



Cascade

a community development publication of the Federal Reserve Bank of Philadelphia

Delaware Consortium Raises Awareness of Rural Housing Needs and Member Nonprofits

By Vera W. Bowders and Keith L. Rolland, Community Development Advisors, Community and Consumer Affairs Department, Federal Reserve Bank of Philadelphia

Working together, seven rural nonprofit housing developers in Delaware have increased awareness of rural-housing needs and significantly enhanced their visibility and credibility to funders and state government.

The Delaware Rural Housing Consortium (DRHC) has moved rural housing on to Delaware's radar screen and facilitated a steady stream of operating and pre-development funds for nonprofits working "downstate" — a rural region in which residents have substantially lower incomes than

those in the Wilmington metropolitan area. NCALL Research, Inc., an experienced provider of technical assistance and a housing-counseling agency, initiated discussion about the consortium in 1997 and became DRHC's administrative and fiscal agency.

DRHC members include Appoquinimink Development, Inc.; Better Homes of Seaford, Inc.; Delmarva Rural Ministries, Inc.; Interfaith Mission of Sussex County, Inc.; Milford Housing Development Corporation (MHDC); Millsboro Housing for Progress, Inc.; and NCALL.

DRHC members drafted a mission statement and adopted a memorandum of understanding, and each agency assigned two individuals to a steering committee that meets monthly. DRHC hired a fundraising consultant and retained a lobbyist to present members' views to the state legislature and the public. It then formed a housing-development plan for 2000-2002 to construct 180 apartments and 20 owner-occupied self-help units, rehabilitate eight houses, subsidize rents on 32 apartments, and provide home-buyer education and counseling to

...continued on page 7

CONTENTS

- 2 Message from the CAO
- 3 USDA Rural Development Assists Rural Residents
- 12 Main Street Remains Popular Approach to Engineering Downtowns
- 13 Rural LISC Provides Grants and Loans to Eight Rural Pennsylvania Nonprofits
- 15 Rural Communities Bolster Efforts to Leverage Natural Beauty and Heritage to Attract Tourists
- 17 High-Speed Communications Crucial in Rural Communities
- 19 Developing the Rural Community: You CAN Get There from Here
- 22 Rural CDFIs Focus on Small-Business Lending
- 23 Calendar of Events
- 25 Self-Help Enables Rural Residents to Build Houses and Water and Sewer Systems
- 27 Regulatory Issues: Federal Reserve Board Rules on Loan-Pricing Data, Lien Status, and Telephone Applications

Rural Pennsylvania in the New Century

By Jonathan Johnson, Senior Policy Analyst, The Center for Rural Pennsylvania

The views expressed here are those of the author and do not necessarily represent the views of the Federal Reserve Bank of Philadelphia or the Federal Reserve System.

According to the U.S. Census Bureau, for 50 years Pennsylvania had the largest rural population in the nation. The 2000 census shows that Pennsylvania's ranking has dropped to number three, behind Texas and North Carolina.

Generational Shifts

Since the 1990s, rural Pennsylvania's birth rate has steadily fallen to the point where,

in 2000, the birth rate nearly equaled the death rate. This decline in the birth rate can be partially attributed to the out-migration of women in their prime child-producing years. According to the U.S. Census Bureau, between 1990 and 2000, the number of women in rural Pennsylvania between the ages of 18 and 32 declined nearly 14 percent. This decline is easier to understand within the context of other generational factors. ...continued on page 9

Message from the Community Affairs Officer

While this Federal Reserve District is home to one of the largest urban areas in the country and a number of other cities, it is largely rural. So over the past four years, I have asked my staff to introduce me to a number of community developers in rural counties in Pennsylvania, New Jersey, and Delaware. It is apparent to me that these practitioners are as skilled and knowledgeable as their urban counterparts; they are equally as resourceful and astute about funding programs; and they frequently leverage public funding to maximize their efforts.

To highlight rural areas, this past April we hosted a conference with Rural LISC and the Cleveland and New York Feds; the conference focused on the community and economic development needs of rural developers. You might be

surprised at how often the rural communities' issues mirror those in urban locations: households that cannot afford housing without subsidy; high unemployment rates; little job creation; few sources of equity capital; an aging population; increased reliance on unearned income; and significant amounts of high-cost subprime lending.

As Byron Ross of USDA Rural Development so aptly puts it, "Developing rural communities is not just about farms and farm policy... thousands of individuals and families in rural areas are not farmers but need financial assistance, community services, and jobs."

In this issue of *Cascade*, we examine how different organizations have expanded the opportunities

for growth in their communities. If you missed our conference in April, we hope that this issue will provide food for thought or new tools for your community. We also hope that readers will "build bridges" with the chambers of commerce and housing and economic developers in their communities and find mutual interests to support. In other communities, networking has paid dividends.



Federal Reserve Bank of Kansas City's Center for the Study of Rural America

The Federal Reserve Bank of Kansas City has created a Center for the Study of Rural America to address the unique challenges facing rural economies.

The Center provides economic and policy analysis of farm and rural economies and identifies trends that shape rural economic performance. Each year, the Center hosts a national conference for rural policy experts and leaders from government and the business, ag-

ricultural, academic, and nonprofit sectors. The Center also publishes its research findings in the *Main Street Economist*, a monthly publication that reaches nearly 12,000 rural leaders throughout the nation, and produces in-depth studies that appear in the Kansas City Fed's *Economic Review* and other journals. In addition, Center staff provide about 200 presentations annually to a wide range of key rural organizations.

The Center, established in 1999, is currently working on four challenges in rural economies: uneven economic growth, limited leadership capacity, strained infrastructure, and a lack of high-growth entrepreneurs.

For information, contact Nancy Novack at (816) 881-2423 or novack.nancy.l@kc.frb.org; www.kc.frb.org.

USDA Rural Development Assists Rural Residents with Flexible Programs and Partnerships

By Vera W. Bowders and Keith L. Rolland, Community Development Advisors, Community and Consumer Affairs Department, Federal Reserve Bank of Philadelphia

U.S. Department of Agriculture Rural Development (RD), the leading federal entity serving rural communities and residents, is trying to increase its visibility and stretch its resources by increasing its partnerships with banks and nonprofits. RD has a host of programs that can be used for a wide range of purposes and is developing the capacity to take applications online.

When the former Farmers Home Administration was restructured in 1994, affordable-housing and community- and economic-development programs were moved to the RD section of the U.S. Department of Agriculture. RD's programs are located in the Rural Housing Service, the Ru-

"RD doesn't have all the answers, but some rural residents who would not qualify for bank financing can qualify under RD programs."

ral Business-Cooperative Service, and the Rural Utilities Service. Farm-lending programs are housed in the Farm Service Agency section of USDA.

Byron E. Ross, RD state director in Pennsylvania, described RD's impact in Pennsylvania's rural areas. RD has financed approximately 11,000 subsidized apartments for households with

incomes averaging less than \$8000 a year; made approximately 14,000 home loans to low- and very low-income homeowners; financed water and sewer systems and community facilities, benefiting thousands of residents; and made loans to businesses that have created hundreds of jobs.

Andrew M. G. Law, RD state director in New Jersey, said that "RD doesn't have all the answers, but some rural residents who would not qualify for bank financing can qualify under RD programs."

Marlene B. Elliott, RD state director in Delaware, said that in Delaware, New Jersey, and Pennsylvania, "RD hopes to increase its visibility with new partnerships, teaming up with banks to stretch its resources and deliver RD programs to the smallest communities with the greatest needs."

RD welcomes partnerships to maximize its presence. When an elderly couple in Cumberland County, New Jersey, asked RD for help earlier this year with the renovation of a very deteriorated home, RD committed a loan and grant totaling \$15,000 and asked the county office for the disabled and a community action agency if they could also commit funds, which they did. Repairs are expected to be completed by this fall. RD now has 11 offices and 125 full-time equivalents (FTEs) in Penn-



A farmer in Burlington County, New Jersey, obtained low-interest long-term loan funds from USDA Rural Development to purchase a former hunting camp and rehabilitate the structure to meet all requirements for migrant farm-labor housing. He provides year-round housing for four farm workers and seasonal housing for up to 40 migrant laborers during the blueberry-growing season.

USDA Rural Development Assists Rural Residents

...continued from page 3

sylvania, five offices and 57 FTEs in New Jersey, and three offices and 40 FTEs in Delaware.

In recent interviews, RD staff emphasized the flexibility of some programs, such as its community facilities program, which can be used to replace water and sewer systems or to fund health-care clinics, child-care centers, and other essential community facilities. Similarly, rural-business enterprise or opportunity grants can be used to provide financing and technical assistance to small and emerging businesses, fund a comprehensive economic-development plan, help establish a revolving loan fund, or attract tourism-related businesses.

RD staff indicated that they would like to increase banks' use of the single-family guaranteed rural housing program in Pennsylvania, New Jersey, and Delaware because the agency has some unused guarantee authority in the program each year. Nationally, lenders in the program tend to be nonbank mortgage companies. In Pennsylvania, banks historically have generated only about 10 percent of total loan volume in the program. RD gives a 48-hour turnaround on its single-family guaranteed rural housing application.

