Profitwise

News and Views

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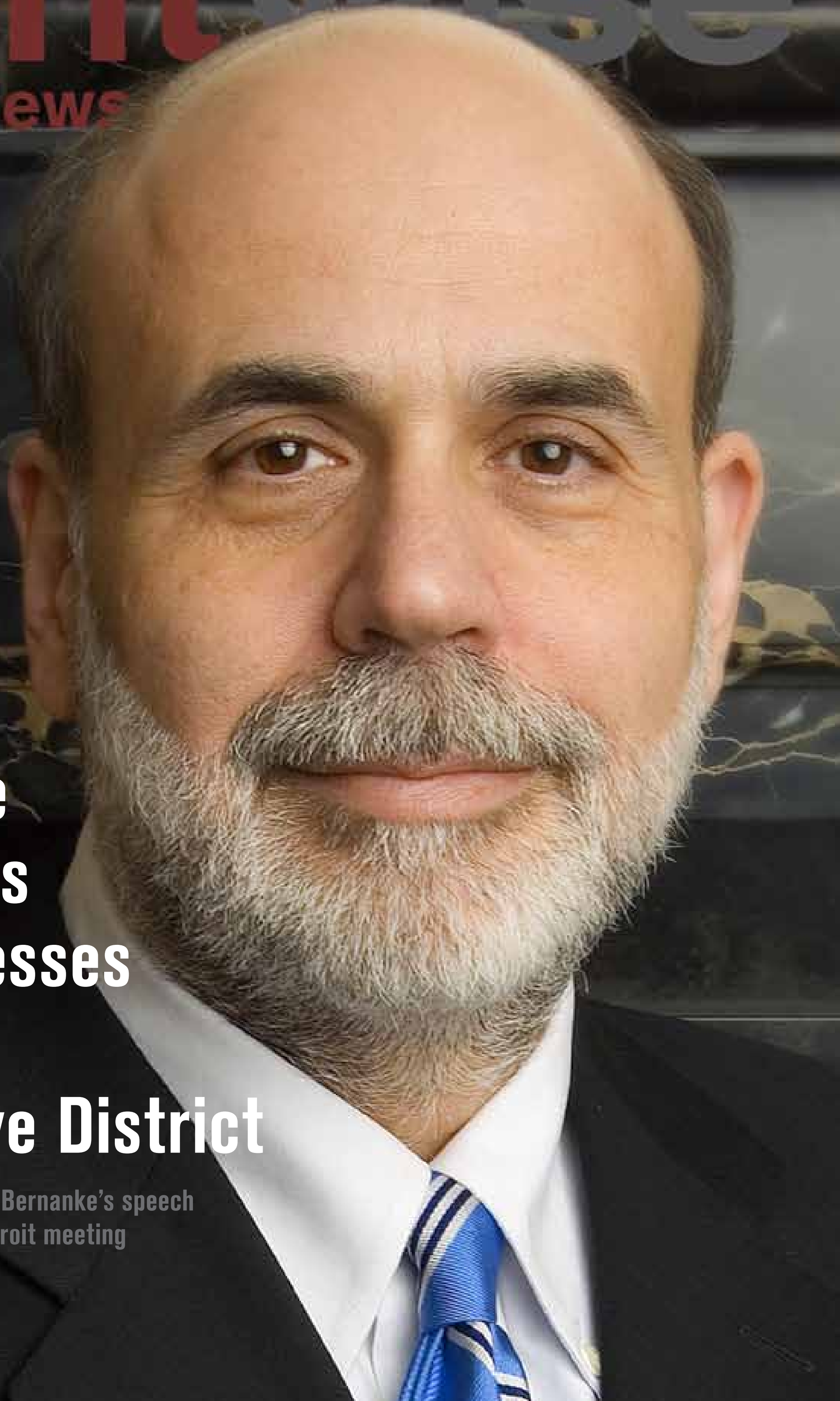

Also in this Issue

Small business development in Indiana

Engaging corporate leaders and promoting economic development in Milwaukee

Addressing the financing needs of small businesses in the Seventh Federal Reserve District

Small businesses in the Midwest to benefit from Jobs Act

Chairman Bernanke's speech at the Detroit meeting

Credit supply and demand in the auto industry

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News and Views

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In this edition of *Profitwise News and Views*, we focus on efforts to promote small business development and lending in various ways and locations. Our featured article is a summary of information from a series of Seventh District forums that began on May 19 in Davenport. At the June 3 event in Detroit, Fed Chairman Ben Bernanke offered a keynote address (included here in its entirety), as well as candid observations on the ways to increase lending in the current tough economic environment. The Chicago Fed's conference series was part of a broader Federal Reserve System initiative and national conference series entitled "Addressing the Financing Needs of Small Businesses." The article includes commentary from the SBA and from executives in the auto supply industry who discuss credit needs in their industry to support innovation and research and development, as well as operations.

"Small Business Development in Indiana: Growing a Diversified Economy through Innovation" provides a look at a cross section of state sponsored programs to support small enterprises – in particular, businesses involved in creating new technologies – and create jobs in the state of Indiana.

Finally, "Engaging Corporate Leaders and Promoting Economic Development in Milwaukee" outlines a variety of initiatives and financing strategies to engage emerging businesses with well established industrial organizations, promote workforce development and retention, and a wide array of services for both employers and employees to facilitate workplace effectiveness and success.

Addressing the financing needs of small businesses in the Seventh Federal Reserve District

by Jeremiah Boyle

Addressing the Financing Needs of Small Businesses is a Federal Reserve System initiative designed to inform policymakers on the issues that restrict the flow of credit and opportunities to improve the flow of credit to small businesses. A widely held view among policymakers and other observers is that economic recovery and prospects for job growth will falter if small businesses cannot meet payroll, pay suppliers, and invest in innovation and expansion.

As part of this national initiative, the Community Development division of the Federal Reserve Bank of Chicago held meetings in Davenport, Iowa; Indianapolis, Indiana; Milwaukee, Wisconsin; Detroit, Michigan; and Chicago, Illinois. These meetings highlighted the challenges banks face in providing credit to small businesses and the challenges that small businesses face in financing their operations and investing in future growth.

The flow of credit to small businesses from commercial banks declined dramatically through the financial crisis and recession. Policymakers at every level face the challenge of identifying the most efficient measures and programs for promoting small business development and job growth. An informed discussion about these policies depends on a greater understanding of the dynamics of both the supply of and demand for credit. That discussion also depends on knowledge of the programs and interventions that work well, which do not work (as well), and the most promising emerging programs and policies.

This article summarizes key ideas and presentations aggregated from five meetings hosted by the Federal Reserve Bank of Chicago exploring:

- the small business role in the Midwest economy;
- the supply of credit to small businesses;
- the credit needs of entrepreneurs and small businesses; and
- how various stakeholders have responded to help facilitate greater access to credit, capital, and opportunity for small businesses.

Small business in the Midwest economy

William Testa, vice president and economic advisor at the Federal Reserve Bank of Chicago, provided an overview of the national and Midwest economies and the role that small business plays in the Midwest economy at the Milwaukee and Chicago meetings. U.S. Small Business Administration (SBA) statistics show that in Illinois, firms that employ less than 500 people account for close to half the employment in Illinois. Testa emphasized the "symbiotic relationship" between large firms and small companies in the Midwest economy. "We can see that with our auto suppliers," Testa said, "three supplier jobs exist in auto parts for every one assembly job. Similarly, our corporate headquarters and small firms all trade with one another to make a robust, wealth-generating economy."

Employment in the Midwest fell faster than the nation's employment during the recent recession as, "our manufacturing roots betrayed us here," Testa said. While the national unemployment rate remains stubbornly high, and the Midwest's unemployment rate is higher still, Testa suggested that the Midwest's manufacturing roots may be a benefit in the recovery because, "manufacturing is very much leading the recovery here and in the nation," and many Midwestern manufacturers are able to export to growing international economies. Also providing some support to the recovery are: consumers and households are repairing their balance sheets; business investment in equipment and technology is beginning to come back; "the job market is breathing;" and the financial sector is repairing itself.

The problem for this recovery is that it represents a shallow recovery after a very steep decline due, in part to, "all the wealth that was destroyed with the financial recession that we experienced." Housing inventories, mortgage delinquency rates, and the prospect of more home foreclosures act as a drag on the recovery. And, a central piece in the access to credit puzzle is the lingering issue of commercial real estate loans on community banks' books.

Testa presented some evidence that demonstrates both a reduction in demand for small business credit and a reduction in the supply of credit from banks. "Loans are more risky, delinquency rates are up, and lenders assert that there is not the demand by creditworthy borrowers. They've had to tighten their standards given the risks." Prospective borrowers, Testa explained, "say that credit isn't as available on . . . favorable terms." Finally, Testa referred to "pure supply effects" from bank failures and other banks' efforts to repair their balance sheets and raise capital in an adverse environment.

Federal Reserve Board Chairman Ben Bernanke noted that, "outstanding loans to small businesses dropped from almost $700 billion in the second quarter of 2008 to approximately $660 billion in the first quarter of 2010. An important but difficult-to-answer question is, how much of this reduction has been driven by weaker demand for loans from small businesses and how much by restricted credit availability?" (see full text of Chairman Ben Bernanke's speech on page 5).

Representatives of the National Federation of Independent Businesses (NFIB) participated in the meetings in Indianapolis, Indiana, and Milwaukee, Wisconsin. In each case, they presented the findings of the NFIB's report, *Small Business Credit in a Deep Recession.*[1] According to the NFIB, 55 percent of small businesses attempted to borrow in 2009, and only 40 percent of those attempting to borrow reported that their credit needs were fully met. Forty-five percent of small businesses seeking credit in 2009 reported that none or only some of their credit needs were met.

Also from the NFIB study: small business owners cited financial institutions changing the terms of existing loans (10 percent), lines of credit (29 percent), and business credit cards (22 percent) in 2009. The most frequent change was increased interest rates.[2]

As illustrated in exhibits 1 through 4, the data and trends present a "mixed bag." "We can see tighter standards, less flow of credit, and a little bit of mixed signals on the part of businesses. Or, perhaps, it's not the most important impediment to expanding businesses, hiring, investment for small businesses, but it's still a major concern," Testa said.

Supply of small business credit

Although they face growing competition from a range of emerging and alternative providers, "commercial banks and other depository institutions . . . remain the most important supplier of credit to small businesses in the United States."[3] The depth of the recent recession and the impact of the financial crisis continue to have dramatic effects on the banking sector. Federal Reserve Bank of Chicago Vice President of Supervision and Regulation Ray Bacon provided an overview of trends in the banking industry in each of the five states in the Seventh Federal Reserve District.[4] The "pure supply effects" (that Testa referenced above) have to do with bank performance, operations, and the regulatory environment in which they operate.

Bank performance

As the data presented in Table 1 show, from 2008 through the first quarter of 2010, there were 80 fewer financial institutions in the Seventh District. Of the surviving banks, one out of three banks in Indiana, Michigan, and Wisconsin; one in four banks in Illinois; and one in seven banks in Iowa is under some form of stress. "That does not mean they're on the brink of failure," Bacon emphasized. "It means that they've got weaknesses with respect to their capital, asset quality, management difficulties, earnings, or liquidity."

Bank earnings, seen in Table 1, also provide some insight on why some banks may not be in a position to provide the same level of credit that they may have in the past. Pre-provision net revenue (PPNR) is essentially the operating income of a financial institution. If a bank is not making money through operations, it is not building capital and, consequently, its ability to lend is diminished. Through the peak of the financial crisis in 2009, 41 percent of Michigan banks lost money and 27 percent of Illinois banks lost money, for example. While bank performance had shown significant improvement in the first quarter of 2010 – as measured by both operating income (PPNR) and return on average assets (ROAA) – Michigan and Illinois still had 26 percent and 18 percent of banks, respectively, losing money on an operating basis.

The realities of the broader economy have led to declining asset values. Many banks, therefore, must raise capital to cover their losses and/or reduce the assets they carry on the balance sheet by taking on fewer loans. Several banks in the Midwest hinted that capital was just beginning to return to the banking sector after "a couple of very tough years."

Bank regulations and oversight

Recurring anecdotes in high-profile hearings and the popular media include some version of, "I know someone who never missed a payment and their loan was foreclosed, or their line of credit was not renewed." Many bankers assert that there is greater uncertainty in regard to how assets will be classified, conflicting examiner protocols, and increased regulatory scrutiny. A series of policy statements and regulatory guidance issued by the federal banking agencies between November 2008 and February 2010 were designed to provide clear guidance to examiners and bankers alike and promote prudent lending to creditworthy businesses.

At the meeting in Detroit on June 3, Chairman Bernanke stated the message underlying the interagency policy statements: "while maintaining

Table 1

	# of Institutions			Stressed	Average Total Assets				Earnings	
									Dec 31, 2008	March 31, 2010
	Dec 31, 2008	March 31, 2010	Change	Institutions	Dec 31, 2008	March 31, 2010	Change	% Change	% Neg ROAA	% Neg ROAA
Iowa	361	348	-13	1 in 7	155,699	167,322	11,623	7%	13.07%	7.10%
Illinois	570	534	-36	1 in 4	583,444	541,256	-42,188	-7%	26.92%	18.08%
Indiana	111	101	-10	1 in 3	528,542	548,606	20,064	4%	22.12%	9.71%
Michigan	143	128	-15	1 in 3	755,587	394,557	-361,030	-48%	40.46%	25.78%
Wisconsin	249	243	-6	1 in 3	549,463	538,412	-11,051	-2%	23.17%	11.79%
Total	1,434	1,354	-80							

SOURCE: Federal Financial Institutions Examination Council (FFIEC), Consolidated Reports of Condition and Income.
NOTES: There are "pure supply effects" from bank failures and banks' efforts to repair their balance sheets and raise capital in an adverse environment.

appropriately prudent standards is critical, at the same time lenders must do all they can to meet the needs of legitimate creditworthy borrowers. Doing so is good for the borrower, it is good for the lender, and it is good for our economy."[5]

The November 2008 statement "directed supervisory staffs to be mindful of the pro-cyclical effects of an excessive tightening of credit availability and to encourage banking organizations to practice economically viable and appropriate lending activities."[6] The October 2009 statement makes clear that, "renewed or restructured loans to borrowers who have the ability to repay their debts according to reasonable modified terms will not be subject to adverse classification solely because the value of the underlying collateral has declined to an amount that is less than the loan balance."[7] The February 2010 statement suggests that "lenders should understand the long-term viability of the borrower's business, focus on the strength of a borrower's business plan, and analyze a borrower's performance over a reasonable range of future conditions, rather than overly optimistic or pessimistic cases."[8]

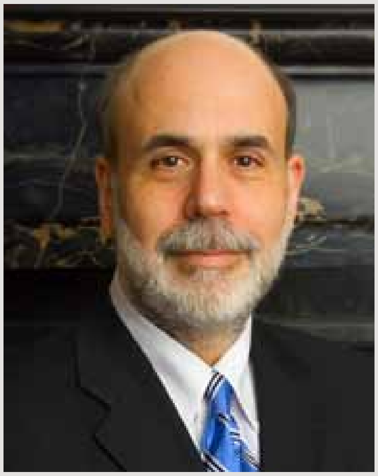
Chairman Bernanke emphasized that, "the communication that we have had with banks and our examiners is to try to eliminate artificial barriers. For example, we often see small businesses being excluded in a sort of new form of redlining. We don't want to see that. We want to see every borrower evaluated on their potential and on their ability to repay the loan. And in particular, the decline in the value of collateral shouldn't be the decisive factor if they can generate the cash flow."[9]

Some banks were concerned about a broader range of changes in regulations and government programs beyond the issues covered in the regulators' policy statements. Specifically, bankers at all of the meetings, while discouraged by the uncertainty of ad hoc extensions of SBA program waivers and higher rates of guarantees, universally supported extension of those SBA program improvements implemented under the American Recovery and Reinvestment Act of 2009. A discussion of SBA programs appears later in this article.

