a.latz@latzundpartner.de; www.latzundpartner.de.*

Landscape architect Peter Latz re-used the existing structures on a 570-acre coal, iron, and steel complex in his design of the Duisburg-Nord recreational landscape park. *("Before" photo © Latz and Partner "After" photo © Michael Latz, Latz and Partner)*

Leadership and Enthusiasm Fuel Small Town's Turnaround

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cruitment. Since 1997, 21 new businesses have located in downtown Ridgway, including a regional candy company, a coffee and pastry shop, and antique and other specialty shops; the majority have been successful.

Ridgway's success in downtown revitalization has sparked a surge in historic home restoration in adjacent residential neighborhoods. Over 30 homes have been restored since 1997 in private investment estimated at over $2 million. Retiring baby boomers seeking summer homes and professionals working in nearby Elk County communities have been attracted to Ridgway by the availability of stately older homes and the community's overall ambiance. Most residential projects received a free consultation but did not get any funding.

An annual historic house tour funded Ridgway's nomination as the "Lily of the Valley" National Historic Register District, which was approved in 2003. Recently, six local organizations banded together to hire a full-time economic developer, who is creating an overall marketing plan for Ridgway. The six organizations are also preparing to raise matching funds for a proposed Main Street program.

Reflecting on the town's success, Lauricella said: "Ridgway's revitalization relied on surprisingly little money but benefited from a lot of emotion. People who love our town raise money, volunteer their time, enlist others with their enthusiasm, and infect everyone with their vision. For a long time, it wasn't clear that the effort was going to have a meaningful impact. After a while, people began to feel, 'We can do this.' We have learned to set petty differences aside and develop very unique partnerships that have set us on the road to success."

She said in an interview that small towns can become involved in downtown revitalization by contacting people and organizations with experience or funding in the field. The RHC has found it very useful, she noted, to be a member of the Pennsylvania Downtown Center (PDC) and attend its events.

Towns must stay focused over time on their priorities, she said, adding:

"The road to success is built on a series of smaller achievements that you keep building upon."

"The road to success is built on a series of smaller achievements that you keep building upon." A lot of towns are in the situation that Ridgway was. It doesn't have to be that way. It's not impossible to turn things around. But it does require a core group of people who are passionate about preserving their heritage and creating a brighter future for their community."

For information, contact Dale Lauricella at (814) 772-7657 or lauricde@ncentral.com; www.ridgwayheritagecouncil.org.

Pennsylvania Banking Department Announces Plan to Combat Foreclosures

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mortgage loan solicitors. Builders and real estate agents should not be given a one-time exemption from licensing, and a pre-licensing education and certification requirement should be in place. We recommend that the Department of Banking code allow the DOB to make public information about licensees that are actively harming consumers.

Recommended legislative changes for PHFA would facilitate the creation of a database for mortgage foreclosure information, improve the Act 91 notices, revise the Act 91 notice, and limit attorneys' fees to the maximum allowed under Fannie Mae guidelines.

A recommendation to address appraisal-related concerns proposes an increase in the maximum civil penalties levied by the Board of Certified Real Estate Appraisers from $1,000 to $10,000 for each violation and authorizes disciplinary action against certified real estate appraisers who have their right to practice before any state or federal agency suspended or revoked. We recommend the authorization of disciplinary action against certified real estate appraisers found guilty of performing fraudulent appraisals.

Administrative actions will include the issuance of statements of policy by the DOB to define dishonest, fraudulent, unfair, unethical, and illegal practices for mortgage brokering, lending, and servicing. The DOB will also develop a "best practices" list for mortgage brokering, lending, and servicing and encourage voluntary industry compliance. The DOB plans to promulgate regulations to codify the statements of policy. The DOB and PHFA will work to establish a foreclosure assistance office to aid consumers facing foreclosures.

For further study and dialogue with the General Assembly, the DOB suggests pre-closing credit counseling for consumers, the establishment of an emergency fund for victims of abusive lending, a comprehensive review of the mortgage foreclosure process, and a review of the effectiveness of Chapter 5 of the Mortgage Bankers and Brokers and Consumer Equity Protection Act.

"Losing the American Dream: A Report on Residential Mortgage Foreclosures and Abusive Lending Practices in Pennsylvania" and the TRF study are available at www.banking.state.pa.us. For information, contact Lydia Hernandez-Velez, deputy secretary at the DOB, at (717) 783-2255.

Wachovia Regional Foundation Funds Neighborhood Planning and Development

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borhood development grant enabled the Inner City Group in Lancaster, Pennsylvania, to leverage additional public and private resources and dramatically improve one of Lancaster's poorest neighborhoods. The South Duke Street Revitalization Project transformed South Duke Street into a center for commercial, residential, and recreational activities and strengthened ongoing community development, social service, educational, and crime-prevention efforts.