The more active banks and bank-affiliated mortgage companies include Honesdale National Bank, Jersey Shore National Bank, and Omega Bank in Pennsylvania, and Chase Manhattan Mortgage Corporation in Delaware and New Jersey.

Similarly, banks in Delaware, New Jersey, and Pennsylvania have tended to be less active in the business and industry loan guarantee program in recent years as specialized out-of-

...continued on page 5

USDA Rural Development Programs

The following noteworthy examples illustrate how some organizations in the Third Federal Reserve District are using U.S. Department of Agriculture Rural Development (RD) programs.

Housing

- RD works in a partnership with Rural Opportunities, Inc. (ROI) and the Pennsylvania Housing Finance Agency (PHFA) to provide homeownership opportunities to rural Pennsylvanians. ROI provides home-buyer education and pre- and post-settlement counseling, PHFA makes the first-mortgage loan, and RD makes a second-mortgage loan for up to 100 percent of appraised value. PHFA also provides down-payment or closing-cost assistance totaling \$5000.
- RD leveraged bank financing in a partnership involving the First State Community Loan Fund (FSCLF), a community development financial institution serving Delaware. FSCLF does outreach and marketing while NCALL Research, Inc., a nonprofit, provides pre-purchase counseling and packages the application. USDA underwrites the home-mortgage loan, providing 50 percent or more of financing, while Discover Bank provides the balance of the mortgage amount needed to close the loan.

Community Facilities

- RD guaranteed a \$3 million community-facilities loan made by the Wilmington Savings Fund Society that was matched by an RD direct loan for construction of a \$6 million charter school in Middletown, Delaware.

Business

- RD provided intermediary relending program (IRP) loans and rural business enterprise grants (RBEGs) to capitalize small-business revolving loan funds operated by the Community First Fund, based in Lancaster, Pennsylvania, and The Progress Fund, based in Hollidaysburg, Pennsylvania. RD provided IRP loans of \$495,000 and \$750,000, and RBEGs of \$150,000 and \$200,000, respectively.
- RD guaranteed a business and industry loan for the purchase of an ophthalmic solutions business in Cumberland County, New Jersey, that was on the verge of closing, thereby saving 85 jobs.

USDA Rural Development Assists Rural Residents

...continued from page 4

tract lenders have become the high-volume lenders.

To become more competitive, RD expects to accept applications electronically for all USDA programs late this year and expects to

qualify applicants online next year for the single-family guaranteed rural housing program. Early next year, USDA will have available a web site in which street addresses can be instantly matched with RD-program eligibility areas.

Banks and others will be interested in significant programs and changes that were approved as part of the 2002 farm bill. The bill:

- Created a new \$100 million **rural business investment program** modeled after the small business

...continued on page 6

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USDA Rural Development Assists Rural Residents

...continued from page 5

investment company program operated by the Small Business Administration (SBA). The USDA and SBA are discussing the program's implementation.

- Authorized RD to develop a low documentation application for business and industry program loans of under \$400,000.
- Expanded a pilot program to provide **broadband** telecommunications service to rural communities with authorization of \$100 million for grants, loans, and loan guarantees to construct, improve, and acquire facilities and equipment.
- Approved a new rural strategic investment program that will provide matching grants of up to \$100,000 to prepare a comprehensive **strategic plan** for a rural region and matching grants of up to \$3 million to implement innovative development strategies.

RD expects to accept applications electronically for all USDA programs late this year and expects to qualify applicants online next year for the single-family guaranteed rural housing program.

- Approved grants of \$40 million a year from 2002 to 2007 to enable agricultural producers to develop value-added crops or renewable-energy projects.

Regulations will be drafted and issued for comment for most of these initiatives.

RD officials invite banks, nonprofits, and government agencies to call when they have a rural client who needs assistance, even though the institutions may not know which program applies, and welcome discussions about finding ways to work together.

For general information on RD, see www.rurdev.usda.gov. For information on RD activities in Delaware, New Jersey, and Pennsylvania, view the respective web sites: www.rurdev.usda.gov/de, www.rurdev.usda.gov/nj, and www.rurdev.usda.gov/pa. A summary of RD's community and economic development financing programs may also be obtained from Rosemarie.Massa@pa.usda.gov.

For information on the 2002 farm bill, see www.rurdev.usda.gov/rd/farmbill2002.html.

Rural Community Assistance Program Helps Communities Plan Sewer and Water Systems

The Rural Community Assistance Program (RCAP) is a government-funded program that provides free technical assistance to rural communities in the planning and financing of sewer and water systems.

Don Schwartz, RCAP's Pennsylvania manager based in Williamsport, said that the program usually serves low-income, isolated communities that have 500 or fewer residents. RCAP typi-

cally helps plan a new system by conducting an income survey, identifying financing sources, and preparing a request-for-proposals for a consulting engineer. Or it helps to develop strategies for strengthening the financial viability of existing systems by cutting costs or restructuring rates. RCAP has offices in Williamsport, Harrisburg, State College, and Pittsburgh, Pennsylvania. The RCAP program is administered in the northeastern U.S. by Rural

Housing Improvement, Inc., a nonprofit based in Winchendon, Massachusetts.

For information on RCAP in Pennsylvania, contact Don Schwartz at (570) 321-7375 or dschwartz@ptdprolog.net. In New Jersey, contact Mark Hommer at (732) 297-5050 or drumstand@mail.monmouth.com. In Delaware, contact Coy Donaldson at (302) 539-8949 or pitacoy@aol.com.

Delaware Consortium Raises Awareness of Rural Housing Needs and Member Nonprofits *...continued from page 1*

510 first-time buyers — assisting a total of 750 households.

DRHC's efforts have had the following results:

DRHC "enables us to speak as a more unified and stronger voice for rural housing."

- On behalf of DRHC members, NCALL obtained grants of \$2.3 million, most of which it passed through to the members for operating support, pre-development expenses, and performance-based awards of \$1500 for each unit constructed. NCALL also is obtaining project funding totaling \$52 million from federal and state sources, while DRHC members are securing construction financing totaling \$2.5 million.

- As of the end of May 2002, DRHC members have developed 107 new rental units and 15 self-help owner-occupied units, rehabilitated 17 houses, and counseled 693 individuals who bought houses. Some developments did not materialize as planned, but DRHC members substituted other projects for renovation or development in order to meet the plan's goals. By the end of 2002, DRHC expects to complete an additional 71 rental units and seven self-help units, rehabilitate 10 houses, and counsel another 160 prospective homeowners.

- The least experienced nonprofits in DRHC benefited through technical assistance and operating grants, while two DRHC members — MHDC and Better Homes of Seaford, Inc. — emerged as significant affordable-housing developers.

Bill Roupp, executive director of Better Homes of Seaford, Inc., said that DRHC enabled the member nonprofits "to learn from each other. Our likeness is that we all work in a rural area and we have the same problems and needs." Dave Moore, deputy director of MHDC, added that DRHC gave nonprofits a "sounding board" to test ideas and obtain insights from peers.

Don Blair, vice president of MHDC, observed that DRHC "en-

ables us to speak as a more unified and stronger voice for rural housing." Debra Singletary, executive director of Delmarva Rural Ministries, said that DRHC "gives us visibility and credibility to funding sources."

DRHC members want to implement a new investment idea conceived by NCALL; they intend to use earnings from the investment to subsidize rents, thereby enabling nonprofits to serve lower income households. A Delaware bank is reviewing servicing and legal documents for such an investment in a 10-unit development.

DRHC has decided to do a self-assessment — and await findings from a state housing-needs study

...continued on page 8



Elizabeth Cornish Landing Apartments, a 34-unit housing project for farm workers and their families in Bridgeville, Delaware, was developed by Delmarva Rural Ministries (DRM), a nonprofit that is part of the Delaware Rural Housing Consortium. The project — the first housing built specifically for farm workers in Delaware — received the Fannie Mae Foundation's Maxwell Award of Excellence. The project, designed for both seasonal workers and permanent residents, was built with financing and rental assistance from USDA Rural Development. DRM, which is based in Dover, Delaware, is building an additional 28 units that are part of the consortium's housing-development plan. NCALL has provided technical assistance for the original 34 units and the additional 28 units.

Delaware Consortium Raises Awareness of Rural Housing Needs and Member Nonprofits *...continued from page 7*

expected next spring – before drafting a new three-year housing-development plan. DRHC members want the plan to be consistent with current needs identified in the study.

Three banks — Discover Bank, First USA Bank, N.A., and Wilmington Trust Company — and the First Union Regional Foundation have contributed a total of \$1,065,000. In addition, 11 community or private foundations have contributed \$983,000 and HUD, \$250,000. The largest community or private foundation donor has been the Longwood Foundation in Delaware, but the consortium has also been able to garner out-of-state foundation support as well. Wilmington Trust Company and County Bank, based in Rehoboth Beach, provided \$2.5 million in construction financing.

Delaware has a large sector of full-service, credit-card, wholesale, and other special-purpose financial institutions, but most have a CRA assessment area of New Castle County. The consortium helps bring funding and attention to Kent and Sussex counties.