A banker in Davenport, Iowa, pointed to the prospect of interest rate caps and interchange fees as proposals that would exacerbate credit contractions. He also noted that Financial Accounting Standards Board's Statement No. 166 may have a "real negative impact on community banks' ability to sell loan participations."[10]

The same banker in Davenport conveyed the sentiment of many of the bankers that participated in the conference sessions around the country. In spite of the challenges in both the financial industry and in the broader economy, "Our bank is well capitalized; we have low levels of non-performing loans and we are highly liquid. We are profitable and we are making money. We have money to lend and we want to lend it."

Daryll Lund, president and CEO of Community Bankers of Wisconsin, raised an emerging concern among community banks. "I talk to bankers around the state and we talk a lot about credit quality and impact on the banks'



Chairman Bernanke's speech at the Detroit meeting - June 3, 2010

BEN S. BERNANKE: I am pleased to be here in Detroit to be part of an ongoing and very important discussion about improving access to credit for small businesses. I would particularly like to thank the staff of the Federal Reserve Bank of Chicago and President Evans for organizing this event.

Today's meeting is part of a series of more than 40 such gatherings that the Federal Reserve System is conducting across the country. Entitled **Addressing the Financing Needs of Small Businesses**, these forums are designed to elicit ideas and information that will help the Federal Reserve and others respond effectively to both the immediate and longer-term concerns of small businesses. Today's event brings together representatives from banks and other private lenders, community development financial institutions, bank supervisors, other federal and local government agencies, and small business trade groups. Each of you brings an important perspective to this issue, and I would like to thank all of the participants for their willingness to share their ideas.

Over the past two years, a concerted effort by the Federal Reserve and other policymakers has helped to stabilize our financial system and our economy. Following a sharp contraction in late 2008 and early 2009, we are now in the fourth quarter of economic expansion, with jobs once more being created rather than destroyed. Nonetheless, important concerns remain. One particularly difficult issue is the continued high rate of unemployment. High unemployment imposes heavy costs on workers and their families, as well as on our society as a whole. I raise this issue here because healthy small businesses, including start-ups as well as going concerns, are crucial to creating jobs and improving employment security.

Unfortunately, lending to small businesses has been declining. Indeed, outstanding loans to small businesses dropped from almost $700 billion in the second quarter of 2008 to approximately $660 billion in the first quarter of 2010.[1] An important but difficult-to-answer question is how much of this reduction has been driven by weaker demand for loans from small businesses and how much by restricted credit availability. To be sure, the distinction between demand and supply is not always easy to make. For example, some potential borrowers have been turned down because lending terms and conditions remain tighter than before the financial crisis, perhaps reflecting banks' concerns about the effects of the recession on borrowers' economic prospects and balance sheets. From the potential borrower's point of view, particularly a borrower who has been able to obtain loans in the past, these changes may feel like a reduction in the supply of credit; from the lender's point of view, the problem appears to be a lack of demand from creditworthy borrowers. Although lenders and borrowers may have different perspectives, our collective challenge is to help ensure that creditworthy borrowers have access to credit so that, should they choose, they can expand their businesses or increase payrolls, helping our economy to recover.

At the Federal Reserve, we have been working to facilitate the flow of credit to viable small businesses. We helped in bringing capital from the securities markets to small businesses through the Term Asset-Backed Securities Loan Facility – the TALF program. Our bank stress tests of a year ago also drew private capital to the banking system, which helped offset credit losses and provided the basis for increased lending. I know that earlier in this conference you heard about the various interagency policy statements issued to banks and examiners, reinforcing our message that, while maintaining appropriately prudent standards, lenders should do all they can to meet the legitimate needs of creditworthy borrowers.[2] Doing so is good for the borrower, good for the lender, and good for our economy. We have also conducted extensive training programs for our bank examiners, with the message that encouraging lending to small businesses that are well positioned to repay is positive, not negative, for the safety and soundness of our banking system.

As we continue to examine the factors affecting small business lending, our thinking will be shaped by information from diverse sources. For example, our most recent Senior Loan Officer Opinion Survey on Bank Lending Practices suggests that, for the first time since the crisis began in 2007, most banks have stopped tightening credit standards.[3] We also know, from the survey conducted by the National Federation of Independent Business that while only 8 percent of small businesses list access to credit as their principal immediate economic problem, just 40 percent of small businesses attempting to borrow in 2009 had all of their credit needs met.[4]

Surveys like the two I just mentioned are informative, but getting a full picture also requires hearing from knowledgeable people with diverse perspectives on these issues. Meetings like this one allow us to gather intelligence we and others can use to facilitate the flow of credit to small businesses – for instance, by identifying specific credit gaps, clarifying examiner expectations and procedures, improving coordination of small business support services, and ensuring the availability of technical assistance for loan applications. Thus we can help ensure that small businesses are able to participate in and contribute to the recovery. The findings from the entire series of meetings sponsored by the Federal Reserve will be presented at a culminating conference at the Board of Governors in Washington later this summer.

Learning from people engaged with small businesses and small business credit, like those here today, is vital if we are to make progress. I look forward to hearing your ideas and concerns, and thank you again for joining us.

1 Data are from the Federal Financial Institutions Examination Council (FFIEC) Consolidated Reports of Condition and Income (Call Report), where small business loans, as reported in the Report forms FFIEC 031 and 041, schedule RC-C, part II, are defined as loans with original amounts of $1 million or less that are secured by nonfarm nonresidential properties or commercial and industrial loans. Correction: *On July 27, 2010, this footnote was revised to remove "plus loans with original balances of $500,000 or less for agricultural production or secured by farmland."*

2 For example, see Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, National Credit Union Administration, Office of the Comptroller of the Currency, Office of Thrift Supervision, and Conference of State Bank Supervisors (2010), "Regulators Issue Statement on Lending to Creditworthy Small Businesses," joint press release, February 5.

3 See the April 2010 Senior Loan Officer Opinion Survey on Bank Lending Practices available on the Board of Governors' website.

4 See William J. Dennis, Jr. (2010), *Small Business Credit in a Deep Recession* (Washington: National Federation of Independent Business, February).

ability to compete. But the next thing bankers say is, 'I can't keep going with the compliance anymore. When I'm doing more work on regulatory issues than meeting with my customers, there's something wrong.' And I think it's time that banking regulators consider a tiered system, for compliance oversight."

"My biggest concern coming out of Washington right now is [the] Consumer Financial Protection Bureau," Lund said. "If we get another agency looking over the shoulders of our bankers, you're going to see a consolidation in this industry that will make heads spin, which will directly impact business lending in this country. And I think it would be a travesty in this country to see an accelerated consolidation of banks primarily because of the regulatory burden."

Credit constraints on certain industries and demographic groups

Throughout the meetings, several presenters highlighted credit constraints within certain industries or among minority- and women-owned businesses that emerged or were exacerbated during the credit crisis.

Alfred Ramirez, president of the Greater Quad Cities Hispanic Chamber of Commerce, cited research done by the U.S. Department of Commerce that shows that even though minority-owned firms create jobs at a similar rate to non-minority firms, minority firms struggle with many disparities. Minority-owned firms: have less family wealth with which to finance business ventures; have lower equity investments in their businesses; are less likely to apply for a loan; are more likely to be denied a loan; and tend to receive a lower loan amount than their majority counter parts.[11]

Mr. Ramirez summarized the constraints that minority businesses face in accessing capital and credit for small businesses: "Experience, geographic location, lower sales and industry sectors limit capital access. There is a correlation between being in a lower-income neighborhood," Mr. Ramirez said, "and only being able to accumulate wealth or build a business according to what that market will bear."

Small suppliers highlighted unique constraints on the supply of credit in the automotive industry. Meeting participants noted that lines of credit for those suppliers were "systematically" frozen in 2009 and that the industry restructuring poses unique risks for lenders because "there remains a concern over a supplier's control over its own destiny." But the suppliers also noted that formulas used to assign value to collateral, "have gone from 'orderly liquidation value' to 'forced liquidation;'" further reducing suppliers' ability to borrow. (See Credit Supply and Demand in the Auto Supplier Industry, on page 12 for a more complete summary of the auto industry discussion).

Demand for small business credit

While changes in the supply of credit for small businesses appear to be more quantifiable and, therefore, more easily documented, demand for small business credit seems to be much more subject to interpretation. Both banks and small business participants noted that economic conditions have weakened demand for credit. The NFIB survey cited above indicates that 51 percent of business owners identify slow or declining sales as their most immediate economic problem with 22 percent citing "uncertainty" as the most immediate problem.

There was general agreement at these meetings that economic conditions had a negative impact on sales, revenue, balance sheets, and asset values for many small businesses, weakening overall loan demand for small businesses. Small businesses agreed that they are more cautious about seeking credit, and banks indicate that more of the applications they do see are of generally lower credit quality. Nonetheless, many businesses argued that credit gaps remain. As discussed above, the NFIB study showed that only 40 percent of small businesses who sought credit had their credit needs fully met; 23 percent of NFIB respondents indicated that they were not able to have any of their credit needs met.

Some of the meeting participants had very specific stories of businesses that seemed particularly creditworthy that were unable to obtain credit. A small business participant in Davenport related the story of his family's real estate development business. During the 2001 recession, the business was growing but the bank somewhat arbitrarily called the company's line of credit and effectively drove the company into bankruptcy. As the son and current owner worked to revive the business, he could not get access to credit at any bank until he took on an outside partner that was deemed creditworthy.

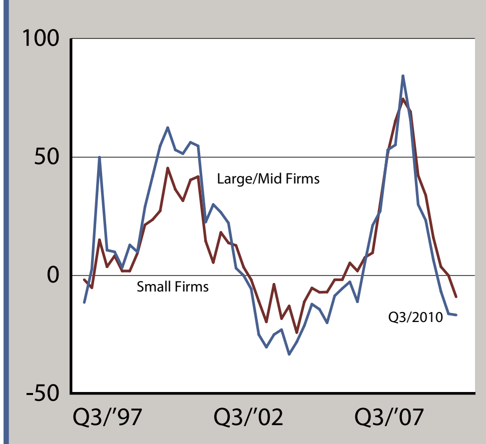
Another business owner in Davenport told a compelling story of how lucky he was in 1979 to find a small town community banker to help him figure out how to get his business started. Back then, he had no experience, no collateral, and little money, but he qualified for an SBA loan, obtained help from suppliers, and started the business. Today, 30 years later, that business is an anchor in the community, and its owners, a husband and wife team, have a successful business, much collateral, and an opportunity to expand.

Given the strength and solvency of his business, credit, and financial position, as well as long-standing relationships with bankers throughout the community, he was stunned at how difficult it was to borrow a relatively small amount of working capital to expand. His point: "If it's this hard for me to get a loan, how many prospective opportunities are being lost because marginally less attractive borrowers are being simply turned away."

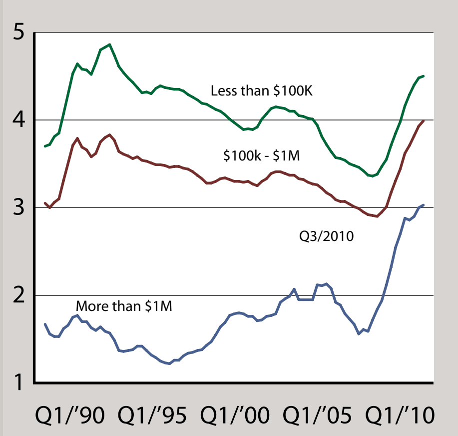
William Beckett, president and CBO of Chrysalis Packaging and Assembly Corporation (CHRYSPAC), a manufacturing services company in Milwaukee, emphasized that in the absence of bank credit, small manufacturers and suppliers are becoming each other's banks. "Receivables have gone up and we have passed that on because so have our payables. So we've been borrowing from each other. I've met people who have

Exhibit 1

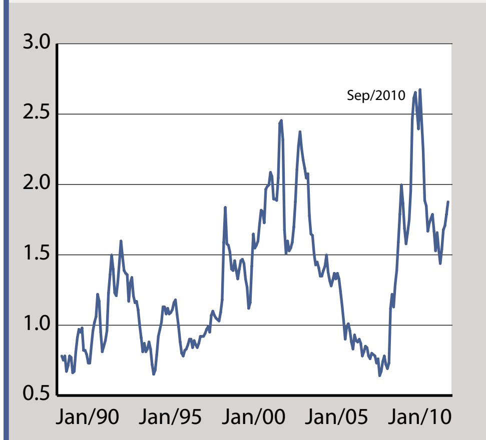
Senior loan officer opinion survey (percent of banks tightening C&I loans)



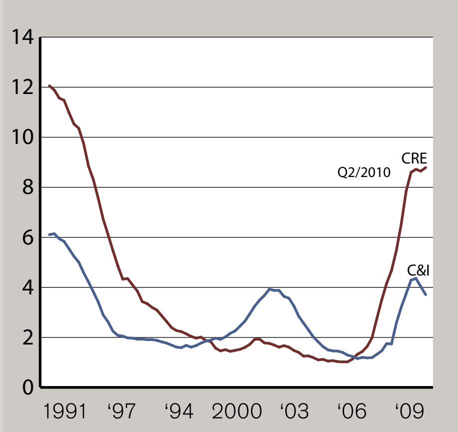
C&I loan rate spread over Fed funds rate (4-quarter moving average)



AAA Corporate Bond - 10 yr Treasury Spread (percent)



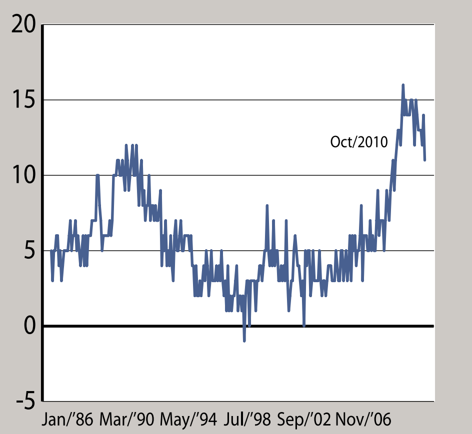
Business loan delinquency rate (percent)



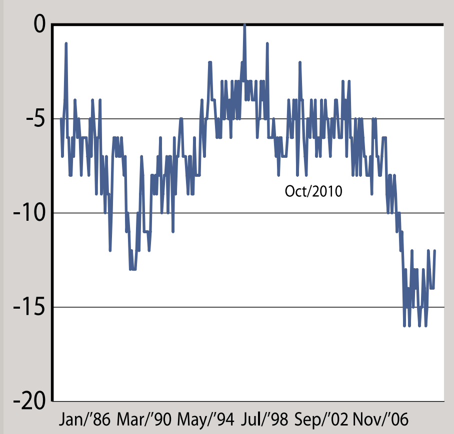
NOTES: Higher delinquency rates led to tighter lending standards and "rate spreads" reflect the market pricing for increased risk.
SOURCE: Federal Reserve Board and Haver Analytics.