WRF, which has five staff members, also oversees the Wachovia Regional Community Development Corporation (WRCDC), a nonprofit affiliate of Wachovia Corporation that makes loans and program-related investments. WRCDC serves the same geographic area as WRF but considers requests by invitation only. WRCDC makes below-market loans of $50,000 to $250,000 for one to 10 years to intermediaries, primarily community development financial institutions, and has provided about $1 million in such loans. The WRCDC and WRF boards of directors have the same members.

A separate funding source is The Wachovia Foundation (TWF), a private foundation funded annually by Wachovia Corporation. TWF focuses on community development and education, and its grants range from $1,000 to $15,000. Typically, TWF community development grants are used for programmatic support for affordable housing, job creation, or economic development in low- to moderate-income communities. TWF serves the entire Wachovia footprint, whereas the WRF serves the tri-state area.

Armbrister said that "there is a need for public and private funders in community economic development to share what they're doing and what their interests are." During the past year, WRF has initiated meetings of funders in the Delaware Valley and in New Jersey.

WRF's grantmaking criteria and activities may be found at www.wachovia.com/regionalfoundation. For information on WRF, contact Kimberly J. Allen, vice president and program officer, at (215) 670-4300. For information on neighborhood-planning workshops, contact Rebecca Martinez at (215) 670-4301.

Wachovia Foundation grant criteria are described at www.wachovia.com/wachoviafoundation. For information, nonprofits in Pennsylvania and Delaware should contact Kevin Dow at (215) 670-4306 or kevin.dow@wachovia.com. In New Jersey, contact Yvonne Calcagno at (609) 530-7347 or yvonne.calcagno@wachovia.com.

Small Business Administration's Loan Programs Receive Boost

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field. To finance the new equipment and purchase a building, Shemanski and Klinger obtained an SBA 504 loan through the South Eastern Economic Development Company of Pennsylvania and Leesport Bank.

Miller Supply-Ace Hardware — Dale Miller of Miller Supply-Ace Hardware in Northampton, Pennsylvania, competes with large home-supply retailers by providing hands-on customer service. He expanded his business in 1999 by building a new, larger store. The expansion was financed through a $250,000 7(a) loan from National Penn Bank and a $460,000 SBA 504 loan from Allentown Economic Development Corporation.

An employee at Custom Processing Service Inc. is shown in an "air mill" used in the micronizing process at this Reading, Pennsylvania, company.

7(a) Loan Guarantee Program
Funding for SBA's flagship 7(a) loan guarantee program has been increased to $16 billion, or $3.5 billion above the program allocation in the last fiscal year. The maximum government guarantee to an individual business owner has been increased from $1 million to $1.5 million on loans with a maximum gross loan amount of $2 million.

In the 7(a) program, lenders provide loans that are, in turn, guaranteed by SBA to small businesses unable to secure financing through normal lending channels. Lenders primarily use the 7(a) program for loan applicants who want to start a new business, lack adequate collateral, or need a longer time to repay.

Lenders primarily use the 7(a) program for loan applicants who want to start a new business, lack adequate collateral, or need a longer time to repay.

SBA requires personal guarantees from the principal business owners and may require liens on owners' personal assets. SBA also requires some collateral but typically does not turn down a loan when insufficient collateral is the only unfavorable factor.

The loan term depends on the use of the proceeds and the business's repayment ability: usually five to 10 years for working capital, up to 15 years for equipment, and up to 25 years for fixed assets, such as the purchase or major renovation of real estate.

Both fixed and variable rates are available in the 7(a) program. Rates are pegged at no more than 2.25 percent over the prime rate for loans with maturities of less than seven years and up to 2.75 percent over the prime rate for seven years and longer. For loans under $50,000, rates may be slightly higher.

SBA charges a guarantee fee, which the lender can pass on to the borrower. The fee is usually based on the dollar amount and, sometimes, on the maturity of the loan. The fee is 0.25 percent of the guaranteed portion of any loan with a maturity of one year or less.

On loans with maturities of more than one year, the guarantee fee is 2 percent of the guaranteed portion on loans of $150,000 or less, 3 percent on loans of $150,000 to $700,000, and 3.5 percent on loans of over $700,000.

The 7(a) program has broad eligibility requirements to accommodate a wide variety of small-business financing needs. Businesses must be for-profit and fall within the size standards set by the SBA. SBA determines if a business qualifies as small based on the average number of employees during the preceding 12 months *or* on sales averaged over the previous three years.[3] Loans cannot be made to businesses engaged in speculation, gambling, or real estate investments.

SBA*Express* authorizes lenders to use their own underwriting standards, procedures, and documentation and still receive a 50 percent SBA guarantee. Lenders typically use SBA*Express* for loan amounts of less than $50,000 and lines of credit.

7(a) Success Stories
Kane Is Able Inc. — This firm began as a small trucking operation in Scranton, Pennsylvania, during the height of the Great Depression.

[3] SBA's employment and sales standards may be found at www.sba.gov/financing/preparation/eligibility.html.