Joe L. Myer, executive director of NCALL since 1981, said, “The seven nonprofits looked at the broader picture rather than thinking of their own turf. The needs were so great that they did not need to compete with each other.”

The dependable flow of operating money meant that the seven could hire more qualified staff and spend less time on fundraising, and the increased pre-development funds enabled projects to get launched faster, Myer added. NCALL — which has 25-years’ experience assisting nonprofits to develop housing using federal and state programs and in counseling first-time buyers — has 1.5 full-time equivalents working on DRHC matters. It is one of the nonprofits receiving operating and pre-development funds through DRHC.

DRHC members recommended that rural nonprofits interested in creating a consortium should define a mission; create a memorandum of understanding clarifying activities and roles; develop a code of ethics; and identify a nonprofit with the ability to serve as consortium administrator, or “anchor.” The nonprofits should select, as representatives to a consortium, those board or staff members who are knowledgeable about their commu-

nity’s housing needs and who have decision-making authority, they said.

As Dave Moore of MHDC put it, the value of DRHC is that “we are doing better together what we can’t do alone.”

A video and other information on DRHC are available from NCALL. A report on replication of DRHC is expected to be available in September.

For more information, contact Joe L. Myer at (302) 678-9400 or jmyer@ncall.org; www.ncall.org.



Yorktowne Woods, a 35-unit project for older people, was developed by Better Homes of Seaford, Inc., as part of the Delaware Rural Housing Consortium’s housing-development plan for 2000 to 2002. The project, located in Seaford, Delaware, was one of the first to be constructed with pre-development and capacity-building grants through the consortium.

Rural Pennsylvania in the New Century *...continued from page 1*

Within Pennsylvania, and across the nation, the two economically dominant generations are baby boomers and gen-Xers. A baby boomer is defined as anyone born between 1946 and 1964; gen-Xers include those born between 1965 and 1975. In 2000, these two groups accounted for about 44 percent of the nation's population but 71 percent of the civilian labor force. According to the Census Bureau, during the 1990s, the number of gen-Xers in rural Pennsylvania fell nearly 9 percent. During this same period, the number of baby boomers increased nearly 7 percent.

The loss of gen-Xers and the gain in baby boomers will affect Pennsylvania's rural and small towns in three important areas: education, the economy, and housing. Over the next 10 to 15

Since the 1990s, rural Pennsylvania's birth rate has steadily fallen.

years, rural school districts will likely experience declining student enrollment, a decline that may cause some school districts to close facilities and lay off staff. Also over the next 10 years, the number of new entrants into the labor force will likely slow or even decline. As a result, some rural areas may face labor shortages, especially industries requiring specialized skills or education. Finally, during the 1990s, the number of housing units in rural Pennsylvania increased dramatically.

The increased number of baby boomers was one engine driving this expansion. In 1990, less than 56 percent of baby boomers in rural Pennsylvania owned their own homes. In 2000, more than 70 percent owned homes.

Beyond Silos and Smokestacks

Within rural Pennsylvania, very few, if any, areas are dominated by a single business. While farming is important to Pennsylvania's rural economy, no county has depended solely on agriculture since President Eisenhower was in the White House. The same is true for mining and forestry. Even manufacturing has lost its postwar dominance. Today, the state's rural economy is more diverse and increasingly more high tech.

Over the past decade, Pennsylvania's rural economy has made impressive gains. According to the state's Department of Labor and Industry, between 1990 and 2000, more than 95,500 new jobs were established in rural Pennsylvania, a 12 percent increase. The number of business establishments increased 15 percent, and the average annual wage increased about 6 percent, after adjusting for inflation.

In addition, rural Pennsylva-

The loss of gen-Xers and the gain in baby boomers will affect Pennsylvania's rural and small towns in three important areas: education, the economy, and housing.

nia had increases in high-technology manufacturing (industrial machinery and equipment, electronics, and instruments). Between 1996 and 2000, employment in these industries increased 1 percent, while in the state's urban areas employment declined 1 percent. In Pennsylvania's rural and urban areas, high-tech manufacturing comprises approximately the same percentage of the work force (about 7 percent). Along with an increase in employment, the state's rural areas saw a 5 percent increase in the number of high-tech manufacturing establishments, while urban areas saw only a 1 percent increase.

Despite these impressive gains, the rural unemployment rate stubbornly remains one to two percentage points above the statewide and national rates. Pennsylvania's rural areas have lower wages and a higher rate of business bankruptcies.

Even on this economic roller coaster, rural communities remain resilient, in part because of vibrant small businesses. On average, nearly 90 percent of the business establishments in rural

...continued on page 10

Rural Pennsylvania in the New Century *...continued from page 9*

Pennsylvania have fewer than 20 employees. Indeed, more than half of the establishments have fewer than five employees. Typically, the largest employers in most rural counties are hospitals, school

Despite...impressive gains, the rural unemployment rate stubbornly remains one to two percentage points above the statewide and national rates.

districts, and state or federal governments. The growing importance of tourism is another factor in rural communities' resilience. Many places have maintained their small-town character, which is important for attracting tourists who are predominantly baby boomers with high disposable income.

Another indication of rural Pennsylvania's new economy is its increasing dependence on the so-called "mailbox economy": government-transfer payments (Social Security, unemployment compensation, pensions, and so forth), dividends, interest, and rent. This unearned income has grown faster than wage and salary income. Over the last 30 years, data from the U.S. Bureau of Economic Analysis (BEA) show

that adjusted per capita rural wages and salaries increased only 26 percent. Meanwhile, unearned per capita income increased more than 137 percent. In addition, unearned income accounts for a larger share of total personal income in rural areas. In 1970, unearned income comprised 24 percent of the total rural income pie; by 2000, it made up nearly 40 percent. The increase in unearned income has led some analysts to argue that rural areas are becoming a mailbox economy, with a significant amount of money coming from checks mailed to the recipient.

Although the cost of milk in Philadelphia is about the same as in rural areas, the ability to buy it is not. There is a sizable and increasing income gap between rural and urban Pennsylvanians. According to data from the BEA, during the 1990s the inflation-adjusted per capita income in rural areas increased 11 percent. However, the income gap between rural and urban areas widened to nearly \$8000. While this gap is nothing new, its size is startling. Between 1970 and 2000, the personal income gap per capita between rural and urban areas in Pennsylvania more than doubled (122 percent). Even in the past 10 years (1990 to 2000), the gap increased 21 percent.

There is a sizable and increasing gap between rural and urban Pennsylvanians.

The income gap cannot be explained away by differences in the cost of living. A recently published report by CRP found that prices for similar goods and services are about 2.5 percent lower in rural areas than in urban areas. However, these lower costs are not enough to offset differences in personal income. According to another study funded by CRP, the income gap between rural and urban areas is driven by several different factors, key among them the differences in wages and salaries, labor force participation, and educational attainment.

Windows (and Doors) 2000

According to the 2000 census, the state's rural areas had 92,200 more housing units in 2000 than they had in 1990, an 8 percent increase driven almost exclusively by the construction of single-family houses. Geographically, most of this new housing was concentrated in the state's north-eastern and south-central regions. Growth in the housing industry is mirrored by a 14 percent increase in employment in the construction sector. Balancing this growth in housing is municipal officials' increasing awareness of the benefits of effective land-use planning and management practices. This effort is augmented by the Commonwealth's farmland-preservation programs.

Along with more housing units, rural homeownership in the state has increased. Between 1990 and 2000, the number of rural homeowners increased 11 percent.

Rural Pennsylvania in the New Century *...continued from page 10*

As a result, approximately 76 percent of the occupied housing

Affordable housing remains an important issue for low-income rural Pennsylvanians.

units were owner-occupied. This rural homeownership rate is higher than both the urban and the national rates.

Affordable housing, however, remains an important issue for low-income rural Pennsylvanians. According to data from the Pennsylvania Housing Finance Agency, the state's rural areas have, per capita, fewer assisted rental units than urban areas. There are 12 units per 1000 residents in rural areas and more than 15 units in urban areas. In addition, over half (51 percent) of the rural units are exclusively for the elderly, meaning fewer opportunities for low-income families.

Beyond the Numbers

By all accounts, rural Pennsylvania is changing. The economic hardships of the 1980s and early 1990s were followed by a period of relative prosperity. While the tangible measures of this prosperity can be seen in the number of new jobs, increases in income, and new

housing units, it is clear that this prosperity was not even. Rural counties in the eastern part of the state generally did better than those in the west. Moreover, most of the state's urban counties had larger and more significant economic gains than did rural areas.

Despite these differences, Pennsylvania's rural and small towns are in a better economic position than they were 10 to 15 years ago. How? First, Pennsylvania's rural economy is now more diverse and is better prepared to take advantage of new economic opportunities presented by telecommunications, downtown revitalization, and development of tourism. Integral to these opportunities are initiatives in workforce development and education.

Second, the increase in the number of baby boomers living in

Pennsylvania's rural and small towns are in a better economic position than they were 10 to 15 years ago.

rural Pennsylvania has buoyed both the rural workforce and civic organizations. Because most boomers are middle-aged, they are unlikely to move until they reach retirement. For the rural workforce, this means relatively well-trained employees who are near or at the top of their earning years. For civic organizations, there is an expanded pool of volunteers ready to be called upon.