Exhibit 2

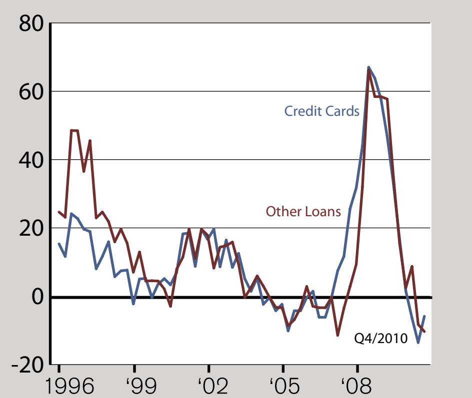
Reporting that credit was harder to get than last time (net percent reporting, SA)



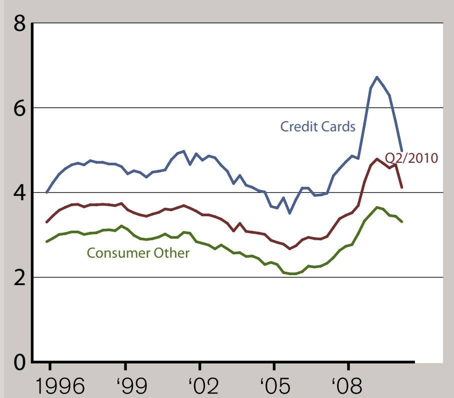
Expecting credit conditions to ease (net percent reporting, SA)



Senior loan officer survey - Consumer (percent of banks tightening standards)



Consumer loan delinquency (percent)



NOTES: Prospective borrowers say that credit is not as available at favorable terms.
SOURCE: National Federation of Independent Business, Federal Reserve Board, and Haver Analytics.

customers who pay in 180 days. So my first recommendation is to pass a law, 'Pay in 30 days or pay interest.'"

Beckett acknowledged the weakened position in which many surviving businesses find themselves. He then made a strong case for a return to "character" lending: "Any small business standing today, after this recession, really does know how to run a business, because if they didn't know how to run a business, they would not be here, period . . . those are the people who need to be financed. Those are the people you should be taking the risks on because those are the people who are smart enough to manage cash flow; who know how to work with suppliers to stretch payment terms; who know how to gently beat up customers to get them to pay faster; and who know how to keep their employees faithful even as they cut payroll to manage expenses."

Gloria Castillo, president of Chicago United provided evidence that some creditworthy businesses in Chicago are not getting access to the credit they need to seize on current growth opportunities. Chicago United's mission is to "ensure the inclusion of people of color in the regional economy in Chicago through greater diversity in the corporate workforce, in the corporate board room, and the corporate supply chain."

The corporate leadership of Chicago United developed a program called Five Forward in which CEOs commit to selecting five minority businesses with whom they will do business for five years. Chicago United will track the revenue growth of the minority businesses and the jobs those minority businesses create in communities of color. Castillo explained that, "this means we have a unique group of minority business enterprises that have gone through very significant vetting processes with large corporations who have committed to doing business with them over a period of five years."

Ms. Castillo asked the minority businesses in the Five Forward program about their recent experience in pursuing credit. Of these, 23 percent have not been able to get the credit they need. Another significant proportion are using personal savings, credit cards, and loans from friends and family because they have given up on pursuing more traditional sources of small business credit.

Castillo related two specific examples: one company owner in the program told of his experience last year. After a 20 year credit relationship with a large financial institution, this company was not able to renew its credit line. The explanation was that the condition of the services industry made the firm too risky. For six months, the company worked with credit cards and other non-traditional sources of funding until they were able to connect with another local lender that made the loan.

Another Five Forward company has a new contract in hand with a Fortune 500 company and needs to "ramp up" to fulfill the contract; but this company is struggling to find the financing. Again, this is a well-established company with a good credit history.

Small businesses in the Midwest to benefit from Small Business Jobs Act

by Marianne Markowitz, SBA Region V Administrator

Region V includes the states of Illinois, Indiana, Michigan, Minnesota, Ohio, and Wisconsin

Throughout my Midwest region I see the challenges that small businesses face finding resources. Many of these challenges will be met thanks to the small business provisions in the Small Business Jobs Act signed by President Obama into law this past September. These provisions will help small businesses succeed in the current tough marketplace, and create jobs.

It is important to remember that after the Recovery Act passed in February 2009, the Small Business Administration (SBA) was able to help about 70,000 small businesses get loans with reduced fees and increased, government-backed guarantee of 90 percent. It was a good investment. We turned 680 million taxpayer dollars into more than $30 billion in lending support. Also, while many lenders were pulling back from small business lending, more than 1,300 banks and credit unions came back to SBA to make loans. This provided more points of access to capital in their communities at a critical time. Borrowers report saving or creating hundreds of thousands of jobs.

The Small Business Jobs Act builds on this success. First, the Act creates about $12 billion in tax cuts. These are targeted to small business owners so they can strengthen their business and create jobs. There are too many small businesses still having trouble getting the loans they need to grow. That's why we extended the SBA's Recovery loans. To date we have funded more than 1,400 small business owners like Dr. Tom Wake of Hyde Park Animal Clinic in Chicago. Dr. Wake was in our loan queue, waiting for this bill to become law. Today, Dr. Wake can use that loan to expand his facility and better serve his clients.

In addition to the extension of Recovery lending, a number of other provisions portend expanded access to capital. Some are permanent and some are temporary, including several stipulated by the President. First, we will permanently increase the maximum loan sizes in our top two programs from $2 million to $5 million, and from $4 million to $5.5 million for 504 manufacturing related loans. We know this will help those who need more capital to quickly create jobs. This includes manufacturers, exporters, contractors, franchisees, and others. We will also permanently increase the maximum size of our microloans from $35,000 to $50,000. This is important because our data shows that microloans often benefit entrepreneurs who need startup capital and business owners in underserved communities who often find it harder to get loans.

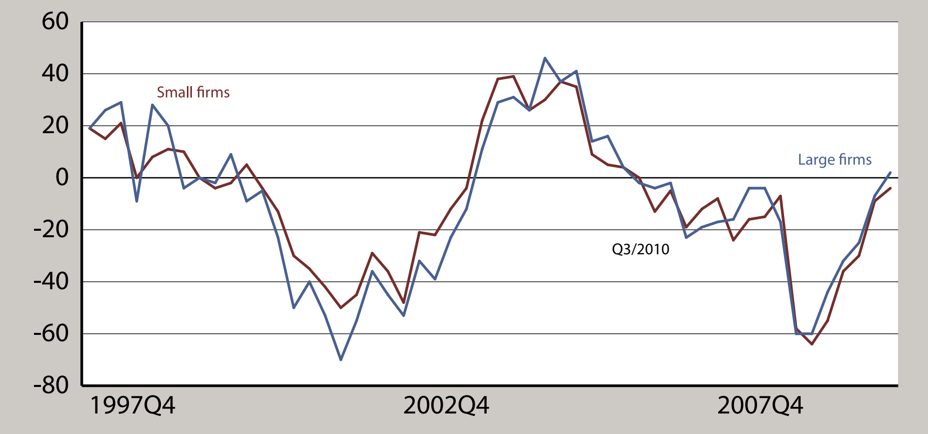
In addition, there are two important temporary changes that will help small business owners. We will increase (until September 27, 2011) the maximum amount of our SBA Express loans from $350,000 to $1 million. Express loans use a streamlined application process. They usually take just a few days to turn around. With this higher cap, we will be able to put even more working capital in the hands of small business owners very quickly. That will help them develop business, buy inventory, and, in many cases, hire new workers.

We are also going to allow (until September 27, 2012) some small businesses to refinance their owner-occupied commercial real estate mortgages into our 504 program. Many of their mortgages will mature in the next few years, and face balloon payments as a result. With real estate values well down, many of these business owners will have trouble getting a bank to refinance them. Allowing small businesses to refinance into a new 504 loan will provide the business owner with more stable financing. And, for the lenders who hold those mortgages, it will free up capital to make more small business loans. We expect to roll out 504 refinancing after we've implemented the larger loan sizes I mentioned earlier. We know that many small business owners looking to refinance will need those bigger loans. After we complete the regulations and program guidance (in four to six months), we know it will be an important tool for thousands of small business owners across the country.

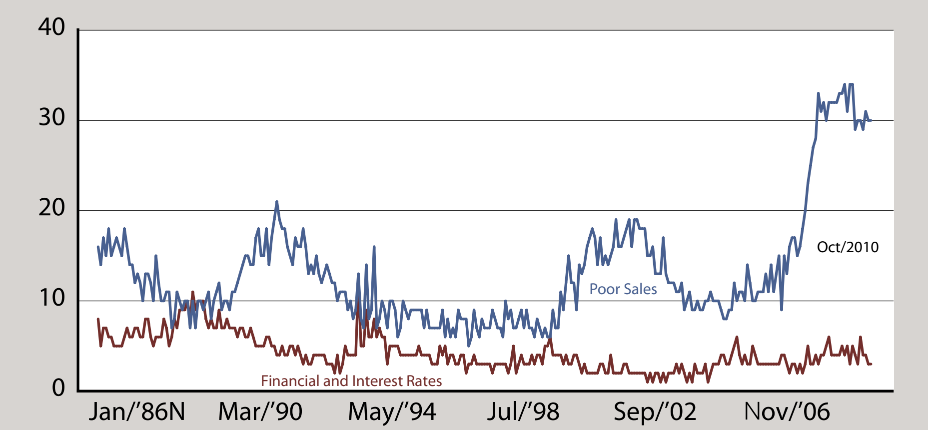
We look forward to putting these tools in the hands of the Midwest's small businesses in the weeks, months, and years ahead.

Exhibit 3

Senior loan officer opinion survey (percent of banks reporting stronger demand for C&I Loans)



NFIB: Single most important problem (net percent reporting, SA)



NOTES: Banks report weaker demand and small business reports that sales and revenue are more important issues than credit.
SOURCE: National Federation of Independant Business, Federal Reserve Board, and Haver Analytics.

Ms. Castillo concluded that, "Contrary to the opinions that all minority firms are small, new, not stable, don't have a customer base that can support them; that is not the experience of Chicago United companies. We are working with some of the top firms and we are still seeing really significant challenges to credit."

Likewise, the Chicago Urban League's Entrepreneurship Center has an extensive training and coaching program called "Next One" that helps growing minority enterprises in many ways. Gustave "Gus" Tucker, vice president of Entrepreneurship at the Chicago Urban League, described three businesses that were only able to finance recent growth opportunities through a fund that the Chicago Urban League had created to "make sure that the money gets to the folks that really need it and don't have access through some of the more traditional means."

Herman Brewer, acting president and CEO of the Chicago Urban League, echoed Gloria Castillo's point that businesses working with the Urban League – like those working with Chicago United – "are not just walking in and sitting down with us and filling out loan applications and looking for ways to bridge their positions with traditional lending." Brewer emphasized that the Next One program engages the technical assistance capacities of the Business Schools at Loyola University, Northwestern University, University of Chicago, and the University of Illinois-Chicago to provide assistance and expertise to participating businesses.

A banker pointed out that, while the participants in the Chicago Urban League's programs may not have received credit from a bank, directly, he was present at the creation of the Next One program. Cautioning that banks should not all be painted with the same brush, he reminded participants that some of the "alternative" programs that support small businesses are themselves frequently supported and funded by traditional banks.

Alternative sources and promising programs and developments

As noted in the discussion of supply and demand for small business credit, many businesses are surviving by using alternative sources of credit: personal credit cards and other personal sources; adjusting terms on both payables and receivables; factoring; and payday lending. The U.S. Small Business Administration's America's Recovery Capital (ARC) Loan program[12] was discussed in several meetings as both an example of a cumbersome application and approval process that could use improvement and, in many cases, a critical bridge through the crisis that saved businesses and jobs.

Unlike the ARC Loan program, which was never intended to become a permanent alternative, several types of organizations and programs have assumed a new or more prominent role in providing greater access to small business credit.

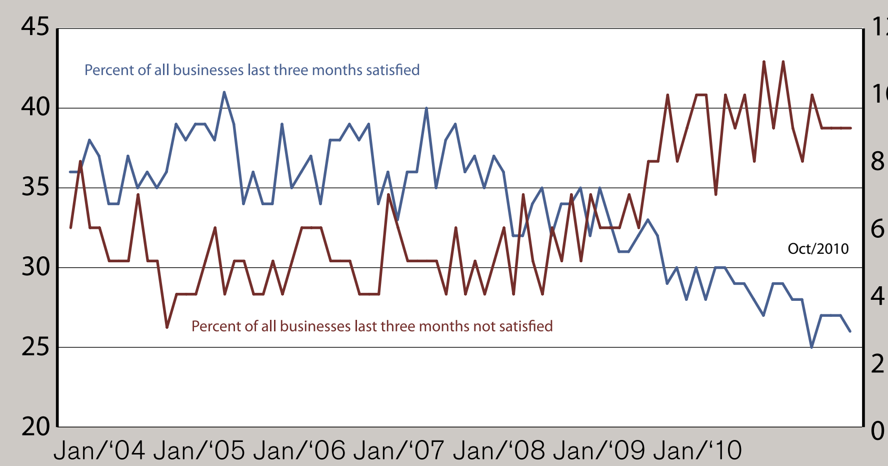
Community Development Financial Institutions (CDFIs)

Debra Schwartz, director of program Related Investments (PRI) for the John

D. and Catherine T. MacArthur Foundation, a long-time investor in community development financial institutions, noted that she has participated in many conversations over the years about why Chicago does not have a more robust set of financing vehicles for small businesses. She noted that Citibank had committed $200 million to small business financing through the Opportunity Finance Network, and the Calvert Social Investment Foundation and Goldman Sachs had committed $300 million to help CDFIs finance small business development. Ms. Schwartz encouraged the meeting participants to "think about how to mobilize to access that large pool of capital and about ways to create vehicles to bring that kind of resource to Chicago."

Exhibit 4

NFIB: Borrowing needs satisfied (borrowers only)



NOTES: Small businesses that seek credit report their credit needs are not being fully met.
SOURCE: National Federation of Independant Business and Haver Analytics.

In Detroit, Assistant Treasury Secretary Michael Barr highlighted the Obama Administration's deployment of small business resources through the Treasury Department's CDFI Fund. "At Treasury we are trying to expand the available set of resources to small business lending including through working with the Fed on the set of programs that the Chairman described. Trying to bolster the CDFI field both through our direct CDFI fund, which is a $250 million fund that supports local CDFIs around the country, as well as through the initiative that the Chairman mentioned briefly, which is a capital infusion program for CDFIs having difficulty because of the financial crisis that lets them match private investment into CDFIs with federal dollars and to bolster their capital base to do more small business lending."

Federal Reserve Chairman Ben Bernanke commented on the benefit that CDFIs can play in facilitating access to credit in underserved communities. "In general, CDFIs perform a very important function of helping mainstream lenders get insight into low- and moderate-income communities where they may not have the information or the contacts to make good loans. But I like the CDFI approach," Bernanke said. "I always liked it because it is so hardheaded. It really tries to find real business opportunities and to show people that there are opportunities in what otherwise look like distressed communities, and that's why I am very much in favor of continued support for that sector."