Eugene J. Kane took over the family business in 1955 and expanded into warehousing with the help of an SBA direct loan. He later received three SBA 7(a) loans. Today, this warehousing, trucking, and packaging firm serves the northeastern U.S. and has over 600 employees and $70 million in annual sales.

Tolas Health Care Packaging — Carl Marotta, the owner of this Feasterville, Pennsylvania, company, started to develop packaging and adhesive materials for health-care and other high-tech industrial markets. He received an SBA 7(a) loan through Union National Bank and Trust Company to purchase a building. His sales continue to increase and his company has grown from 30 employees in 1991 to its current level of 132.

Dynamic Student Services — Daniel Lieberman started his textbook business out of his West Chester University dorm room. He soon formed a partnership with his parents, Michael and Miriam Lieberman, and opened his first retail location. Dynamic Student Services received an SBA loan in 1997 and has now expanded to three locations. Annual sales were in excess of $6 million in 2003.

Sneaker Villa — Chris Lutz founded this Reading, Pennsylvania, company in 1989 with a $30,000 home-equity loan. In 1992, he received a $200,000 7(a) loan from Leesport Bank. The business has grown from one store with five employees to 14 retail locations with 200 employees. Sales in 2004 topped $30 million.

For information in Pennsylvania, contact John Fleming, Public Information Officer, SBA Philadelphia District Office, 900 Market Street, 5th Floor, Philadelphia, PA 19107; (215) 580-2718; john.fleming@sba.gov. In New Jersey, contact Harry Menta, Public Affairs Specialist, SBA New Jersey District Office, Two Gateway Center, 15th Floor, Newark, NJ 07102; (973) 645-2434; harry.menta@sba.gov. In Delaware, contact Jayne Armstrong, District Director, SBA Delaware District Office, 824 N. Market Street, Suite 610, Wilmington, DE 19801; (302) 573-6382; jayne.armstrong@sba.gov. For information on SBA programs and services, go to www.sba.gov.

SPOTLIGHT ON RESEARCH: CRA and Racial Housing Patterns

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U.S. that have a total population of at least 500,000 and at least 5,000 blacks and Latinos.

Results

Friedman and Squires find that the share of home-purchase mortgage loans by CRA-covered lenders has a positive influence on the share of blacks and Latinos residing in predominately white neighborhoods, even after socioeconomic and ecological factors are taken into account.[8] More specifically, they discover that a 10-percentage-point increase in the proportion of loans by CRA-covered lenders results in a 2-percentage-point increase in the share of black home buyers and a 5-percentage-point increase in the share of Latino home buyers locating in largely white neighborhoods.

However, their results are not without caveats. Friedman and Squires acknowledge that CRA-covered lenders may be concentrating more of their lending in white communities, since lenders not covered by CRA may have more of a foothold in minority neighborhoods. Moreover, the findings may be influenced by the fact that CRA covers all federally insured depository institutions but not credit unions or brokers and mortgage bankers. But they point out that evidence suggests that CRA has had a "halo effect," whereby it influences the behavior of lenders not under its jurisdiction.[9]

These caveats notwithstanding, Friedman and Squires conclude that the evidence suggests that the "CRA has favorably impacted the ability of minority households to purchase homes in traditionally inaccessible (i.e., predominately white) communities."

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[8] Since Friedman and Squires use the entire population of eligible cases instead of a sample, inferential statistics are not necessary in their analysis.
[9] See Anne Shlay, "Influencing Agents of Urban Structure: Evaluating the Effects of Community Reinvestment Organizing on Bank Residential Lending Practices," *Journal of Urban Affairs* 35 (1999), pp. 247-78.

Calendar of Events

Small-Business and Economic-Development Lending Opportunities in Pennsylvania*
Designed for lenders, Community Reinvestment Act officers, and local economic-development organizations

April 13, Altoona, PA	May 2, Pittsburgh, PA	June 7, Wilkes-Barre, PA
April 26, Williamsport, PA	May 3, Erie, PA	June 14, Philadelphia

Call to Action: Building Momentum for Financial Education*
Annual meeting of financial-education practitioners in the Delaware Valley
April 21, 2005, Federal Reserve Bank of Philadelphia

Advancing Regional Equity and Smart Growth: The Second National Summit*
Sponsored by PolicyLink and the Funders' Network for Smart Growth and Livable Communities.
May 23-25, 2005, Philadelphia, PA

Educational Workshop for Financial-Education Providers on Stored-Value Cards*
Will focus on stored-value cards, a fast-growing group of financial products
June 1, 2005, Federal Reserve Bank of Philadelphia

Third Annual Community Development Policy Summit
Sponsored by the Federal Reserve Bank of Cleveland and the Local Initiatives Support Corporation
For more information, call 1-800-433-1035 or go to www.clevelandfed.org/policysummit2005.
June 22-23, 2005, Federal Reserve Bank of Cleveland

**For information, see www.philadelphiafed.org/cca/conferences.html or contact yvette.cooper@phil.frb.org*

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