Finally, there is growing recognition by officials at all levels of the importance of improving quality-of-life factors. The days of thinking that a new factory or highway project is the ticket to prosperity have slowly faded, and a new emphasis on developing community life and a sense of place has emerged.

Rural Pennsylvania is changing. While these changes are not all good, rural residents appear to be in a much better position to address future challenges and opportunities.

A description of changes in demographics, housing, and economic conditions in rural Pennsylvania is available at www.ruralpa.org/about.html. For information, contact Jonathan Johnson at (717) 787-9555 or johnsonj@ruralpa.org.

Main Street Remains Popular Approach to Engineering Downtowns

By Vera W. Bowders and Keith L. Rolland, Community Development Advisors, Community and Consumer Affairs Department, Federal Reserve Bank of Philadelphia

More than 1600 cities and towns around the country, including many in the Third Federal Reserve District, have embraced an integrated strategy to strengthen their main streets, or downtown areas. In 1980, the National Trust for Historic Preservation conceived a four-point Main Street approach to organize the private and public sectors and recruit volunteers, promote the downtown, improve the appearance of downtown buildings, and analyze market opportunities.

Interviews with state Main Street officials indicated that there continues to be strong interest in the Main Street strategy, although many people see it as a panacea and do not realize the long-term commitment needed to bring about and maintain changes in a downtown. In a departure from the traditional model, directors in Pennsylvania and New Jersey are developing new Main Street programs that will focus on city neighborhoods. Main Street coordinators in the Third Federal Reserve District are Diana J. Kerr in Pennsylvania, Paul G. Stridick in New Jersey, and Steven U. Boyd in Delaware

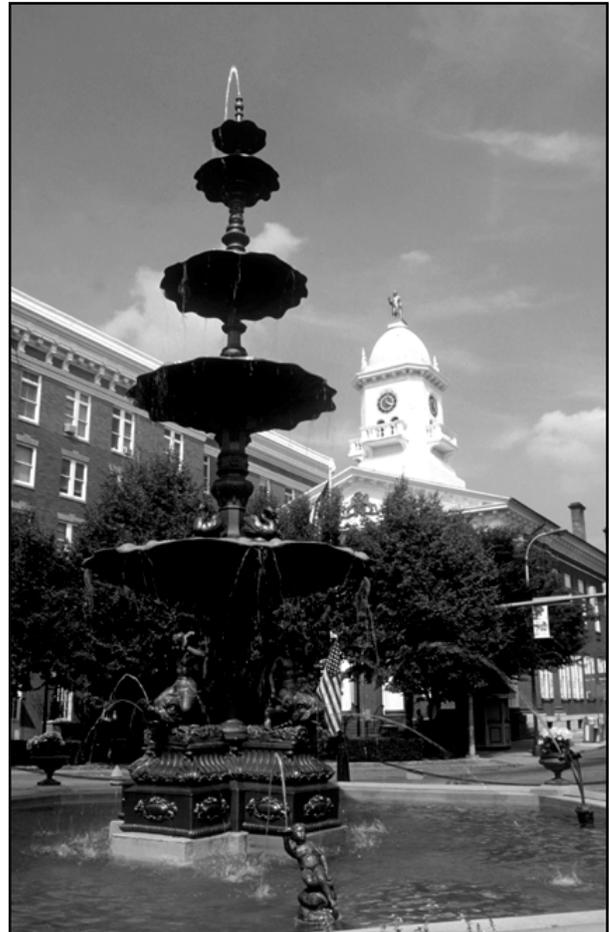
Pennsylvania

Pennsylvania's program, which has designated 106 Main Street communities since 1980, is one of the oldest in the country. It is also one of only a few state programs that provided adminis-

trative grants; most states offer only technical assistance and grants for façade improvements. Pennsylvania, which has provided about \$4 million annually in administrative grants, provides technical assistance and training through the Pennsylvania Downtown Center.

Diana J. Kerr, program supervisor in Pennsylvania's Department of Community and Economic Development (DCED), has overseen the program since 1990. She explained in an interview that one of the program's most valuable features is that a Main Street manager "is paying attention to the downtown at all times."

People thinking of starting Main Street programs should recognize the difficulties involved, Kerr said, ...continued on page 14



One of Pennsylvania's most successful Main Street programs has been operating in the Borough of Chambersburg since 1989. Chambersburg's Main Street program is closely integrated with the economic-development priorities of the Greater Chambersburg Chamber of Commerce, the Chambersburg Area Development Corporation, and the Borough of Chambersburg. Those priorities include constructing an arts center, upgrading the Capitol Theatre, built in 1927, and converting a vacant bank building, built in 1915, into a Chambersburg heritage center. In 2001 and 2002, the borough used state funding to renovate 27 facades, with another 12 to be renovated this year. Paul E. Cullinane, Jr., is president of Downtown Chambersburg, Inc., which operates Main Street and other programs, and executive director of the multi-bank Community Development Corporation of Franklin County.

Rural LISC Provides Grants and Loans to Eight Rural Pennsylvania Nonprofits

By Keith L. Rolland, Community Development Advisor, Community and Consumer Affairs Department, Federal Reserve Bank of Philadelphia

A rural program of the Local Initiatives Support Corporation (LISC) is providing capacity-building and pre-development grants to eight nonprofit developers in Pennsylvania and will provide training to other nonprofits statewide.

Rural LISC, formed in 1995, started its Pennsylvania Initiative last October after The Pew Charitable Trusts provided a grant of \$1.8 million. Supporters of the initiative include First Union Corporation, Fleet Bank, National City Bank, PNC Bank, N.A., PNC Bank Foundation, and the Federal Reserve Banks of Cleveland and Philadelphia.

Rural community developers lack the foundation and other "soft" money that is often available to their counterparts.

Tony McGhee, program director of the Rural LISC Pennsylvania Initiative, said that "its purpose is to strengthen the development and management capacity of the eight nonprofits, increase their production and impact, demonstrate the value of investing in rural nonprofits, and help these and other nonprofits mobilize additional resources."



Alliance for Better Housing (ABC), located in Kennett Square, Pennsylvania, is one of eight nonprofit developers in Pennsylvania receiving capacity-building and pre-development grants through Rural LISC's Pennsylvania Initiative. ABC largely serves mushroom-industry farm workers, one of whom is shown above.

The eight nonprofits are Alliance for Better Housing, Kennett Square; Alliance for Building Communities, Allentown; Bedford-Fulton Housing Services, Everett; Fayette County Community Action Agency, Uniontown; Housing Development Corporation, Lancaster; The NORCAM Group, Northern Cambria; Rural Opportunities, Inc. of Pennsylvania, Harrisburg; and The Trehab Center, Montrose.

As of June 2002, the Rural LISC Pennsylvania Initiative had provided capacity-building grants totaling \$386,750 and pre-development recoverable grants totaling \$151,000 that are intended to lead

to the development of 319 affordable-housing units and commercial and community facilities totaling 66,500 square feet.

In addition, Rural LISC made two loans totaling \$950,000, including a \$600,000 loan to NORCAM to capitalize a first-mortgage program to be operated in conjunction with USDA's rural home loan partnership program. NORCAM and USDA expect to provide financing to 80 homeowners during a three-year period. In a separate partnership with NORCAM, Rural LISC syndicated a tax credit that assisted 15 businesses and generated 338 jobs.

...continued on page 14

Main Street Remains Popular Approach to Engineering Downtowns *...continued from page 12*

including intense competition from “supercenters” and businesses that sell through the Internet. Business owners and government officials may be unconvinced about the need for a Main Street manager. Other challenges for Main Street managers are working on multiple program goals and managing the recruitment of the many volunteers needed to run a successful program.

“I’ve found that Main Street works best in small towns that do not have extensive decline but do have strong local leadership and volunteerism, some financial resources for Main Street programs, strong involvement of local government, and business owners who have an astute understanding of their market,” Kerr said.

“Many downtown areas need comprehensive management concerning effective marketing, an appropriate mix of businesses,

convenient shopping hours, safety, and parking,” she said. “To be truly successful, downtown revitalization needs to be part of a broader economic-development strategy for the surrounding area.”

Kerr sees a future need for greater coordination between DCED and other state agencies that have an impact on Pennsylvania’s downtowns. One such agency is the Pennsylvania Department of Transportation, which has responsibilities for truck traffic, pedestrian safety, and road resurfacing.

New Jersey

In New Jersey, 21 Main Street communities have been designated since the program was established in 1989. The state program, which is based in the New Jersey Department of Community Affairs, provides technical assistance and training. A seminar

on downtown promotion will be held October 29-30, 2002, and another on managing Main Street resources will be held January 29-30, 2003. Both will be held in Trenton.

Susan Bass Levin, commissioner of the New Jersey Department of Community Affairs, said: “Main Street is a comprehensive small-step approach and a tool in an arsenal, not a quick fix for a declining downtown. The little things, such as lights and banners, tell the world that the town cares and bring about aesthetic and psychological change.”