Micro-lenders

Sharon O'Donoghue, executive director of Business Ownership Initiative of Indiana (BOI) made a compelling case for the important role that micro-lending and micro-enterprise assistance play for families, communities, and businesses. BOI is a nonprofit, micro-enterprise organization that serves "individuals who are trying to start or grow a business for their household income. The majority of them are using self-employment as a means of 'income patching' – resorting to a means of self-generated income."

"There's a little bit of disconnect in Indiana between workforce development and sole proprietor entrepreneurship," O'Donoghue argued. "Self-generating income has a role in long-term economic sustainability. We work with individuals reentering society after incarceration and people returning to work after a long-term illness."

Ms. O'Donoghue shares a story as an example of how micro-enterprise has been successful with under-employed and unemployed individuals. "A woman came to us from Valparaiso where for three years she'd been unemployed because of a medical illness. She had a master's in nursing. She'd been the head of an intensive care unit. Four years into a medical illness, we were able to help her get certified and get a microloan to buy the equipment to do medical billing out of her house. She now generates over $32,000 in net profit to pay herself. Still living with a chronic illness, it doesn't matter if she submits insurance bills between midnight and 4 a.m., when she's feeling better. Although she's not able to work in a conventional workforce she was able to move off of disability payments."

Further expounding on BOI's self-sufficiency focus, O'Donoghue said, "People tend to think folks either have a wage employment job working for somebody or they own their own

Credit supply and demand in the auto industry

The automotive supply chain offers an industry-specific case study that illustrates supply and demand dynamics for small business credit, as well as both short-term and structural credit gaps. In the automotive industry, as with the economy, "healthy small businesses are crucial to creating jobs and improving employment security."[1] It has been noted that there are three auto supplier jobs for each assembly job.[2] And, as Ron Bloom, senior counselor to the President for Manufacturing Policy, said, "Credit runs through the lifeblood of this industry, in some ways, more than just about any other industry."

Chrysler and General Motors declared bankruptcy on April 30 and June 1, 2009 (respectively). The $5 billion Automotive Supplier Support program was created to provide receivables financing for auto suppliers, while GM and Chrysler worked though the bankruptcy process. Both companies emerged from bankruptcy, and production has begun to increase, but conventional financing has been slow to return to the industry.

On June 3, 2010, representatives of the auto suppliers, financial institutions and government sat down to discuss the credit issues facing the industry. Timothy Manganello, Chairman and CEO of Borg Warner, indicated that the Tier One suppliers have access to cash and can support a ramp up to meet increased production demand. Manganello says that the capacity and financial liquidity of the second and third tier suppliers will govern how much additional production capacity the industry can absorb.

Supply

Dave Andrea, senior vice president of the Original Equipment Suppliers Association (OESA), noted that most OESA members "believe their bankers are treating the current negative change in cash flow as temporary due to the economic conditions. However, the vast majority did report issues relating to banks' current assessment of assets backing current loans or assets being assessed for new loans." It was noted that in 2009, lines of credit for auto suppliers were "systemically" frozen and that banks that had historically been providers of credit to auto suppliers have continued to limit their lending. Andrea concedes that the industry's ongoing restructuring continues to pose a risk for lenders because "there remains a concern over a supplier's control over its own destiny."

Nonetheless, the auto suppliers highlighted, through their own experiences, that credit has been restricted in many ways, especially lines of credit that are reduced, priced higher, or are renewed for more limited periods of time. A particular concern for all of the suppliers was the values place on collateral, particularly equipment. Andrea quoted one OESA member saying, "formulas used to assign value have gone from 'orderly liquidation value' to 'forced liquidation;' a devastating drop off." Another meeting participant, describing the experience of renewing his company's line of credit, said, "If you thought the real estate market was bad, try the equipment industry. It was ugly. We saw our borrowing capacity evaporate."

Demand

Demand for credit in the auto supply chain is growing. "Car and light truck sales are projected to improve in 2010, with sales at 11.6 million units, and they are expected to improve to 13.3 million units in 2011" – up from 10.4 million units in 2009.[3] Meeting participants noted that in addition to projected demand increases, new model launches require up front investments in retooling in the lower tiers of the supply chain well in advance of when cash flow from manufacturer production begin to flow.

The CEO of one supplier described his company as "on the bottom tier, dealing with both the middle market industries and small community banks." He noted that most of the manufacturers in the auto industry have restructured so that they are profitable. "Everyone is surprised at how quickly the industry has restructured," he said, "but the companies at the bottom still struggle, and they rely on community banks to provide working capital and to buy their equipment."Ron Bloom agreed, noting that the White House Auto Task Force is aware that help for the industry has come from the top down, but that the bottom still needs help.

OESA's Dave Andrea summed up the credit gap issue for auto suppliers, noting that, "Credit availability for all the required tooling to support new vehicle launches is constrained given the continued level of industry, customer and supplier risk. And it is these very programs that will improve the industry's risk/return ratios and investment attractiveness." He went on to emphasize "the need for coordinated action by industry, the financial community and the government to minimize the transition costs of the industry's restructuring and the economic cycle to assure a viable manufacturing sector to high value-creating employment and technology development."

The Michigan Economic Development Council is working to help alleviate that credit gap through its "Michigan Supplier Diversification Fund." Paul Brown, the Fund's director, described the program as providing both collateral support and helping to facilitate cash flow. In certain situations, the fund will "deposit money on behalf of the borrower, in the lending bank. We (the state) get interest on the deposit; we charge the borrower some points on it at closing. That gives the banks fully collateralized loans as well as increasing deposits, which helps impact some of the other issues that some of these smaller banks have."

Innovation Capital

Near the conclusion of the meeting, Federal Reserve Board Chairman Ben Bernanke noted that, "We want to make sure that there's innovation capital as well as working capital. We need to have a longer-term perspective as well as the more immediate perspective on the issue."

One meeting participant concurred with the Chairman, saying, "Unfortunately, sustained technology advancements depend on the availability of longer-term financing for the same small businesses that struggle daily to finance working capital and long overdue replacement of basic equipment."

While Chairman Bernanke added his observation regarding "innovation capital" in his concluding remarks, several meeting participants accepted the Chairman's challenge and offered their responses in follow up, written commentaries.

Dave Andrea, senior vice president at the Original Equipment Supplier Association: "In consideration of this challenge, for the auto supplier sector I truly believe the most significant hurdle for innovation capital is on the public policy side and not the monetary policy side. First, we need to have better visibility, or at least consistency, in the underlying energy and environmental policies that drive consumer as well as industrial market demand for new technologies. Without clarity of CAFE, fuel prices, greenhouse gas reduction, etc., the technology road map becomes very complicated, investment payoffs uncertain, and the financial community's risk increases dramatically.

Second, there are also tax policies that would support innovation – these come in the form of making R&D tax credits permanent so that long-term development costs will be known and speeding up depreciation schedules such that the suppliers' significant capital investment can be turned over more quickly.

Third, there are also opportunities to leverage the national laboratory system better – there may be a way to better align 'pre-competitive' research within the lab system with the industry needs. Here OESA has formed a Technology Forum to provide a conduit between the federal lab system and the supplier industry to provide a mechanism for such alignment. Given the industrial lab system of the GMs and the other OEMs and suppliers has been scaled back significantly, there is a role for the fed lab system to perform the 'heavy-lifting' of advanced product and process technology development. This idea ties back to the need to clarify CAFE, fuel prices, greenhouse gas reduction, and other policies. If we have stability in policy then the federal government can provide targeted funding through the labs (and/or companies) that move these national objectives and subsequent industry requirements along a reasonably defined technology road map where the financial community can judge risks and rewards."

Jim Bradbury, president, Grand Rapids Controls Company, LLC: "I agree with Mr. Bernanke's remarks regarding innovation capital, it needs to be readily available. I fear that monies, if they become available, will be primarily restricted to energy conservation and electric cars. I differ from this point of view as this thinking is far too narrow. In many of the alternative power segments the USA has fallen behind our European counterparts and we are playing catch up. What would it look like if the U.S. was the world's innovation engine for most products and services?

We are the most creative nation in the world, yet we support [research and development] very poorly in relation to other nations. As it stands now I believe our current funding is far below globally competitive levels for R&D product development. We need to support R&D at the base level in the second and third tier suppliers where innovation can happen fast. We need to protect the innovation we develop and prevent other countries from copying it. That will allow us to generate high paying jobs and be the envy of the world.

Last year when the government offered loans for innovation in key "green" areas they were surprised by so many requests for small loans by small companies. The U.S. companies are different than our Asian and European counterparts where the sub-tier suppliers are the innovators/experts compared to the European and Asian OEMs being the innovators. As a result more dollars should be made available to this group in comparison to the OEMs."

Rick Brown, vice president of Finance at Saturn Electronics & Engineering: "Historically, the United States has demonstrated global innovation leadership. However, I believe we are losing ground as a nation and we better find a way to accelerate our R&D activity or risk losing that incredibly valuable worldwide competitive advantage.

Small business has consistently proven to be the primary incubator of new ideas that are routinely filtered out by the big companies due to perceived risk and poor ROI targets. Innovation capital is critical for small businesses to remain entrepreneurial in providing tomorrow's technological solutions.

Unfortunately, sustained technology advancements depend on the availability of longer-term financing for the same small businesses that struggle daily to finance working capital and long overdue replacement of basic equipment. If you're diving in 80 feet of water and your air runs out, your next breath is way more important than say, dreaming up a propeller redesign to save on boat fuel next year.

I believe bank's standard methods used to determine credit worthiness are already out of synch even for short term financing decisions. So unless lenders are willing and able to make significant and realistic changes, which I believe is not likely, access to longer-term innovation cash will remain essentially impossible and public-sector financing will be required.

One immediate and practical plan might be to invoke a government funded version of the research grant concept combined with an 'X Prize' approach, sans SBA-type approval and monitoring barriers and delays. Admittedly over simplistic, but I think it would work within our urgent timeframe, and I'll volunteer to help.

Regarding requested ideas for addressing the financing needs of small business, I would like to repeat the rather technical tax item I mentioned at the luncheon.

I believe it was Mr. Michael Barr who indicated that Treasury was about to recommend to the Hill, among other things, reinstatement of the 'Bonus Depreciation' tax deduction. This represents a significant benefit to manufacturing companies but with a slight tweak can be immensely more powerful as a financing conduit to small businesses.

Essentially the bonus depreciation deduction allows an additional tax deduction of 50 percent of the cost of new equipment for the year it is placed in service. The problem is that this deduction can't be monetized until the tax return is filed well into the following year and long after the related equipment is paid for. I would like Treasury/Congress to consider allowing bonus depreciation to be used to reduce current year quarterly tax payments or to be used immediately to refund taxes paid in prior years."

Curt Lansbery, president and CEO of North American Tool Corporation: "While I believe these types of innovations are important and that innovative capital is something that needs consideration, I believe that issues of this nature can be incentivized through tax incentives and special consideration that the government gives for developmental issues.

For all of us in business, the more important subject is how to stay in business. That is not possible unless we have the kind of working capital, short term lending, and continued bank support that we have seen in the past. The issue with small businesses lending is that banks are going back to their old habits of lending to companies on performance and asset based lending, and there is nothing wrong with this.

Even this type of lending is being challenged by the demands of the FDIC and their demands for stronger capital requirements and higher insurance payments to meet the demands of failed banks. The FDIC is also requiring the downgrading of what had previously been good loans but were stressed through the downturn. This process has also hampered the banks' ability to provide credit for many businesses.

It is this borrower's belief that the banking system is not an administrative tool to be used for the benefit of the administration's initiatives. The banking system has traditionally been a system to provide orderly lending to businesses, providing growth and services in our communities. This has been done by the oversight of the government. I do not believe that the banking system is an organization that the government should use to direct its administrative goals.

If small businesses are not able to get the funding they need to sustain their organizations, then no matter what the administration's goals are, whether it's electric cars, windmills, what have you, they will not be accomplished."

Wes Smith, president and CEO of E&E Manufacturing: "If innovative capital refers to funds for job training and industry diversification, that is clearly an important aspect of financing but is not the foundation for recovery in the manufacturing sector, in part because it is speculative rather than concrete revenue. A small or medium sized manufacturer does not have the ability to spend several years developing a new technology or spending tens of thousands per employee to train to manufacture for a potential customer. Middle market manufacturers like us are a just in time industry that rely more on customer demand than OEM would on the end-consumer demand. For example, many federal policymakers are pushing small manufacturers to diversify and take on more 'green' business. However, the demand simply does not exist in that industry to justify a manufacturer to invest capital and borrow money if there is not a current 'bankable' contract to be had in the short term. We will only invest in retraining or purchasing a new piece of capital equipment if we have a clear path to a contract because our margins are so slim we do not have the ability to seek 'prospective' capital. As to R&D investment, much of research and development work conducted by middle market manufacturers is done on behalf of a current customer who is asking for a new solution/configuration. For our just in time delivery industry, we cannot sit on inventory – whether raw materials, finished product, or idle labor. I am also not sure there are many financial institutions who would lend to a middle market manufacturer in this environment unless they can demonstrate bookable business based on the loan for training, innovative technologies, efficient equipment, etc."

1 Chairman Ben S. Bernanke at the meeting on Addressing the Financing Needs of Michigan's Small Businesses, Detroit, Michigan, June 3, 2010. www.federalreserve.gov/newsevents/speech/bernanke20100603a.htm.

2 Klier, Thomas, and James Rubenstein. 2008. Who Really Made Your Car?: Restructuring and Geographic Change in the Auto Industry. (Upjohn Institute for Employment Research).

3 Strauss, William, senior economist and economic advisor, Federal Reserve Bank of Chicago, June 7 2010. Solid Economic Growth Expected in 2010 and 2011, According to Chicago Fed Automotive Outlook Symposium Participants. www.chicagofed.org/digital_assets/others/events/2010/automotive_outlook_symposium/aos_press_release.pdf.

business and work for themselves and get paid by themselves. The Kauffman and Mott Foundations and Aspen Institute have shown that income patching is the new reality."

"I'm a good example," Ms. O'Donoghue explained. "I'm the executive director of a not-for-profit. I get a W-2 for my salary. I also am asked to do some consulting work. I own my own company that generates an income that supports a household. Very few households are able to support themselves on two incomes from conventional employment."

BOI was brought into a local hospital to meet with their employees, to show how they can do some other business on the side. "They recognize that $7.25 an hour does not pay the bills and does not lift a family out of poverty," she said. "Micro-enterprise also spawns something you can't capture economically: an educated worker. There's nothing more impactful than having people think like entrepreneurs: be adaptable, be flexible, be problem-solving, be client-oriented. Companies are finding that micro-enterprise training produces a more motivated, energetic, and engaged employee."

"Micro-lending can improve behavior and practices that help our clients engage with commercial lending institutions. They're often individuals who have multiple oars in the water so you have a higher percentage that truly transform their lives," O'Donoghue stated. "We can continue to help these individuals with a coherent plan to integrate micro-lending with the other asset building strategies."

"In plain English," she summarized, "it doesn't do any good to give somebody $1,500 to buy two floor scrubbers unless those two floor scrubbers allow the borrower to go get five janitorial accounts, which then result in $1,500 plus owners' salary and at the end of the year, the family actually increased their household income by $8,000 to $12,000. Unless impact or outcome metrics are tied to job creation and business revenues, we're not turning that corner of micro-lending to actually increase household income."