Main Street’s success ebbs and flows with the economy, she noted. It has been successful in Englewood, an urban northern New Jersey community that now has a vibrant, bustling downtown with new businesses and an art center, and in Salem, a rural

...continued on page 24

Rural LISC Provides Grants and Loans to Eight Rural Pennsylvania Nonprofits *...continued from page 13*

Rural LISC also provided a loan of \$350,000 to an affiliate of the Fayette County Community Action Agency that will use the funds to expand a medical practice and open a new dental clinic.

John Bendel, senior vice president of the Federal Home Loan Bank of Pittsburgh and chairman of the Rural LISC Pennsylvania Initiative, observed that rural community developers lack the foundation and other

“soft” money that is often available to their urban counterparts. In addition, rural community developers and entrepreneurs do not have access to capacity-building and technical-assistance services, he said.

The initiative plans to provide training sessions on such subjects as economic and facility development, housing development, and nonprofit-developer management and administration. These ses-

sions will be open at no cost to nonprofit developers around the state. It also plans to develop publications on funding opportunities and policy issues and organize a statewide network of rural nonprofit developers.

For information, contact Tony McGhee at (616) 343-5472 or TmcGhee@liscnet.org; www.liscnet.org.

Rural Communities Bolster Efforts to Leverage Natural Beauty and Heritage to Attract Tourists

By Keith L. Rolland, Community Development Advisor, Community and Consumer Affairs Department, Federal Reserve Bank of Philadelphia

Some rural communities are harnessing their natural beauty and heritage as an economic-development strategy to attract tourists. Tourism, Pennsylvania's second largest industry, contributed more than \$26 billion to the state's economy in 2000. A

strategy to attract tourists can help diversify a region's economic base. A small but growing part of the industry, called heritage tourism, is regionally based and involves cooperation among local communities, seeks tourist and resident interaction, and is concerned about preservation of local assets.

A panel at the conference on "Tools for Building Sustainable Rural Communities," which was held last April, focused on the potential of heritage tourism in rural communities. One speaker, Nancy Nye, a consultant in Taftsville, Vermont, pointed out that some urban and suburban dwellers are drawn to the open space and proximity to nature available in many rural communities.

Nye stated: "Tourism is a huge market and can be a boon to rural

areas, but it also can have downsides of seasonality, low-wage service jobs, and leakage from the local economy if it is dominated by outside ownership typical of large chains or resorts. The benefits to rural communities are improved if local residents participate in assessing,

Tourism, Pennsylvania's second largest industry, contributed more than \$26 billion to the state's economy in 2000.

planning, and developing tourism opportunities and there is support for local people to own and operate the facilities and services required."

The Westsylvan Heritage Corporation (WHC), one of the most active regional-marketing efforts in Pennsylvania's heritage-tourism industry, created an identity for Westsylvan,

a region that includes southwestern Pennsylvania and parts of five other states. In 1776, settlers attempted to create a 14th colony, which they called Westsylvan, but were dissuaded by the other colonies that were preoccupied with declaring independence from Great Britain.

WHC, which is based in Hollidaysburg, Pennsylvania, is promoting 67 festivals, fairs, and special events this year, including a Grange livestock fair and encampment in Centre County, tours of the Horseshoe Curve and

...continued on page 16



The Progress Fund, a community development financial institution that lends primarily to tourist-related businesses in southwestern Pennsylvania, made a loan to new owners for the purchase of the historic Jean Bonnet Tavern and bed-and-breakfast in Bedford, Pennsylvania. The tavern, which had been open since the late 1700s, was in danger of closing upon the retirement of the previous owners. An active heritage-tourism marketing effort in the region has promoted the fact that early American settlers sought to create a colony called Westsylvan, which encompassed southwestern Pennsylvania and parts of five other states.

Rural Communities Bolster Efforts to Leverage Natural Beauty and Heritage to Attract Tourists *...continued from page 15*

railroad museum in Altoona, and a folk-music festival in Kitanning. They also include a Shakespearean community theater, created by an English teacher and her husband in Somerset County, that performs each summer in a park in Johnstown.

Randy Cooley, president of WHC, said that being successful at heritage tourism is very challenging because the audience “is discerning, educated, and seeking unique experiences,” and there’s a fine balance between being entertaining and educational. “The audience is also constantly changing. A tourist may come to our region once, and the next tourist wants something different.”

Nationally, the heritage-tourism industry has focused on developing historic and recreational sites, such as hiking and biking trails, and enhancing downtowns through Main Street programs, Cooley said. However, the industry is in its infancy as far as developing restaurants, lodges, and retail stores, which, he said, are high-risk, difficult-to-finance ventures. The Progress Fund was created to finance these kinds of ventures, he added.

For rural communities wanting to enter the heritage-tourism field, Cooley shared these insights:

- Quality and authenticity based on the history of a community are hallmarks of a successful heritage-tourism strategy;
- A region’s communities must develop a plan for the interpreta-

Interested communities can begin a planning process with a broad range of stakeholders to develop a strategy to bring together heritage resources and tourism businesses.

tion, conservation, and preservation of historic, recreational, and cultural resources, as well as a well-developed business plan; and

- Local managers of tourist facilities and cultural sites need training and technical assistance in the business aspects of tourism.

Interested communities can begin a planning process with a broad range of stakeholders to develop a strategy to bring together heritage resources and tourism businesses. This process would eventually be extended to

other communities within a region. Local and regional partnerships between businesses and public and nonprofit agencies are essential to capture tourist revenues.

For information, contact Randy Cooley at (814) 696-9380 or rcooley@westsylvania.org; www.westsylvania.com, or Nancy Nye at (802) 457-3783 or nancynye@sover.net. Relevant web sites: www.inventpa.com and www.dcnr.state.pa.us/recreation/heritage.

RESOURCES

The following web sites offer useful information about rural-development issues:

Center for Rural Pennsylvania — www.ruralpa.org

Housing Assistance Council — www.ruralhome.org

National Rural Housing Coalition — www.nrhweb.org

Pennsylvania Rural Development Council — www.ruralpa.state.pa.us

Rural Information Center — www.nal.usda.gov/ric/ruralres/economic.htm

Rural LISC — www.ruralisc.org

Rural Policy Research Institute — www.rupri.org

Stand Up for Rural America — www.ruralamerica.org

U.S. Department of Agriculture — www.usda.gov

High-Speed Communications Crucial in Rural Communities

By Keith L. Rolland, Community Development Advisor, Community and Consumer Affairs Department, Federal Reserve Bank of Philadelphia

The ability of rural communities to obtain and effectively use high-speed communications services plays a critical role in determining their economic fate, rural leaders believe.

A fully developed communications infrastructure exists in many suburbs, but rural communities are at risk of being left behind and "marginalized."

A communications infrastructure generally encompasses a range of wired and wireless facilities and services that are provided to consumers, businesses, and specialized companies such as Internet service providers. Such services include basic telephone service, cable and satellite television, cellular service, and various speeds of Internet service — dial-up, DSL, and cable modem. A fully developed communications infrastructure exists in many suburbs, but rural communities — and inner cities — are at risk of being left behind and "marginalized," rural leaders say.

Several Pennsylvania and New Jersey locations have responded by organizing community information network (CIN) projects that encompass the public and private sectors. The idea is that families, local government, libraries, media, businesses, schools, and nonprofits increase

their communication via computer networks and a single community-wide web site and that they "aggregate their demand" so that the latest communications infrastructure becomes affordable in that community.

Bill Shuffstall, community and economic development specialist with Penn State Cooperative Extension (PSCE), says, "We in rural communities can't afford to wait for someone to do it [wiring of a local community] for us." PSCE funds Shuffstall and Ellwood "Woody" Kerkeslager, a consultant, to help organize CINs in Pennsylvania. To date, they have worked in Potter and Sullivan counties, and Bloomsburg in Columbia County.

Proponents believe that people and institutions in a rural community can communicate faster and interact more effectively through a CIN. Residents can stay involved in the work of school boards and county agencies; parents and schools can communicate quickly with each other; and nonprofits can market themselves and recruit volunteers. The presence of high-speed communications in rural communities can attract new Internet-based businesses and the kinds of jobs that would retain talented young people.

Having the latest communications is important, but having residents with strong computer skills is even more important, proponents explain. Therefore, a

key part of a CIN is a community center where training and computers with Internet access are provided for free or at a nominal cost.

One of the most advanced CINs is in Madison, New Jersey — www.rosenet.org — a six-year-old project that has extensive information on the community's library, government agencies, educational institutions, churches, nonprofits, businesses, local news, and a community calendar. Kerkeslager developed a CIN model, applied it first at the Madison site, and is project leader of the site.

Kerkeslager explained: "Thousands of individuals, young and old, have been trained at the community center. Everyone is given the opportunity and free training to have their own e-mail and to use the Internet. The community center is always occupied with citizens who would be on the 'other' side of the digital divide, using the free computer and Internet access. Residents, former residents, and out-of-town college students stay involved in the Madison community via the RoseNet web site."

Another CIN is in rural Potter County, Pennsylvania — www.pottercountypa.net. This CIN was created by 20 high-school students during a two-week information-technology camp in the summer of 1999. The driving forces behind this community site

...continued on page 18

High-Speed Communications Crucial in Rural Communities *...continued from page 17*

have been the state-funded Potter County Education Council (PCEC), which offers web-based college-accredited courses and computer-skills training, and the Potter County Cooperative Extension staff.

Another noted site, the Blacksburg Electronic Village (BEV) — www.bev.net — is in Blacksburg, Virginia. This site was started as an outreach project of a local university about 10 years ago.

Andrew Cohill, director of BEV, says that CINs create and maintain public space where area residents and institutions are linked through local web sites; provide computer training and skills development; support Internet- and web-related community economic development initiatives; develop a community-owned communications infrastructure; and provide technical support, system administration, and services such as e-mail.

One of Pennsylvania's first advocates of CINs was Gerry Depo, town administrator in Bloomsburg, who conceived of a community technology center with high-speed (broadband) communications that would provide an incubator for businesses that sell and market through the Internet and provide training for the general community. The Columbia Alliance for Economic Growth, a nonprofit economic development organization, plans to purchase a former Elks facility built about 1906 in Bloomsburg and locate such a center there.

Depo explains that setting up a CIN is "a community-organizing challenge because you need to enlist leaders from a broad range of sectors." Another challenge is maintaining the initial enthusiasm once a CIN is formed, he points out.

A different kind of challenge is discovering the kinds of communications equipment already installed in and near one's community. Employees of communications companies living in the community can assist in this process.

Community Banker Helps Organize Rural Network

Community bankers often take leadership roles, and Doug Morley has played such a role in bringing high-speed telecommunications to Potter County, Pennsylvania.

Morley, a commercial loan officer with Northwest Savings Bank in Coudersport, Pennsylvania, has been active in the Potter County community information network (CIN) and the Potter County Education Council, of which he is president. "High-speed telecommunications is an economic-development tool that can help ensure stability and growth in rural areas," he said.

Organizing a CIN in Potter County — where 17,500 residents are scattered in disparate communities across 1200 square miles — is a challenge. "To get many people involved in a CIN, its advocates must relate it to the goals and other concerns that are important in that community," Morley said. "Churches, civic groups, and schools might take the lead in one community while municipal agencies may do so in another. Endorsement by a community's leaders also helps get people's attention."

He recommends that rural leaders organizing CINs in Pennsylvania start with leaders of the local school district and public library, which usually have advanced telecommunications as part of a state network. He said that Bill Shuffstall, of the Penn State Cooperative Extension, had been very helpful in conveying excitement about the CIN and in nurturing the organizing process.

High-Speed Communications Crucial in Rural Communities

...continued from page 18

Helene Nawrocki, executive director of PCEC, recommends that those seeking to establish CINs "seek slow, purposeful community-driven growth rather than a single strategy of pursuing grants."

The process of establishing a CIN entails a number of steps, including assessing a community's technology infrastructure, drafting a community network vision statement, establishing a community center and community web site, and enlisting leaders from local government, nonprofits, businesses, schools, libraries, and the media. Key CIN volunteers are information-

technology professionals and teachers who are needed for classes in building web sites and other computer subjects.

The good news for rural communities, says Shuffstall, is that "distance doesn't matter if the communications infrastructure is in place and the community knows how to use the technology and uses it day-to-day."

Nawrocki observes that the Potter County CIN "helped get people more engaged in their community and helped create a sense of unity."

For information, contact Bill Shuffstall at (814) 765-7878, ext. 208, or shuffy@psu.edu or Woody Kerkeslager at (973) 443-9091 or woodyk@worldnet.att.net, or Helene Nawrocki at (814) 435-9490 or helene@pottercountycouncil.org. Useful web sites: www.afcn.org; www.bev.net/project/digital_library; and www.communitiesofthefuture.org. Information on Pennsylvania's high-speed communications plan may be found at www.keycomm.state.pa.us.

Developing the Rural Community: You CAN Get There from Here

By Roger Pryor, Vice President of Bank Operations and CRA Director, Discover Bank

The views expressed here are those of the author and do not necessarily represent the views of the Federal Reserve Bank of Philadelphia or the Federal Reserve System.

Once, a city slicker was out in the country and got lost. After driving around back roads, getting more and more disoriented, the driver finally saw a farmer standing by a fence, surveying his cornfield. "Excuse me," said the man from the city, "can you tell me how to get back to the Interstate?" The farmer thought a moment, then nodded. "First, you go down the road a piece 'til you get to where the old silo used to be." "Sorry," said the man, "I'm not from around here. Where's that?" "Just a ways before Hansen's field." The city dweller

confessed he didn't know where that was either. The farmer tried directing him via more local landmarks, each time to no avail. "Look," said the frustrated city slicker, "I just want to get to the Interstate." The farmer shook his head dolefully. "Sorry, Son, you can't get there from here."

Though it may be old, that joke illustrates what many CRA professionals face when they first encounter rural reinvestment. For many bankers coming from an urban or suburban environment, developing the CRA landscape in

predominantly agrarian areas is as mystifying as developing the moon. In the past, big city banks distributed their CRA investments in the familiar confines of their urban neighborhoods, while their country cousins developed their communities in areas they were just as familiar with. In recent years, however, with the changes in interstate banking, and merger upon merger, urban CRA professionals are being asked to meet the unique challenges of rural areas. To the average city-seasoned CRA director, the

...continued on page 20

Developing the Rural Community: You CAN Get There from Here *...continued from page 19*

country life seems devoid of the reinvestment challenges and opportunities that appear obvious in the inner city. At first glance, the rural setting seems bucolic, almost quaint. While a crumbling urban tenement screams out for renewal, similarly crumbling infrastructure in the country can appear positively

These rural-poverty areas face deprivation similar to (if not more acute than) those found in the inner city.

charming. The challenge for community reinvestment in rural areas then is not one of need — believe it, the need is there. The challenge is recognizing the needs unique to the rural community and developing correspondingly unique and innovative strategies to meet those needs. Just as the driver in the story needed to know where the old silo used to be and where Hansen's field was, we need to know the unique needs of our communities.

Discover Bank's CRA assessment area comprises nine census tracts surrounding its lone retail facility in Greenwood, Delaware. All of the four tracts in lower Kent County and the five in Sussex County are categorized as middle income, although significant pockets of poverty exist within several of these predominantly rural tracts. The severely underprivileged portions of our assessment area are crippled by improper (or often no) sanitation

facilities, substandard housing, and few opportunities to climb out of these conditions. In short, these rural-poverty areas face deprivation similar to (if not more acute than) those found in the inner city. The only difference is that, in the country, they are more spread out, often more easily ignored, and the surrounding scenery isn't as obviously bleak.

Success in CRA is achieved only through collaboration with other financial institutions, government agencies, and community groups — especially community groups. Dialogue with other financial institutions and government agencies can help coordinate efforts, concentrate resources, and most of all make sure that efforts are not being duplicated in one area while another need is going unmet. Good relationships with the community are vital; communities are the "C" in CRA. Understanding the core challenges to the community can help fulfill the spirit of community reinvestment to create genuine advancement for the citizens of an assessment area, rather than just living up to the letter of the law by token grant-giving.

One example of a multi-faceted collaboration is Discover Bank's participation in a leveraged mortgage loan program with the United States Department of Agriculture's Rural Development subsidiary. This initiative brings



Volunteers from Ellendale in Sussex County, Delaware, repair a roof as part of a home-rehabilitation effort in that community. Discover Bank assisted the effort with a \$35,000 grant. Ellendale is one of the rural communities targeted for special attention by the state of Delaware.

together not only the bank and the government sector but also the First State Community Loan Fund and NCALL Research. The goal of this innovative program is to leverage 40 percent of funding on Section 502 loans to rural residents, thus making more loans available to low- and moderate-income consumers. Since the inception of the leveraged loan program, more than half-a-million dollars in leveraged mortgages have been processed through Discover Bank, affording greater homeownership opportunities to the community.

As to cooperating with other financial institutions, Discover Bank was one of the first banks in Delaware to subsidize the matching fund pool for individual development accounts (IDAs). Discover Bank not only helped develop the criteria for this program to help underprivileged families become financially independent; it also actively

Developing the Rural Community: You CAN Get There from Here *...continued from page 20*

recruited other banks to join the effort.

Another joint effort involved Discover Bank and JPMorgan Chase Bank working with the Delaware State Housing Authority in its Resident Services Corporation's Lightspan Educational Program. This initiative provided after-school tutoring and computer skills programs to underserved children in Delaware's public housing. The program also supplied the children with Sony PlayStations loaded with educational software.

One of the most profitable community reinvestment relationships in the rural setting can be with the local community college. Often overlooked in CRA, the community college presents many opportunities to invest in an area in ways that have a long-term impact both educationally and culturally. At Discover Bank, our partnership with Delaware Technical and Community College has led to the funding and construction of an early-childhood development center. This center not only provides a state-of-the-art environment to train teachers and day-care providers, but it has

also given the community another quality source of child care and education. Also in conjunction with Del Tech, Discover Bank has funded an initiative to provide additional aid to low-income Hispanic students for the purchase of costly textbooks.

Searching for CRA opportunities in the rural environment is often like prospecting for gold.

One of the most profitable community reinvestment relationships in the rural setting can be with the local community college.