Micro lending funds talked about not having traditional lending requirements. With character-based lending, personal attributes are certainly taken more into consideration or weighed equally with what we call traditional lending attributes like credit scores. Micro-lenders know that credit scores are limited. A micro-lender will be more interested in knowing, "Has the rent been paid on time for 12 months? Have the utilities been paid? I pay my utility bills on time for three years, but that doesn't impact my credit score. Possibly it should," Sharon O'Donoghue said. So micro-lending tends to look at different things. For micro-lending to play a positive role in improving access to small business credit, micro-lending needs to be reported to the credit bureaus. "You're not going to improve people's credit scores; you're not going to affirm new behavior in financial literacy unless the effort results in a higher credit score," O'Donaghue concluded.

Several micro-lenders and micro-enterprise assistance groups commented that demand for both loan funds and management assistance had risen through the financial crisis and recession. Barbara Eckblad, from Wisconsin Women's Business Initiative Corporation (WWBIC), reported that "First quarter, year-over-year 2010 over 2009, our request for capital is up 309 percent. We are just swamped with those small businesses that are looking for capital."

WWBIC is a not-for-profit, whose mission, as Eckblad explained it, is to "work with low- to moderate-income people who have a dream of starting their own business or who have a business that we can help them sustain or grow." WWBIC is also seeing changes in the types of businesses that are seeking its assistance. "It used to be about 30 percent existing businesses and 70 percent new business starts. It is almost completely flipped." Now, as Ms. Eckblad explained, "It is about 30 percent of people who want to start their business and 70 percent existing businesses asking for our help to keep their business open."

Likewise, Accion Chicago reported a 40 percent increase in demand for its lending. ACCION's Jill Stephens explained that ACCION Chicago "provides loans up to $25,000 to small businesses. Our average loan size is $8,000 and our current portfolio is $1.5 million. We expect to write off about 8 percent of our active portfolio. Our clients are 65 percent minority, 54 percent female and 73 percent low- or moderate-income."

Ms. Stephens said that ACCION is also seeing other changes in its client base. "We've also seen an increase in our median credit score from about 600 to 630, not because we changed our lending standards on the lower end, but we've seen more clients that were formerly bankable coming to us for smaller loans at this point. So we've seen clients with 700 credit scores, which we've never really seen in the past."

Just as Indiana's Business Opportunities Initiative found evidence of its program's support for families, ACCION has documented its success with communities. "We recently conducted an impact study and found that our loans help create or maintain 2.6 jobs per loan and that 89 percent of our clients are still in business, which we found really heartening since the study was conducted during this recession," Stephens reported.

Both BOI and ACCION highlighted the more general trends found in the Aspen Institute's estimates that, "there are 10 million microenterprises in the country and that micro-lenders have only reached about 1 percent of that market. In terms of credit gaps, we feel that there is less lending going on in the $25,000 to $100,000 range."

Nonetheless, ACCION and WWBIC were also clear about ongoing credit gaps. According to ACCION's Stephens, "Although we're the largest micro-lender in the Chicagoland area, we're frankly not that large. So we feel that there's a lot of potential for other micro-lenders to come in, for us to expand, and for the other micro-lenders that are already out there to expand. A final credit gap we see is that we provide term loans," noted Stephens. "We don't provide lines of credit or overdraft lines, and that's another product that our clients especially could really benefit from and really need."

WWBIC's Barbara Eckblad pointed to some unique challenges that nonprofit lenders face. "WWBIC doesn't get funding for loan loss reserves. We have to find grant money, people who believe in us to give us the money to put into our loan loss reserve that we are required to have for CDFI and SBA reserve ratios," Eckblad explained. "We have enough capital because we have a relationship with the SBA and we have other capital coming in through EQII (Equity Equivalent Investment) and CRA money. What we really need is to somehow fund that loan loss reserve so we can lend more money."

All of the nonprofit lenders highlighted the Community Reinvestment Act as being particularly important for programs. ACCION's Jill Stephens said that, "The Community Reinvestment Act has been very important to our industry in terms of getting us the capital that we need and helping us to form partnerships with banks. It's been a wonderful help to us."

Fed Chairman Bernanke highlighted CRA's role during the Detroit meeting. "We are looking at CRA issues. Banks lend to low- and moderate-income communities as part of their responsibility under CRA, and we continue to discuss how to define that and how that should be applied, but that is another source of potential funding."

Credit unions

Michigan's Commercial Alliance, formed in 2004, is a Credit Union Service Organization (CUSO). The Alliance is owned by the credit unions and it services the credit unions' business needs. Terry McHugh, president of Commercial Alliance, explained that the Alliance provides training, underwriting, documentation, servicing, and loan administration for credit unions in the state of Michigan.

"We are one of three such organizations in this state. We currently service about $125 million worth of loans and we currently have 12 credit unions that we're providing these services for," McHugh explained. "In 1998 NCUA issued a regulation, limiting business lending in a credit union to 12.25 percent of their total assets. That obviously created issues for the industry as far as putting together a commercial lending backroom operation to service that product line." The Commercial Alliance also offers a loan participation network to diversify the risk of business lending.

"We booked over $40 million in new loans in 2009, and our average loan is about $300,000. Our loans range from $15,000 up to $3 or $4 million. While the vast majority of the financial industry was pulling back from small business lending in the last year," according to McHugh, "Michigan credit unions increased their lending to small businesses by 18 percent, still a relatively small number. Nationally, the credit unions increased their exposure by 10 percent."

McHugh summarized the Commercial Alliance's recent experience. "Over the last year and a half, we have probably booked the best loans that we have in our entire portfolio. We're very much in the game of small business lending at this point. We are actively collaborating to assist in the economic turnaround in Michigan through our ongoing education and experience with our members. While credit unions represent a nominal position or portion of the small business lending pie, we do represent a long history of successfully serving our membership base."

State and local programs

McHugh also highlighted the creation, in early 2010, of an initiative called the Credit Union Small Business Financing Alliance. Governor Granholm, in concert with the Michigan Credit Union League, unveiled the lending partnership with more than 30 participating credit unions in the state who pledged an additional $43 million to the initiative.

State and local governments have been stepping up their efforts to support local business lending.

Cara Castallano, a staff member from the City Treasurer's Office in Chicago, explained that office's two loan programs. A Linked Deposit program in which the city makes a deposit with an institution and the institution commits to lending out half of that amount to small businesses. They are working to modify the program because their own review of the program found that "the linking of the deposits wasn't changing anybody's behavior," Castallano explained. The participating banks "were already making these small business loans regardless of the commitment they signed with the Treasurer." Castallano also observed that, "participating bankers want to make loans; it's a matter of finding qualified borrowers."

The second loan program Castallano highlighted is a Micro Loan program. "We have about $3.2 million – allocated by the City Council – to leverage small business lending only. We piloted the program with ACCION and we got some really good feedback after the first six months. The loans made were between $10,000 and $150,000. ACCION only does $10,000 to $25,000, and $10,000 really wasn't low enough for the community. So the City Council recently passed an ordinance lowering the minimum loan amount to $500."

The Michigan Economic Development Council (MEDC) is another example. MEDC is working to help alleviate that credit gap through its "Michigan Supplier Diversification Fund." (See the Auto Supplier sidebar for further details.)

Treasury Assistant Secretary Michael Barr also highlighted the importance of state programs in the Federal response to business credit issues. "As some of you probably know, the President has been pushing very strongly a new set of proposals through the Congress to provide more seed funding for small business lending, a $30 billion initiative, to provide low-cost capital to the banking sector for increasing small business lending. Together with a $20 billion initiative designed to expand the work that states are doing all over the country. Michigan has been a real leader in this: in loan funds, loan guarantees, collateral-enhancement programs, and capital asset programs to bolster small business lending."

Small Business Development Centers (SBDCs) also participated in each of the meetings. The general consensus is the SBDCs are a valuable resource for both bank and borrowers. However, the SBDCs also highlighted some of the ongoing challenges that small business service providers face. Many meeting participants noted the challenge of businesses exhausting their personal and business resources before seeking assistance. Many participants also commented about the uneven knowledge within financial institutions about the resources that are available in the community.

ACCION Chicago's Jill Stephens implored, "We urge large financial institutions to train their employees on alternatives that are out there: micro-lending options, training options, government programs that exist to help small businesses."

Chinwe Onygoro noted the challenge of staying current with federal, state, local, and private programs that have proliferated. Onygoro is the president of O-H Community Partners, the creator of an Internet site called New Equity Business, an online search engine for small business to learn more about all the different financing that is available in Illinois. (New Equity Business will be profiled in an upcoming issue of *Profitwise News and Views.*)

"What we've seen in the marketplace," Onygoro explained, "is that there are a number of SBDCs, entrepreneurship centers, and other business and technical assistance organizations that are very strong in the area of coaching small businesses around getting loans and credit, but may not necessarily have deep expertise in providing and coaching for new market tax credits and for TIF works and for other programs that were mentioned earlier. We're trying to deepen the network of providers that are available and visible to small businesses that can really coach them through, if they're eligible, the application process for these tools," Ms. Onygoro explained.

Conclusion

Federal Reserve Chairman Ben Bernanke said, "It is easy to talk in general, but it is much more valuable to hear some of the specific concerns," in the communities. "I think I would end with a little bit of guarded optimism. We have seen some improvement. The survey of loan officers suggests that the tightening process is ending and that some banks are beginning to loosen their terms a bit becoming a bit more confident. We are seeing loss rates stabilize, many banks returning to profitability, some improvement in the economy as I mentioned before, so obviously we still have a long way to go. Again, I want to assure everybody that the Federal Reserve views this as being absolutely central to the recovery, both in the economy broadly and particularly in employment, and we will continue to pay close attention to this issue. I am hopeful," Bernanke concluded, "we will see improved conditions for credit going forward."

Notes

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4 The Federal Reserve's Seventh District covers all of Iowa and most of Indiana, Illinois, Michigan, and Wisconsin.

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6 Interagency Statement on Meeting the Needs of Creditworthy Borrowers. November 12, 2008. www.federalreserve.gov/newevents/press/bcreg/20091112a.htm.

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10 Financial Accounting Standards Board. June 12, 2009. FASB Issues Statements 166 and 167 Pertaining to Securitization and Special Purpose Entities. www.fasb.org/cs/ContentServer?c=FASBContent_C&pagename=FASB%2FFASBContent_C%2FNewsPage&cid=1176156240834.

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Addressing the financing needs of small businesses

A Federal Reserve System Series

A Quad Cities conversation on small business capital and development

May 19, 2010 – Davenport, Iowa

In Partnership with:
The Greater Quad Cities Hispanic Chamber of Commerce and
The Latino Connection

Ray Bacon, Vice President, Federal Reserve Bank of Chicago
Patrick Burke, Economic Development Manager, City of Moline
Roberto Cornelio, Chief Operating Officer, Illinois Hispanic Chamber of Commerce
Jen De Kock, Attorney – Moderator
Terry Esch, Executive Vice President, Southeast National Bank
Carmen Fuentes, Owner, Carmen's Jewelry
Shane Hauman, Owner, Collins Construction Co.
Ann Hutchinson, Regional Director, Eastern Iowa Small Business Development Center
Kimberline Jones, Community Development/Social Responsibility, Wells Fargo Bank
Redmond Jones, Assistant City Administrator, City of Davenport
Richard Lamb, President, First National Bank of Davenport – Moderator
Dennis Larkin, Branch Manager, Small Business Administration
Clyde Mayfield, Owner, Greatest Grains
Mark "Butch" McCreight, Senior Vice President – Commercial Loans, THE National Bank
Vicky Miller, Coordinator, Illlinois Procurement Technical Assistance Center
Helen Mirza, Community Affairs Program Director, Federal Reserve Bank of Chicago
Mark Moylan, Deputy Regional Director/Kansas City, FDIC
Nanci Perkins, President, Latino Connection
Alfred Ramirez, Interim President, The Greater QC Hispanic Chamber of Commerce
Roger Thomas, State Representative, Ranking Member, Iowa Economic Growth Committee
John Wetzel, Service Corp. of Retired Executives (SCORE)

Special thanks to:

Black Hawk College	City of Davenport	City of Moline
City of Silvis	Jen De Kock	Eastern Iowa Community College
First National Bank of Davenport		THE National Bank

Addressing the financing needs of Indiana's small businesses

May 20, 2010 – Indianapolis, Indiana

Kyle Anderson, Professor of Business Economics, Kelly School of Business, IUPUI
Ray Bacon, Vice President – Supervision & Regulation, Federal Reserve Bank of Chicago
Desiree Hatcher, Community Affairs Program Director, Federal Reserve Bank of Chicago
Larry Lux, Executive Vice President, Shelby County Bank
John J. Miller, Vice President – Business Services, IU Credit Union
Sharon O'Donoghue, Executive Director, Business Ownership Initiative of Indiana
Stacey Poynter, Lender Relations Specialist, U.S. Small Business Administration – Indiana District Office
Barbara Quandt, Executive Director, National Federation of Independent Businesses

Stacy L. Shew, Executive Director, National Association of Women Business Owners – Indianapolis
Alan Waltz, Vice President and Regional Credit Manager, Indiana Bank & Trust Company
Larry G. White, Business Advisor, Central Indiana Small Business Development Center

Addressing the financing needs of Wisconsin's small businesses

May 27, 2010 – Milwaukee, Wisconsin

In Partnership with
Community Bankers of Wisconsin
U.S. Small Business Administration

Raymond Bacon, Vice President, Federal Reserve Bank of Chicago
William P. Beckett, President and CEO, Chrysalis Packaging & Assembly Corporation (CHRYSPAC)
Jeremiah Boyle, Managing Director, Economic Development, Federal Reserve Bank of Chicago
Barbara Eckblad, Director of Lending, Wisconsin Women's Business Initiative Corporation
Curtiss Harris, Executive Director, African-American Chamber of Commerce of Greater Milwaukee
Steven Kuehl, Economic Development Director, Federal Reserve Bank of Chicago
Paul Kuplic, VP Commercial Loan Officer, Community Bank & Trust, Sheboygan, Wisconsin
Daryll Lund, President and CEO, Community Bankers of Wisconsin
Eric Ness, Wisconsin District Director, U.S. Small Business Administration
Tim Peterson, Director, Small Business Development Center, University of Wisconsin-Milwaukee
Bill G. Smith, Wisconsin State Director, National Federation of Independent Businesses
William Testa, Vice President and Economic Advisor, Federal Reserve Bank of Chicago

Addressing the financing needs of Michigan's small businesses

June 3, 2010 – Detroit, Michigan

Dave Andrea, Senior Vice President, Original Equipment Suppliers Association
Michael Barr, Assistant Secretary for Financial Institutions, U.S. Department of Treasury
Ray Bacon, Vice President, Supervision and Regulation, Federal Reserve Bank of Chicago
Bill Baughman, President & CEO, Plastomer Corporation
Karl Bell, Senior Vice President, Detroit Investment Fund
Ben Bernanke, Chairman, Board of Governors Federal Reserve System
Ron Bloom, Senior Counselor to the President for Manufacturing Policy, U.S. Department of Treasury
Bernie Bowersock, Senior Vice President, North American Tool Corporation
Jeremiah Boyle, Community Affairs Program Director, Federal Reserve Bank of Chicago
Jim Bradbury, President, Grand Rapids Controls Company
Sandra Braunstein, Director, Consumer and Community Affairs, Federal Reserve Board of Governors
Paul Brown, Manager, Capital Markets Development, Michigan Economic Development Corporation
Rick Brown, Chief Financial Officer, Saturn Electronics and Engineering
Mike Dolson, Senior Vice President, Charter One Bank
Charles Evans, President & Chief Executive Officer, Federal Reserve Bank of Chicago
Harry Ford, Manager, Community Affairs, Federal Reserve Bank of Chicago
Giuseppe Gramigna, Chief Economist, U.S. Small Business Administration
Louis Green, President & CEO, Michigan Minority Supplier Development Council
Richmond Hawkins, Vice President, Michigan Commerce Bank

Richard King, Regional Director, Michigan Small Business & Technology Development Center
Eastern Michigan University
Curt Lansbery, President & CEO, North American Tool Corporation
Timothy Mangenello, Chairman, Borg Warner, Inc.
Terrence K. McHugh, CEO, Commercial Alliance
Cathy McClelland, President & CEO, McClelland & Associates
Michelle Richards, President and CEO, Center for Empowerment & Economic Development
Wes Smith, President & CEO, E&E Manufacturing
Don Snider, President & CEO, Walden Foods
William Strauss, Senior Economist, Federal Reserve Bank of Chicago
Paul Taylor, Chief Economist, National Automobile Dealers' Association
Richard Temkin, District Director, U.S. Small Business Administration
Kevin Watters, CEO, Business Banking, JP Morgan Chase
Alicia Williams, Vice President, Federal Reserve Bank of Chicago

Addressing the financing needs of Illinois small businesses

June 11, 2010 – Chicago, Illinois

In Partnership with:
U.S. Small Business Administration

Raymond Bacon, Vice President Supervision and Regulation, Federal Reserve Bank of Chicago
Kathleen C. Bishop, Entrepreneurship Network Coordinator
Illinois Department of Commerce and Economic Opportunity/Small Business Development Centers
Cara Castallano, Chief of Policy, Office of City Treasurer of Chicago
Gloria Castillo, President, Chicago United
Jon S. Maul, Central Region Executive, Business Banking, JP Morgan Chase
Otis Monroe, III, CEO, The Monroe Foundation
Harry Pestine, Community Affairs Program Director, Federal Reserve Bank of Chicago
John Roberson, Executive Vice President, Chicagoland Entrepreneurial Center
Donna Rockin, Director, Illinois SBDC Duman Microenterprise Center
Judith Roussel, District Director, U.S. Small Business Administration
Andy Salk, President and CEO, First Eagle Bank
Debra Schwartz, Director of Program-Related Investments, MacArthur Foundation
Jill Stephens, Vice President of Lending, ACCION Chicago
William Testa, Vice President and Economic Advisor, Federal Reserve Bank of Chicago
Gustave E. Tucker, Vice President – Entrepreneurship, Chicago Urban League
Alicia Williams, Vice President, Federal Reserve Bank of Chicago
Norman J. Williams, CEO, Illinois Service Federal Savings and Loan

Special thanks to:

- ACCION Chicago
- Chicagoland Entrepreneurial Center
- Chicago United
- Chicago Urban League

- Duman Microenterprise Center/Illinois SBDC/Jewish Vocational Services
- IFF
- Illinois Department of Commerce and Economic Opportunity/Small Business Development Centers
- Illinois Women's Development Center
- John D. and Catherine T. MacArthur Foundation
- Monroe Foundation
- Woodstock Institute

Biography

Jeremiah Boyle is the managing director of Economic Development for the Federal Reserve Bank of Chicago's Community Development & Policy Studies division. Mr. Boyle is the project coordinator for the Housing Opportunity Partnership for Southeast Wisconsin, and contributing editor of the Federal Reserve Bank of Chicago's *Profitwise News and Views* publication. Mr. Boyle holds a bachelor of arts degree in political science and a master's degree in urban and regional planning from the University of Illinois at Urbana-Champaign, and a master of business administration degree from North Park University in Chicago.

Small business development in Indiana:
Growing a diversified economy through innovation

by Desiree Hatcher

The SBA's Office of the Advocacy released a study by a task force on small business and innovation, which offered a fundamental precept:

Innovation is an essential ingredient for creating jobs, controlling inflation, and for economic and social growth. Small businesses make a disproportionately large contribution to innovation. There is something fundamental about this unusual ability of small firms to innovate that must be preserved for the sake of healthy economic and social growth.

Innovation derives from imagination and the will and the need to compete. However, a business begins first with a business plan that most often calls for outside financing; business loans, particularly in the current environment, begin with a thorough credit analysis. Lenders are expected to follow the five Cs of credit analysis. Capacity to repay; the amount of money (capital) invested by the potential borrower; any asset(s) offered as security (collateral) for the loan; purpose of the loan (conditions); and the potential borrower's business experience and demonstrated willingness to repay the loan (character), often assessed by personal credit history. The Community Reinvestment Act (CRA) encourages insured depository institutions covered by the act to help meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations, which the underwriting process is designed to ensure. The safe and sound component applies to all lending, including small business loans. For this reason, banks prefer to invest in developed companies that have documented revenues and expenses. Emerging technologies and start-up businesses are frequently viewed as inherently risky.

The state of Indiana is committed to increasing the number of innovative, high-tech, high-paying jobs in order to diversify the state's economy. Indiana seeks to encourage existing businesses to relocate to the state and promote entrepreneurism and small business development within its borders.

How is Indiana supporting small business development?

Indiana provides resources to help local small businesses and start-ups. These resources include tax incentives, grants, matching awards, and credit enhancements, which can assist high-tech start-ups develop to a stage where they have a level of seasoning that allows mainstream lenders (banks principally) to consider lending to them while satisfying internal or regulator defined risk guidelines.

21st Century Research and Technology Fund

The goal of the Indiana 21st Century Research and Technology Fund (Fund) is to foster innovation by directly supporting the commercial development of new technologies.

Created by the Indiana General Assembly in 1999 and brought under the leadership of the Indiana Economic Development Corporation (IEDC) in 2005, the Fund provides awards to help businesses make the transitional leap from research to product development. The Fund also serves as a conduit to venture capital, angel investors, and other sources of funding by providing much needed seed capital to promising entrepreneurial ventures.

The IEDC's leadership has had a significant impact on the Fund's support of small businesses. For the period 2005 – 2007 (the most recent data available), 90 percent of the $42.3 million awarded was granted directly to small companies. In contrast, only 23 percent of total Fund awardees were small firms in the years prior to the IEDC's management.

To qualify for a Fund award, a company must propose a technology development project that can be commercialized into an innovative product or service with plausible commercial value. In general, projects considered for direct Fund awards must (be projected to) cash flow or at least break even in less than 24 months.

Proposals are evaluated on the thoroughness of the business plan and technology roadmap, as well as the likelihood of success. There is also emphasis in the evaluation on the economic impact (generated by the project) in Indiana; high-wage, high-skill job creation is an important consideration. The Fund also encourages the creation of new commercial and academic partnerships, an additional criteria considered in providing awards.

Awards do not fund normal business operations; funds are applied to specific technological development activities, including prototype development, clinical trials, and testing and validation; all of which reduce the investment risk for private sector investors.

By supporting high-tech companies during their crucial market entry stage, the Fund encourages entrepreneurial success and keeps Indiana's most promising technologies in Indiana, leading to the creation of the high tech, high-paying jobs and (thereby) diversifying the state's economy.

Since 2005, the Fund has made 70 awards totaling $91,454,604 to support the development and commercialization of a wide range of emerging and innovative technologies with market-changing potential.

Fund SBIR/STTR awards

The primary entry into the Fund for early-stage technology development projects is through the federal Small Business Innovation Research (SBIR) and/or Small Business Technology Transfer (STTR) programs.

According to Karl Koehler, PhD, deputy director, and coordinator of Review and Outreach, the Fund sets aside 25 percent of its budget for an SBIR program office, created to support companies that are applying for or have received SBIR and/or STTR awards.

The Fund matches any SBIR/STTR Phase I awards won by Indiana companies, up to $75,000. These two competitive federal three-phase programs provide qualified small businesses with opportunities to propose innovative ideas that meet the specific research and development and technological needs of the federal government. The Fund matching grants serve to leverage federal dollars, accelerate the development of innovative new technologies, and align state technology development goals with those of the federal agencies.

Since 2003, the Fund has made 325 SBIR and STTR Phase I matching awards (to 129 companies) totaling about $35 million. While the Indiana Phase I to Phase II transition rate prior to the Phase I matching program was less than 28 percent, this transition rate for Indiana is now about 46 percent (close to the national average transition rate of 48 percent).

Indiana SBIR enhancement programs

The Indiana SBIR/STTR program provides a range of supportive services to Indiana's SBIR/STTR applicant community. In addition to Phase I matching awards, the Fund provides proposal development and submission assistance, which involves assigning professional writers to applicants at the Fund's expense. Phase I matching awardees are provided Foresight Technologies Niche market assessments at no cost. The IEDC operates the Indiana Venture Capital Tax Credit program, which is frequently utilized by the Indiana SBIR/STTR community.

Introduction of the proposal development program increased the number of Fund Phase I matching awards from 36 to 37 matches per year to 51 matches per year.

Venture Capital Investment Tax Credit

Indiana instituted the Venture Capital Investment Tax Credit program to attract or retain investment capital by way of income tax credits. The tax credit program improves access to capital for start-up and fast growing Indiana companies by providing individual and corporate investors an additional incentive to invest in early stage firms. Investors who provide qualified investment capital to qualified Indiana companies receive a credit against their Indiana tax liability. The maximum credit equals the lesser of 20 percent of the investment or $500,000.

A business is considered a qualified Indiana business if the IEDC determines that, among other factors, the business:

- Is primarily focused on professional motor vehicle racing, commercialization of research and development, technology transfers, or the application of new technology, or is determined to have significant potential to bring substantial capital into Indiana, create jobs, or diversify the business base of Indiana.
- Had average annual revenues of less than ($10million, in the two years preceding.
- Has at least 50 percent of its employees residing in Indiana, or at least 75 percent of its assets located in Indiana.

Since the program's inception in 2004, the number of investment dollars pledged to qualified businesses by investors has increased each year and now totals more than $28.2 million. The number of investors utilizing the program also continues to increase each year with more than 1,300 individual (angel), venture capital, and corporate investors in IEDC's database.

Patent income exemption

Indiana has implemented a tax law which aims to encourage innovation by giving entrepreneurs and small businesses a break on Indiana state income taxes for income derived from specific patents. Under Indiana's patent income exemption law, qualified taxpayers (individuals, companies with 500 or fewer employees, and nonprofit organizations and corporations) receive tax exemptions on certain income derived from qualified utility and plant patents, issued after December 2007.

A qualified taxpayer is entitled to an exemption from taxation for:

- Licensing fees or other income received for the use of a qualified patent;
- Royalties received for the infringement of a qualified patent;
- Receipts from the sale of a qualified patent; and
- Subject to specified limitations, income from the taxpayer's own use of the taxpayer's qualified patent to produce the claimed invention.

Qualified taxpayers are eligible for an exemption of 50 percent of patent income for each of the first five years. The exemption percentage decreases over the next five years to 10 percent in the tenth year. The total amount of exemptions claimed by a taxpayer may not exceed $5 million per year.

Certified Technology Parks

In 2002, Indiana unveiled an innovative statewide economic plan called Energize Indiana. The plan called for the investing of more than a billion dollars in new initiatives designed to stimulate new and existing businesses. One of those initiatives was the Certified Technology Park program. Under this program, qualifying communities that wish to establish themselves as havens for high-tech research and business could apply for state assistance to launch Certified Technology Parks.

Designation as a Certified Technology Park allows for the local recapture of certain state and local tax revenue, which can be invested in the development of the parks that serve as incubators to grow and nurture new ideas and high-tech enterprises.

Although each park provides their own unique resources, the majority of the parks offer incubator space, technical assistance, general business services, and assistance in raising capital.

How do incubators contribute to local and regional economies?

A 2008 study by the Economic Development Administration (EDA) found that business incubators are an effective public-private approach that produces new jobs at the lowest cost to the government. For every $10,000 in EDA funds invested in business incubators, an estimated 47 to 69 local jobs are generated. In rural areas, business incubator projects are the most effective type of EDA project.

Further, incubator graduates create jobs, revitalize neighborhoods, and commercialize new technologies, thus strengthening local, regional, and even national economies. The National Business Incubation Association (NBIA) estimates that in 2005 alone (the most recent information available), North American incubators assisted more than 27,000 start-ups that provided full-time employment for more than 100,000 workers and generated annual revenue of more than $17 billion.

According to a report by the Battelle Memorial Institute, every job in a research park generates an average of 2.57 jobs in the economy. Business incubators reduce the risk of small business failures. Historically, NBIA member incubators have reported that 87 percent of all firms that have graduated from their incubators are still in business, and that 84 percent of incubator graduates stay in their communities.

Indiana's growing network of nine business incubators and 19 Certified Technology Parks help encourage the growth of start-up life sciences and high-technology companies. The following is just one example of a tech-park's impact:

West Lafayette Purdue Research Park

Purdue Research Park of West Lafayette (one of Purdue's four research parks) is the state's first designated certified technology park, and its business acceleration model has received state and national recognition. Designated as a technology park in 2003, the park is home to 158 companies, of which 107 are technology-related and focused on companies operating in the areas of life sciences, Homeland Security, engineering, advanced manufacturing, and information technology.

According to Tim Peoples, director, Purdue Technology Centers, as of 2009, the park employed more than 3,100 employees. In addition, the park's annual average wage for new companies was $54,000. This compares favorably to the states average annual income of $38,901 and the U.S. average of $45,716 for 2008 (the most recent available data).

Indiana Capital Access Program

The Capital Access Program (CAP) is a small business credit enhancement program that creates a specific cash reserve fund for the lender to use as additional collateral for loans enrolled in the program. CAP allows lenders to consider making slightly riskier loans that might not meet conventional lending requirements.

Under the program, the borrower, the lender, and the IEDC each contribute a percentage of the loan into the lender's reserve fund, which pools contributions from all CAP loans. The lender determines whether a loan is made, the interest rate, the terms and conditions, and the amount contributed to the reserve fund (1.5 percent to 3.5 percent of the loan). The borrower pays its portion and the lender matches that amount (which the lender passes on to the borrower). The IEDC contributes a combined match of both the lender and borrower based on the following calculations:

- One-to-one for lenders with over $2 million in loans enrolled in CAP.
- One and a half for lenders with less than $2 million in loans enrolled in CAP.
- Double when a lender makes a loan to a business that is owned and operated by a racial minority borrower.
- Triple when the business is a high-growth/high-skilled company paying high wages to skilled workers or is a licensed child care facility.

Note that the highest match category includes high-growth/high-skill companies, again emphasizing the objective of increasing wages and diversifying the state's economy. Matt Tuohy, program manager, stated that though available to lenders of all sizes, small and mid-size community banks are the biggest users of the CAP program. This is due to the ease at which the program can be utilized in making small-dollar loans compared to the amount of effort and documentation involved in originating a loan secured by the SBA. The CAP program does not compete with SBA programs, but provides an alternative resource for lenders. Tuohy estimates that the average loan amount originated under the CAP program is $50,000, making them true examples of "mom and pop" loans.

As of December 2009, the Indiana CAP has helped Indiana lenders make over 3,600 loans totaling in excess of $185 million and assisted in the creation of over 11,300 jobs. Tuohy indicated that the CAP program has been frozen due to state budget cuts. However, funding may be reinstated in the 2011 budget cycle.