Sometimes needs, like shiny nuggets, are so obvious they can't be ignored. More often, though, opportunities exist as clues hidden in the community at large, like grains of gold dust awash in a stream. These faint glimmers point to

the greater opportunities for community reinvestment and greater needs that often go unidentified. Discover Bank recently went "panning" for opportunities in one of its area's most underprivileged communities by funding a survey by the Sussex County Development and Housing Department. This survey completed a door-to-door canvassing of the community in need to clearly determine the housing and infrastructure conditions in order to more effectively target and remedy them.

Serving young people is also a major area of rural opportunity.

Through such agencies as the Girl Scouts, Boy Scouts, Boys and Girls Clubs, Police Athletic Leagues, and local schools, new programs targeting low- to moderate-income youth can be developed, and existing initiatives can be further developed and strengthened. Sometimes, when there's no support vehicle, one can be created to meet a unique need. Such a need presented itself in 1996 when Delaware's governor designated some of the poorest rural areas "Strong Communities." That same year, Discover Bank began its foundations scholarship program to provide funding for higher education to deserving students from these areas who otherwise would not have had such opportunities. The results were so encouraging that the bank expanded its program in 2001 to provide on-going, open-ended scholarships to previous recipients who displayed the promise and desire to go on in their education.

Getting back to our farmer and his directions — achieving effective, meaningful community reinvestment is possible in the rural community. But like that old story, it's accomplished with knowledge and understanding of the rural locale and its specific needs. Armed with this information, CRA professionals can fund investment in rural areas with innovative initiatives that live up to the intent of the Community Reinvestment Act.

Rural CDFIs Focus on Small-Business Lending

By Keith L. Rolland, Community Development Advisor, Community and Consumer Affairs Department, Federal Reserve Bank of Philadelphia

Community development financial institutions (CDFIs) active in rural areas of the Third Federal Reserve District are focusing primarily on small-business lending and development.

Pennsylvania

The Progress Fund (TPF) primarily focuses on tourism-related businesses in an 11-county region in southwestern Pennsylvania. David Kahley, TPF's president and chief executive officer, said that Pennsylvania's PCD Bank has approved a three-year grant to enable TPF to expand to an additional 20 counties located north of Route 80. TPF is looking for banks to invest in it and for co-lending opportunities with banks in those counties, he said.

TPF plans to continue its focus on tourism but will be looking to meet other credit needs that emerge in those counties. The CDFI is developing a strategic plan and is exploring future expansion to western Maryland and West Virginia. TPF has a four-person staff and expects to expand to six by the end of the year.

TPF has made 50 loans totaling \$7.7 million in the past five years. It has received equity-equivalent investments from two banks: AmeriServ Financial Bank in Johnstown and First Commonwealth Bank in Indiana. The investments provide nonprofit CDFIs with equity-like subordinated debt.

Meanwhile, the Community First Fund (CFF) recently received the Deutsche Bank award for excellence from the Association for Enterprise Opportunity, a trade association of microenterprise lenders and technical-assistance providers. CFF started as an urban-oriented lender in Lancaster and expanded last year to a largely rural nine-county region. CFF now has offices in Harrisburg, Reading, Lancaster, and York. The 10-year-old fund has made 123 loans totaling \$3 million.

The NORCAM Group, which provides housing development and counseling and job-training services in western Pennsylvania, has a CDFI affiliate that has provided small-business loans totaling more than \$830,000 to 10

entrepreneurs. The affiliate, Community Financial Resources (CFR), has packaged about 60 USDA Section 502 loans and is exploring the possibility of financing from either CFR or a bank in conjunction with USDA, explained Jerry Brant, the group's president. The group provides three full-time equivalents to the CDFI, which serves Cambria, Clearfield, and Indiana counties.

The Rural Enterprise Development Corporation (REDC), which is based in Bloomsburg and provides loans to businesses in a seven-county region, became a CDFI in 2000. It has made 39 loans totaling \$222,000 since it was started in 1994, initially on a volunteer basis. It plans to use a recently approved CDFI Fund capital grant to expand its training efforts and make additional loans to low- to moderate-income individuals for business start-up and expansion.

Both CFF and REDC sponsor eight-week training programs during which prospective owners develop business plans.

New Jersey

In New Jersey, the Cooperative Business Assistance Corporation (CBAC), which makes loans in a substantially rural six-county region encompassing Atlantic, Camden, Cape May, Cumberland, Gloucester, and Salem counties, is trying to raise \$4 million in additional capital by the end of 2003 from federal and state agencies and banks. CBAC and its



The Reinvestment Fund (TRF) has approved a \$3.6 million low-interest 10-year equipment loan to the developer of this wind-power project in Somerset County, Pennsylvania. The activity is part of TRF's Sustainable Development Fund. Funding for TRF's wind-development program came from a settlement agreement reached during the merger of PECO Energy and Unicom into the company now known as Exelon.

Rural CDFIs Focus on Small-Business Lending ...continued from page 22

member banks have made 334 loans totaling \$43 million, including 59 loans totaling \$11.3 million in 2001 and 2002.

CBAC hopes to become more active in packaging SBA 504 loans in its region, particularly in Cumberland and Salem counties, said Mike Diemer, CBAC's executive director. In May, the Camden-based CDFI assumed the administration of two existing Cumberland County loan funds and has \$1 million available for loans in that county.

Delaware

In Delaware, the First State Community Loan Fund (FSCLF) is managing a statewide individual development account program with a substantial emphasis on rural Delaware. Public-housing tenants and Section 8-voucher recipients in Kent and Sussex counties are among the targeted savers in the program. FSCLF is an active microenterprise and small-business lender in rural Delaware.

For information, contact David Kahley of TPF at (814) 935-6378 or

dkahley@progressfund.org, www.progressfund.org; Dan Betancourt of CFF at (717) 393-2351 or cff@commfirstfund.org, www.comfirstfund.org; Jerry Brant of The Norcam Group at (814) 948-4444 or ncampres@surfshop.net; Joe Fest of REDC at (570) 784-7003 or redc@sunlink.net, www.redc-leap.org; Mike Diemer of CBAC at (856) 966-8181 or mdiemer@cbaclenders.com; Caroline Glackin of FSCLF at (302) 652-6774 or cglackin@firststateloan.org, www.firststateloan.org.

Calendar of Events

Rays of Hope: A New Day for America's Distressed Urban Areas

A conference organized by the Community Affairs office of the Federal Reserve Bank of St. Louis
October 22-23, 2002, East St. Louis, IL
For information, contact Matt Ashby at (314) 444-8891 or matthew.w.ashby@stls.frb.org

Livable Communities: Linking Community Development and Smart Growth

A conference sponsored by the Local Initiatives Support Corporation, National Neighborhood Coalition, and the Federal Reserve Bank of Cleveland
November 7, 2002, Cincinnati, OH
For information, contact Jeffrey A. Gatica at (513) 455-4281 or jeffrey.a.gatica@clev.frb.org

Banking Opportunities in Indian Country

A national conference sponsored by the Federal Reserve System
November 18-20, 2002, Scottsdale, AZ
For information, call (866) 226-7167

Sustainable Community Development: What Works, What Doesn't, and Why

A biennial research conference sponsored by the Community Affairs officers of the Federal Reserve System
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For information, contact Bedelia Calhoun at (202) 452-3378 or bedelia.calhoun@frb.org

Main Street Remains Popular Approach to Engineering Downtowns *...continued from page 14*

community that, after decades of decline, has found a niche with antiques and crafts. Salem Main Street, which was started in late 1999, is creating a redevelopment and marketing plan for several deteriorated downtown buildings. Chris Davenport, Salem's Main Street director, observed that "it takes 10 years to carry out the sustained development that can turn around a downtown."

Banks are very important to making Main Street work, Commissioner Levin said. She offered several examples: Crest Savings Bank purchased and renovated a key landmark building for use as its headquarters in Wildwood, New Jersey's Main Street district; banks in Merchantville, New Jersey, routinely sponsor events

such as the spring arts fair; and Yardville National Bank funded a business and promotion guide for a Trenton neighborhood.

Delaware

Delaware Main Street, which was started in 1994, currently serves eight communities: the Brandywine Village neighborhood in Wilmington, Delaware City, Dover, Middletown, Newark, Rehoboth Beach, Seaford, and Smyrna.

Delaware Main Street obtained a USDA Rural Development grant to help five of its programs in rural communities gather customer information, create marketing materials, and launch business-recruitment efforts.

For information, contact Diana J. Kerr at (717) 720-7411 or dikerr@state.pa.us, www.dced.state.pa.us; Bill Fontana of the Pennsylvania Downtown Center at (717) 233-4675, www.padowntown.org; Paul G. Stridick at (609) 633-6266 or pstridick@dca.state.nj.us, www.state.nj.us/dca/dhcr/msnj.htm; or Steven U. Boyd at (302) 739-4271, ext. 6839, or sboyd@state.de.us, www.delawaremainstreet.com. Information is also available from the National Trust for Historic Preservation's National Main Street Center at mainst@nthp.org; www.mainstreet.org; and the Local Initiatives Support Corporation at www.liscnet.org.