Conclusion

Small businesses are vital to the nation's economy. According to the Small Business Administration, they represent 99.7 percent of all employer firms, employ just over half of all private sector employees, and pay 44 percent of total U.S. private payroll. By offering these grants, tax incentives, and high tech incubator programs to help start and grow innovative high-wage companies, Indiana state officials are helping small businesses and start-ups develop the technology, expertise, and financial maturity needed to diversify the state's economy and reach a stage of development where they are more attractive to the financial community.

Biography

Desiree Hatcher is a community development director in the Federal Reserve Bank of Chicago's Community Development and Policy Studies division. Her current responsibilities include conducting outreach, providing technical assistance, and coordinating events which promote community development and fair access to financial services. Ms. Hatcher earned a bachelor's degree in finance from the University of Detroit Mercy and a master's degree in administration from Central Michigan University. She also holds certifications as a commissioned examiner, Certified Financial Services Auditor (CFSA), and Certified Regulatory Compliance Manager (CRCM).

Engaging corporate leaders and promoting economic development in Milwaukee

by Mary Jo Cannistra

The Federal Reserve Bank of Chicago, Milwaukee Urban Entrepreneur Partnership, and the University of Wisconsin's Center on Business and Poverty convened a series of meetings over the past year to discuss how corporate and civic leadership can be engaged to promote economic development in Milwaukee, Wisconsin. The meetings focused on forging greater links between corporations and small- and minority-owned businesses in the community, and on employment-based programs that help provide for the health and wealth of working families and help sustain communities.

Progress Through Business is a national, nonprofit affiliate of the University of Wisconsin's Center on Business and Poverty. It was created to focus on three key themes for the growth of communities: BusinessLINC, EmployeeLINC and GreenLINC. (LINC stands for Learning, Investment, Networking, and Collaboration). BusinessLINC focuses on ways to engage and support small, scalable, growth-oriented businesses, located in or employing people from low- and moderate-income communities. BusinessLINC connects small- and minority-owned businesses to business development opportunities in the corporate supply chain. EmployeeLINC focuses on the long-term financial stability of employees who work for these companies. GreenLINC focuses on the long-term sustainability – both economic and environmental sustainability – for those communities.

The theme of the first meeting, hosted at the law firm of Foley and Lardner, was "Leveraging Minority-owned Business to Build Corporate Milwaukee." James Connelly, partner at Foley and Lardner, pointed out that Milwaukee has an incredible array of government and nonprofit community resources, but "the biggest gap that exists in this community is the partnership between individual business leaders and individual minority entrepreneurs."

Kathryn Dunn, community investment officer at the Helen Bader Foundation (Foundation), explained the thinking behind some of the investments the Foundation has made in the community. In the late 1990s, welfare reform required communities to explore how to create the jobs necessary to move people from welfare to work. Some initiatives focused on workforce training and job-readiness programs. Others focused on the need to support emerging businesses.

The Foundation surveyed the landscape of distressed or disenfranchised areas in the greater Milwaukee area and found that a few banks were lending but not meeting demand. The Foundation decided to emphasize increasing access to capital for minority- and women-owned businesses, and supporting technical assistance and entrepreneurship programs offered in colleges, universities, or community-based organizations that had an established platform, including curriculum and mentoring opportunities.

The Foundation decided to launch a Program Related Investment (PRI)[1] fund to invest directly in for-profit ventures to support the growth and development of minority-owned businesses in the city. The Fund's goal was not to replace traditional financing, but rather to get borrowers to a strong enough position for traditional financial institutions. The Foundation, doing "one-on-one deals," Dunn said, ran the risk that it "would just become another bank." The Foundation decided to create a private equity fund that would bring traditional investors to a marketplace where they may not have been.

One of the challenges the community faces is connecting resources, whether it's a direct purchasing relationship between a minority company and a large corporation, or a financing situation. "We need to get more people introduced to these opportunities," Dunn said. It is important to make certain that entrepreneurs have access to the credit and capital they need. Businesses also need the technical expertise to better understand their market niche so that they can continue to grow. That kind of technical assistance is often missing, Dunn observed.

The Foundation was an early investor in Generation Growth Capital (GGC). John Reinke, director at GGC, said that his company is mainly focused on being a double bottom line private equity fund in a segment of the market that has been traditionally underserved. Reinke indicated that "There's not a lot of private equity capital chasing smaller middle market companies." He defines that as companies under $50 million in sales, although GGC generally targets companies in the $5 million to $25 million in sales range. He pointed out that nationally, there are not a lot of people doing that. On a regional level, there is virtually no one focused on the state of Wisconsin, and only a few funds have come in from Minneapolis and Chicago.

GGC's next area of focus includes companies that have a positive impact and are located in low- to moderate-income areas, and companies that are led by minority entrepreneurs. Reinke describes this as a novel idea in this state and GGC as "having the playground to ourselves." Reinke pointed out that, "You can make market-rate, private equity returns investing in this space. As you generate those returns," he continued, "the market becomes efficient and more of the deeply needed risk capital flows into these sectors of our economy that have been neglected. These businesses and entrepreneurs don't just need capital, they also need many resources. GGC also recognizes that the fund has a unique opportunity to bring in other business and operating advisors that leverage resources across an entire portfolio of companies.

Another company that combines technical assistance and financial support for small businesses is Wisconsin Business Development Corporation (WBD). Carol Maria, president of WBD Service Company, explained the credit issues that many of the businesses in the community face. WBD is a specialized, licensed organization under the Small Business Administration (SBA). They are the twelfth largest certified development company in the nation, and since its inception, WBD has produced nearly 17,000 loans to small businesses. All borrowers must occupy the real estate used to secure the loan. Every deal WBD structures with an SBA 504 program client is generally a "50/40/10" type of loan. A traditional bank lends 50 percent of the project cost, the SBA lends 40 percent, and the borrower invests 10 percent.

In 2009, WBD did more outreach in different spheres of influence to find transactions and doubled its network of lenders that had not historically used the SBA 504. WBD's leaders require that WBD finds additional credit enhancements to support their small business lending activities. Maria's role at WBD is to transition the organization from a transactional culture to a community development finance model. The New Markets Tax Credit (NMTC) has been a particularly useful tool in this regard.

The typical structure of a WBD deal is one where an investor in the NMTCs, a bank, is also the lender. The bank lends 70 percent of the total project cost in commercial credit. The bank funds the remaining 30 percent of the project cost through the NMTCs it buys from WBD. The structure allows WBD to evolve a deal that is initially 100 percent financed to a 70 percent loan-to-value deal (before any appreciation in the underlying security) at the end of seven years when the credits expire. Maria stressed that the creation of equity that quickly in a business is a crucial aspect, because the SBA 504 product is long-term at a fixed rate.

"When an investment is made in the 504 deal structure, all of the businesses show an increase in payroll over the term of their loan," Maria said. "So we know," she continued, "that the SBA tool works to increase wealth in communities by increasing payroll to people who work there." WBD expects that same trend, but at a much larger scale, with the NMTCs. They anticipate that within the next seven years, they will have the first loan fund at WBD which can provide additional subsidy to other 504 projects or other kinds of projects.

In addition to being a partner at Foley and Lardner, James Connelly is also a venture capitalist. In the summer of 2006, Connelly invested in a minority-owned company called Trinidad Group, owned by Frank Cumberbatch. With Connelly filling the role of mentor-investor, Trinidad Group has undertaken two ambitious endeavors. The first is Boca Grande Capital, a Milwaukee-based real estate development firm that is focused on the revitalization of downtown Ripon, Wisconsin. Boca Grande has acquired more than 20 buildings on the main street in Ripon. Ripon's downtown is "still intact," and most of the buildings were built between 1829 and 1881. Boca Grande has formed a public-private partnership with the city of Ripon and the city government established a redevelopment zone covering the entire downtown area.

Connelly and Cumberbatch's second endeavor is Granite Broadband. Wireless broadband capacity is mostly nonexistent in small towns and rural areas – particularly in Wisconsin. The corporate headquarters for Granite Broadband will soon be located in one of the newly renovated buildings in Ripon, Wisconsin. Connelly indicated that, in cooperation with the Wisconsin Department of Commerce, Granite Broadband is well positioned to receive federal funding to develop broadband in the northern half of Wisconsin.

Connelly stated that the most important aspects of an investor-entrepreneur relationship are: trust, absolute open communication, and ongoing accountability – on both sides. He went on to say that "Balance sheets, operating statements, budgets, cash flow, margins, all of those types of fundamentals are essential to the success of any entrepreneur." In business, Connelly refers to what he calls his "rule of three," which is "If you have more than three priorities, you have none."

Further discussion among the meeting participants involved business partner relationships. One participant pointed out that "we cannot have business ownership on one side of the race equation and no real ownership on the other side." Developing trusting relationships between White leaders and emerging minority entrepreneurs is critical. These relationships will only succeed if there is ethical, corporate community, and financing behind the whole process.

Leo Ries, Milwaukee program director for the Local Initiatives Support Corporation, highlighted Marquette University's Associates in Commercial Real Estate (ACRE) program as a great model that could be replicated in other industries. The program attracts young entrepreneurs who have an interest in commercial real estate. Over time, a relationship is built that provides ways to create networking opportunities and expand into a much bigger enterprise. Similarly, Ries explained, the Main Street Program reaches out to "segregated, homogenous minority neighborhoods that have no interaction with the broader culture to help them become functional sub-communities within their own environment. It's important to find a way to create structures that enable and support this relationship building process between people, resources, and expertise, and the struggling entrepreneur who in some cases is unaware of the opportunities and resources available in the community." Don Graves, (then) chairman of the Milwaukee UEP (and now a deputy assistant secretary with the Treasury Department), reiterated the importance of being able to create these types of relationships between the corporate executives and the leaders in the community – those in which they actually want to spend the time with emerging business leaders.

Graves also emphasized the need for a continuum of services and support for entrepreneurs in the Milwaukee community – from someone interested in starting a small business to the owner of a growing, scalable business. "What can be done to ensure that there is this continuum of services and support, so that people can succeed in starting a business, growing the business, employing people in the community, and creating economic wealth?"

Curt Culver, CEO at Mortgage Guaranty Insurance Corporation (MGIC), expressed the importance of corporations' employee culture as a contributor to community and economic development in a keynote address to the meeting. Culver stated that "The only sustainable advantage that any company can have is its employee culture, because ultimately everything gets commoditized, and it's your people that make a difference." He added that by creating an organization that's learning, caring, and ethical, you create an organization wherein everyone feels like they make a difference. Competitively, if everyone feels that they make a difference, you will make a difference as a company.

"…the most important aspects of an investor-entrepreneur relationship are: trust, absolute open communication, and ongoing accountability – on both sides…"Balance sheets, operating statements, budgets, cash flow, margins, all of those types of fundamentals are essential to the success of any entrepreneur."

Culver stressed that "You want your people to feel like they're always leaders. You want them to always take ownership and you want them to find fulfillment in their job . . . if they find fulfillment in their job, they find it in their lives." He believes that it's not about titles – it's about people who put their talent into action, and that if people feel their life has a purpose, they'll live that type of life. Culver, who grew up with parents running a family-owned business, works hard to create opportunities for people in his company. MGIC surveys its employees each year on how MGIC is doing as a company, and how happy they are with their jobs. "Companies need to create an atmosphere in which everyone feels like they can do the right thing," he added.

Another point Culver made is that fairness, honesty, respect, integrity, and finding fulfillment and balance are as important in your business life as they are in your personal life. He recommends getting involved in the community to his employees as one way of achieving balance and fulfillment.

A subsequent meeting convened by Progress Through Business, Milwaukee Urban Entrepreneur Partnership, and the Federal Reserve Bank of Chicago at Milwaukee's Urban Ecology Center,[2] picked up on Culver's theme of corporate engagement in the community through its employees. This theme also parallels what Progress Through Business emphasizes under the title of EmployeeLINC.

Drew von Glahn, CEO of FEI Behavioral Health (FEI), established the organization 30 years ago as an employee assistance program. FEI provides all types of behavioral support to employees around the country and the globe. Mental health has a higher negative impact in the workplace than any other disease or illness in terms of productivity losses. He emphasized that the mental health issues that managers deal with in the workplace are primarily family-related issues.

FEI provides services, such as short-term counseling, financial counseling, legal advice, and wellness programs, aimed towards behavior, so that employees can become more productive. Their goal is to provide the employees with the same types of assistance that nonprofits bring to their communities. Von Glahn disscussed the three most frequent challenges:

- marital/interpersonal relationships;
- financial worries; and
- stress.

FEI's programs help people get their personal matters in order, so that they can in turn provide value to their employer. In order to measure the effect of behavioral issues in the workplace, FEI has been analyzing its services on employees in the workplace. They have found that when someone goes through their short-term counseling programs, there's about a 90 percent improvement in terms of days lost in the workplace, about 25 percent improvement in productivity, and about 10 percent less need for using health care services.

FEI has also been working with the Ford Foundation on a financial management program specifically targeted towards its low-wage employees. This includes providing a range of services, from budget coaching to assisting low-wage employees obtain Earned Income Tax Credits.

In addition, FEI is in the process of developing a corporate program that will allow low-income working parents to access up to $6,000 in car financing. Some low-wage workers experience limited access to credit because of poor credit or no credit history. The program has an impact on the individual's ability to work and their retention in the workplace, as well as their own productivity and sense of value to the organization.

"The only sustainable advantage that any company can have is its employee culture, because ultimately everything gets commoditized, and it's your people that make a difference."

Jeff Faulkner, president of Ways to Work, introduced the work that it does as a community development financial institution.[3] Ways to Work and FEI Behavioral Health are part of Families International, headquartered in Milwaukee, which also include the Alliance for Children and Families and the United Neighborhood Centers. Ways to Work operates a family economic success program that links just-in-time education with loans – a small-dollar loan product. Typically, it's a low-interest car loan for working families to help them succeed both in the work place and in their family responsibilities.

Ways to Work has commissioned several independent studies of the impact of the Ways to Work program.[4] The studies indicated that the combination of financial counseling, support, and access to credit improve outcomes for workers and their families. Ways to Work clients are shown to have improved workforce outcomes, greater access to mainstream financial services, and improved family life.

Ray Schmidt, executive director of Select Milwaukee, reported on the costs and benefits of employer assisted housing (EAH) programs in Milwaukee. "In 2009, Milwaukee-area employers invested $246,000 to help 85 employees purchase homes. That private investment leveraged another $294,000 in additional incentives, leading to $11 million in home sales."[5] In 2004, Schmidt reported that, "Employers offering EAH home ownership benefits describe a values-based motivation for launching and maintaining their programs . . . because management intuitively understood the value of home ownership and its impact on employees' lives, the quality of life in neighborhoods, the property tax base, and employee retention and relations."[6] A more recent study was able to quantify more about Milwaukee employer assisted housing programs between 2003 and 2008 (see table on page 32).[7] As Schmidt summarized for the meeting participants, between 2003 and 2008, employers invested $1.4 million helping 477 home buyers; 62 percent of their investment was direct investment in the home purchase ($1,835/participating employee, on average) and the other 38 percent provided program support and administration ($1,100/participating employee, on average). From the community's standpoint, that $1.4 million leveraged $55 million in private, prime-rate mortgage investments – $39 for every $1 of employer contribution.

Schmidt also highlighted the performance of the EAH clients during the mortgage crisis. Many of the clients, without the Select Milwaukee program, would probably have been "victimized" as nonprime borrowers. However, through 2007, the foreclosure rate on EAH mortgages was only 1.2

percent (six of the 477 EAH participants), as compared to 11.2 percent foreclosure rate in Milwaukee County in the same period.