Downtown Renovation Spurs Renewal in St. Marys, Pennsylvania

St. Marys, in Elk County, Pennsylvania, has established one of the most successful Main Street programs in the region. The Marienstadt Corporation, a nonprofit formed in 1986, started the local Main Street program in 1990. It took the lead in raising \$1.6 million in public and private financing to renovate a large downtown store that had been vacant for 25 years.

"As a nonprofit, we could acquire grants that a private developer could not," said Donna Marasco, who is Marienstadt's only staff person. Marienstadt initiated more than \$1 million in storefront improvements, stimulated new construction that totaled \$10 million, and obtained a National Register Historic District designation for St. Marys.

Local sponsors helped the nonprofit foot the cost of installing historic lampposts downtown. Marienstadt also developed a series of notecards with color photographs of stained-glass windows in St. Marys' many churches.

Self-Help Enables Rural Residents to Build Houses and Water and Sewer Systems

By Vera W. Bowders and Keith L. Rolland, Community Development Advisors, Community and Consumer Affairs Department, Federal Reserve Bank of Philadelphia

Using a self-help approach, some low-income rural residents have been able to buy houses and construct water and sewer systems that they otherwise could not afford.

USDA Rural Development (RD) has a mutual self-help housing program that enables an average of four to 10 families to work together to build a group of houses, while The Rensselaerville Institute (TRI) assists community residents with building water and sewer systems.

The mutual self-help housing program, established in 1971 to serve low- and very low-income

RD provides the buyer with low-interest 33-year construction/permanent financing through its Section 502 program.

residents, is a cooperative effort of families that work together on weekends and some evenings to build each other's houses. Each household invests "sweat equity" of about 1200 hours for site clearing, wall construction, siding, painting, cabinet installation, and landscaping. Excavation, heating, plumbing, and electrical work are sub-contracted. Construction of a group of houses usually takes

eight to 10 months. All of the houses must be completed before any member of the group can move in. A self-help group provides at least 65 percent of the construction labor on the houses under the supervision of a construction foreman.

RD provides the buyer with low-interest 33-year construction/permanent financing through its Section 502 program. This covers the cost of site purchase, construction materials, and sub-contracted work during the construction period, then converts to permanent financing for the remainder of the loan term. RD also provides a Section 523 grant to nonprofits or small towns to cover the administrative cost of operating a two-year self-help housing grant program. It also sometimes provides pre-development grants.

NCALL Research, Inc., in Dover, Delaware, has a contract with USDA to provide technical assistance for self-help programs in a 21-state region. NCALL provides workshops, on-site training, publications, and a newsletter. Since 1983, it has helped 41 nonprofits and small towns to build 2884 houses. More than 33,000 self-help houses have been built nationwide since the program's creation.

...continued on page 26

SBA New Markets Venture Capital Companies Expect Fund Closings This Fall

Two new markets venture capital companies, including one planning to serve a primarily rural 34-county region in Pennsylvania, expect to have fund closings this fall. The companies — Penn Venture Partners, L.L.P. (PVP) and Murex Investments I, L.P. (MI) — have been conditionally approved by the Small Business Administration. Both plan to invest substantially in businesses located in low-income areas.

PVP plans to focus on central and northwestern Pennsylvania; MI is targeting eastern Pennsylvania, southern New Jersey, and northern Delaware.

An article on the companies appeared in the Winter 2001 issue of Cascade. For information, contact V. F. Russo at (814) 863-4881 or vrusso@psu.edu of PVP; or Joel Steiker of MI at (215) 951-0300 or joel@rhd.org.

Self-Help Enables Rural Residents to Build Houses and Water and Sewer Systems ...continued from page 25

Use of the self-help program in the Third District is limited. The Milford Housing Development Corporation in Milford, Delaware, which used the self-help program to develop 15 units in Georgetown, Delaware, is currently working on a 20-unit project in Milford. The organization hopes to build at least 24 more houses in the future. County Bank and First USA Bank, N.A., obtained funds from the Federal Home Loan Bank's Affordable Housing Program to help subsidize development costs for the 15-unit project and a portion of the current project.

Major challenges to this program include the acquisition of affordable rural land and the huge commitment of time it takes to complete construction. A successful self-help program requires a nonprofit or small town with strong management and administrative and accounting capacity to administer the daily operations of the program.

TRI works with residents who have an urgent need to create a new water or sewer system or upgrade an existing one. Rob Hanna, director of TRI, said, "We

work with several local people who are sparkplugs." TRI helps mobilize residents to develop an action-oriented plan, raise in-kind and cash assistance, and obtain regulatory-agency approvals. TRI has worked in more than 400 communities during the past 25 years, although none in the Third District.

For further information, contact Sherry DeZwarte, Self-Help Housing Coordinator, NCALL Research, Inc., at (302) 678-9400 or sdezwarte@ncall.org; or Rob Hanna at (800) 682-4203 or rob@trisouth.org; www.rinstitute.org.

Federal Reserve Board Rules on Loan-Pricing Data, Lien Status, and Telephone Applications ...continued from page 27

and Internet applications. There was a substantial decline in response rates regarding race and ethnicity from 1993 to 2000, and the Board believes that part of the decline might be explained by an increase in the number of telephone applications.

The final rule requires lenders to ask for applicants' ethnicity, race, and sex in telephone applications. The Board believes that this amendment will help fair-lending enforcement by improving the accuracy of data collected and that this benefit outweighs the arguments against collecting the information from telephone applicants.

Effective Dates

The effective dates for these three proposals in this final rule are different. The requirement to report loan-pricing data and lien status is effective January 1, 2004, which is the same effective date for the HMDA amendments announced on January 23. The Board plans to issue guidance later this year for applications taken in 2003 but acted on in 2004. For example, the Board might rule that for applications taken before a certain date in 2003, a lender would not be required to use the revised rules.

The effective date of requiring government monitoring informa-

tion on telephone applications is **January 1, 2003**. For applications taken on that date or later, lenders will ask for information using the national origin and race categories in the **current** Appendices A and B of Regulation C. Beginning on January 1, 2004, lenders will use the ethnicity and race categories in the **revised** Appendices A and B that are effective on that same date.

To access the final rule in its entirety, including staff analysis and a copy of the new loan/application register, please go to: www.phil.frb.org/publicaffairs/circulars/5567.html.



REGULATORY ISSUES

Federal Reserve Board Rules on Loan-Pricing Data, Lien Status, and Telephone Applications

By Don James, Manager, Community and Consumer Affairs Department,
Federal Reserve Bank of Philadelphia

On January 23, 2002, the Federal Reserve Board ("the Board") approved a final rule amending Regulation C, which implements the Home Mortgage Disclosure Act (HMDA). (See article entitled "Fed Takes Aim at Predatory Lending," *Cascade*, Spring 2002.) At the same time, the Board issued a proposed rule for comment on three items related to the final rule: (1) the appropriate thresholds to use for determining the loans for which financial institutions must report loan-pricing data; (2) whether lenders should report the lien status of a loan or application; and (3) whether lenders should be required to ask applicants their ethnicity, race, and sex in applications taken by telephone. On June 17, the Board issued a final rule on the disposition of these three issues, which this article will review.

Loan-Pricing Data

The final rule adopts, as proposed, the thresholds of 3 percentage points and 5 percentage points for first- and subordinate-lien loans, respectively. A lender would compare the annual percentage rate (APR) on a loan origination with the yield on a Treasury security that has a maturity closest to the term of the loan. If the spread is equal to or greater than the appropriate threshold, the lender would enter

the spread on its loan application register. As to what date to use for determining the yield of the Treasury security, the final rule requires that lenders use the 15th day of the month **prior to the date that the interest rate is set for the final time before closing**. For example, if the lender sets the interest rate on a loan for the final time on September 3, the relevant date to use for the applicable Treasury yield is August 15. If the final interest rate is set on September 17, the relevant date is September 15; if set on September 15, the relevant date is September 15. The Board chose to use the date the final rate is set because it more accurately reflects the lender's pricing decision than a date related to the date of application, as originally proposed, or the date of closing.

To minimize difficulties that lenders may have in calculating the spread, the Board will publish a table entitled "Treasury Securities of Comparable Maturity under Regulation C" on the FFIEC's web site (www.ffiec.gov/hmda). This table will provide Treasury security yields for the 15th day of each month for every available loan maturity. The table will also be made available by fax upon request. Lenders will be required to use only the yields published in this table.

Lien Status

The second proposal would require lenders to report whether a loan is or would be (1) secured by a first lien on a dwelling; (2) secured by a subordinate lien on a dwelling; or (3) not secured by a lien on a dwelling. The reasoning was that data on lien status might help explain some pricing disparities because interest rates vary according to lien status. In addition, knowing the lien status would enable data users to better analyze information on secured and unsecured home-improvement loans.

The final rule requires lenders to report lien status on applications and originations but not on purchased loans. Reporting lien status on applications that do not result in originations is important for analyzing acceptance and denial ratios for borrowers of different races. Lenders are not required to conduct title searches solely for reporting purposes; they are to use the best information available to them when they take final action on an application.

Telephone Applications

The third proposal would require lenders to ask applicants their ethnicity, race, and sex in telephone applications, thus making the telephone-application rule conform to the rule for mail

...continued on page 26

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