Finally, Mr. Schmidt agreed with the study's conclusion that correlation is not causation. "It is important to note that this study was a one-time snapshot that was unable to directly test what has caused the differences in tenure and performance between employees who take advantage of EAH and those that do not." But the results are "substantial enough that they are highly suggestive of a positive bottom line impact of EAH for Aurora that far exceeds the costs of its investment in the program."[8]

Dr. John Hoffmire, director of the University of Wisconsin's Center on Business and Poverty, David Mancl from the Wisconsin Department of Financial Institutions, and Ammar Askari from M&I Bank all presented examples of workplace financial education programs that benefit employees. These programs have increase income through greater access to earned income tax credits, and they have improved employee participation in employer provided tuition programs for continuing education and in employee stock purchase programs. Each of these programs has demonstrated retention benefits for employers as well.

David Weiss, CEO of General Capital Management, Inc., discussed the frequently overlooked opportunities for corporations to invest in community programs. He emphasized that programs like Affordable Housing Tax Credits and New Markets Tax Credits provide double digit rates of return in highly regulated, structured investments.

Because these programs have been dominated by investors motivated by Community Reinvestment Act requirements, many businesses mistakenly believe that these are philanthropic programs. As an alternative investment, Weiss points out, "tax credits have superior risk-adjusted returns and substantial, measurable community impact." As the biggest historical driver of affordable housing in America, Weiss said, "It is critical to expand the universe of buyers for the tax credits."

Similarly, the New Markets Tax Credit provides a business-oriented opportunity for investors. Weiss described the use of New Markets Tax Credits to help an environmental cleanup project that resulted in "$50 million in value creation."

Stan Friedman, president and cofounder of Retro Tax, a company that identifies and administers federal wage-based tax credits, which are available for businesses that are located inside federal state and county zones, such as Empowerment Zones, Enterprise Communities, and Tax Increment Finance Districts. Friedman is also the chairman of the International Franchise Association's Minorities in Franchising, bringing financing opportunities to inner cities – franchising as a business model and a way to break dependency on a paycheck and with the promise of business ownership.

Conclusion

Milwaukee, like many cities, is always looking for new ways to leverage the resources of public, private, and nonprofit entities to improve the communities and the lives of those communities' residents. Corporate engagement on a business level – as distinguished from corporations' philanthropic engagement – is an emerging but underdeveloped opportunity according to city business, civic and government leaders. Corporations that can work through their business operations to provide additional support and benefits to employees, and provide greater access to business opportunities for small businesses can provide a greater level of support at little or no additional cost to the company. Indeed, as some of the participants in the Engaging Corporate Leaders meetings have argued, companies can even expect a return on their investments while supporting the health and vitality of their own communities.

Acknowledgement

I would like to thank Don Graves (formerly chairman of the Milwaukee Urban Entrepreneur Partnership, now serving as deputy assistant secretary at the U.S. Treasury Department), John Hoffmire (director of Center on Business and Poverty at the University of Wisconsin) for their contributions in these meetings, as well as Jeremiah Boyle (managing director of Economic Development at the Federal Reserve Bank of Chicago) for his assistance with this article.

Biography

Mary Jo Cannistra is assistant manager in the Community Development and Policy Studies (CDPS) division at the Federal Reserve Bank of Chicago, responsible for production and project management in the division. and is the assistant editor and production manager for *Profitwise News and Views*. Ms. Cannistra holds a BA in business management from DePaul University.

Table

	All Aurora Employees	Metro Area Employees	EAH Participants
Workforce Profile			
Number of Employees	26,051	10,007	208
Percent Minority	12%	19%	46.7%
Percent Female	83%	83%	84.6%
Percent Under 35	32%	35%	55.3%
Job Level			
Staff	46%	43%	47.6%
Professional	48.3%	52.8%	48.6%
Leadership	5.7%	4.2%	3.8%
Age			
20-24	9%	10%	7.2%
25-34	23%	25%	48.1%
35-44	23%	21%	24.5%
45-54	27%	26%	16.3%
55 and up	18%	17%	3.8%
Race			
African-American	6%	12%	27.9%
American Indian/ Alaskan Native	1%	1%	0.5%
Asian/Pacific Islander	2%	2%	0%
Hispanic	3%	4%	18.3%
White	88%	81%	53.4%
Turnover			
2004	N/A	13.4%	7.2%
2005	N/A	11%	5.3%
2006	N/A	12.1%	3.9%
2007	11.8%	12.6%	4.8%

Source: Lynn M. Ross. 2008.
Quantifying the Value Proposition of Employer-Assisted Housing: A Case Study of Aurora Health Care.
Center for Housing Policy
www.nhc.org/media/documents/Quantifying_EAH.pdf.

Notes

1 "To be program related, the investments must significantly further the foundation's exempt activities. They must be investments that would not have been made except for the relationship to the exempt purposes. The investments include those made in *functionally related activities* that are carried on within a larger combination of similar activities related to the exempt purposes." Retrieved from www.irs.gov/charities/foundations/article/0,,id=137793,00.html.

2 The Urban Ecology Center was highlighted in the October 2009 edition of *Profitwise News and Views*, pp.16-17 at www.chicagofed.org/digital_assets/publications/profitwise_news_and_views/2009/PNV_Oct2009_SpEd_web.pdf.

3 Ways to Work was featured in *Profitwise News and Views* in May 2007. Available at www.waystowork.com/documents/Fed%20Reserve%20Article%20%20May%202007.pdf.

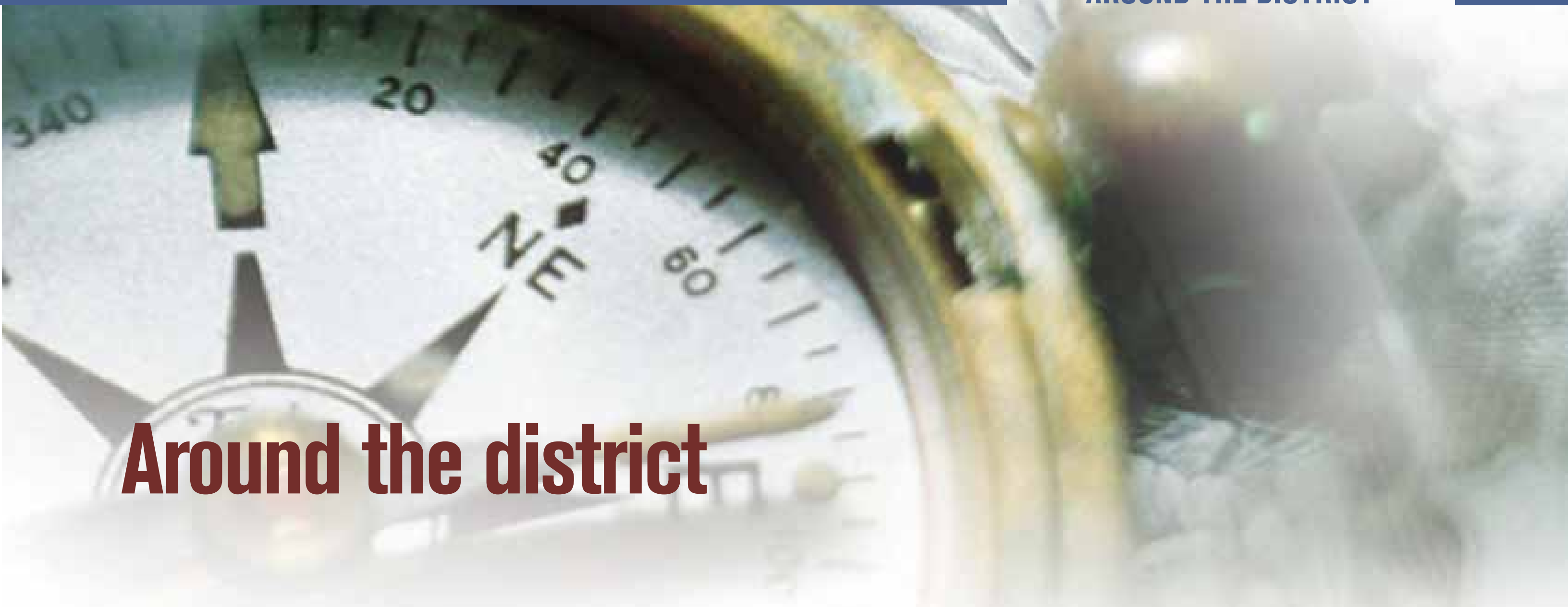
4 These studies can be found at the Ways to Work Web site at www.waystowork.com/pages/p_po_wtw-stds.html.

5 "Select Milwaukee" highlighted at *Minneapolis workforce housing forum highlights innovative housing solutions* at www.metroplanning.org/news-events/article/5926.

6 Schmidt, Raymond. 2004. "Significant Returns on Milwaukee's Employer Assisted Homeownership Investments," in *Private Sector Partnerships: Investing in Housing and Neighborhood Revitalization*. Washington, DC: National Housing Council's *Affordable Housing Policy Review*, volume 3, issue 2. June 2004. Available at www.nhc.org/media/documents/PrivateSectorFinal04.pdf.

7 Ross, Lynn M. 2008. *Quantifying the Value Proposition of Employer-Assisted Housing: A Case Study of Aurora Health Care*. Washington, DC: Center for Housing Policy, May 2008. Available at www.nhc.org/media/documents/Quantifying_EAH.pdf.

8 Ross, 2008. pp.9.



Around the district

Illinois

Opportunity Chicago establishes workforce initiative for public housing residents

The Chicago Housing Authority (CHA), The Partnership for New Communities (PNC) and the Chicago Department of Family and Support Services (DFSS) recently released a report, *A Partnership for Change*, to provide details about the goals, strategies, and effects of Opportunity Chicago, a five-year initiative that began in 2006 to provide Chicago public housing residents employment training and opportunities. Despite the most challenging economic climate since the Great Depression, this workforce development initiative has helped nearly 5,800 Chicagoans obtain employment. "Not only do initiatives like this advance good public policy and practices, they also promote family and community stability through employment," said Lewis A. Jordan, CEO of CHA.

Initial findings from a revitalization effort that includes the replacement of impoverished high-rises with mixed-income communities, the Plan for Transformation, sparked the concept to establish Opportunity Chicago. After the first mixed-income sites became ready for occupancy, officials found a need to increase access to training and employment opportunities to help public housing residents comply with standards in new mixed-income housing – many of which require employment as criteria for residency. "This initiative focused on Chicagoans who are often overlooked by the public workforce development system," said Maria Hibbs, executive director of PNC. She continued, "Through intensive collaboration, the use of flexible resources, and dedicated partnership, Opportunity Chicago met the training needs of public housing residents while making significant changes to systems that serve them."

The result is a public workforce development system that is more responsive to a range of disadvantaged job seekers and can serve as an example for other cities across the nation. "Our goal was to break the cycle of poverty for families living in public housing," said Mary Ellen Caron, commissioner of the DFSS. "This was an opportunity for all three partners to help create sustainable, successful job training and placement programs as well as demonstrate the effectiveness of Chicago's workforce development system."

This report is the first of several documents to be released as Opportunity Chicago comes to a close in 2010. A Partnership for Change can be found at www.opportunitychicago.org/pages/story/documents/OC_partnership_for_change.pdf.

Indiana

Combating homelessness in Indianapolis

The Federal Reserve Bank of Chicago's Community Development and Policy Studies division recently hosted the Indianapolis Community Development Forum. The guest speaker, Laura Littlepage, a clinical lecturer from Indiana University School of Public and Environmental Affairs, introduced her report titled, "Focusing on Rapid Re-Housing Combats Family Homelessness in Indianapolis" to highlight how the Coalition for Homelessness Intervention and Prevention (CHIP) was coordinated on January 21, 2010, and how they administered the annual point-in-time count of homeless individuals.

Ms. Littlepage discusses in her article the "details and background of the count as well as findings and thoughts for policymakers concerned with improving services for the Indianapolis community's homeless population." In her findings, she concluded that 1,488 individuals were experiencing homelessness in Marion County on the date the count began. According to the 825 responses to the survey question, the 2 percent increase over 2009 results is the result of homelessness, followed by alcohol and drugs.

Recommendations to improve services for the homeless population include: increasing the number of affordable housing units and the occupancy rates for those units, as recommended in the "Blueprint to End Homelessness," increasing services for youth who are aging out of foster care, providing job training and job placement assistance, and expanding access to services that address chronic substance abusing and mental illness.

For more information, you may access the full report at www.policyinstitute.iu.edu/PubsPDFs/Homeless_PPI_Pr4.pdf.

Iowa

U.S. Small Business Administration collaborates on promoting Iowa exports

Although widely recognized as a rural agricultural state, Iowa's manufacturing sector now exceeds agriculture in total economic output. In addition, the Iowa Department of Economic Development has a section offering assistance to Iowa companies that wish to take advantage of export opportunities. Under the title of International Financial Assistance, Iowa has an Export Trade Assistance program that helps Iowa businesses enter new markets outside of the United States.

The Small Business Administration (SBA) has also recently entered into a renewed initiative to assist U.S. small businesses to enter or expand their existing export markets. While Iowa grain producers have long exported significant amounts of farm produce to overseas markets, the other Iowa economic sectors have recently begun to show interest in export markets. Through a combination of assistance from the SBA, the Iowa Department of Economic Development, and the U.S. Department of Commerce's Commercial Service division, specializing in international trade, Iowa small businesses now have several resources to choose from for assistance in entering these new trade markets.

Wisconsin

Forward Community Investments recognized by CDFI Fund and Peers

On November 3, at the Opportunity Finance Network Conference in San Francisco, California, Madison-based Forward Community Investments (FCI) received a NEXT Award for Opportunity Finance. The NEXT Award recognizes CDFIs that demonstrate "excellence in advocacy, community impact, financing, and innovation. FCI was recognized for its 2009 effort to preserve the tax-exempt status of housing provided by nonprofit organizations in Wisconsin, and for its 2010 effort to establish an investment tax credit for investments in Wisconsin's CDFIs.

The NEXT Award followed close on the October announcement of the CDFI Fund's first Capital Magnet Fund Awards. Forward Community Investments was one of only 23 recipients nationally in the first round of funding. The Capital Magnet Fund provides grants that CDFIs and nonprofit housing groups can leverage for eligible projects at "at least" a 10:1 ratio. Eligible projects include affordable housing, economic development, and community service facilities.

The Federal Reserve Bank of Chicago and the Helen Bader Foundation hosted a workshop for Wisconsin CDFIs on December 1 – the first ever convening of all of Wisconsin's CDFIs. That workshop will be the subject of a forthcoming article in *Profitwise News and Views.*

For more information about Forward Community Investments, visit www.forwardci.org.

For more information about the CDFIs Capital Magnet Fund, see www.cdfifund.gov/news_events/CDFI-2010-43-Treasury-Officials-Congresswoman-Lee-Announce-80-Million.asp.

For more information about the NEXT Awards, visit www.nextawards.org/celebration/10awardees.asp.

Michigan

Detroit Works Project: a blueprint for our future city

The Federal Reserve Bank of Chicago co-sponsored a conference with Community Development Advocates of Detroit, Local Initiatives Support Corporation, and Financial Institutions Community Development entitled, "Signs of Progress in Detroit." One of the topics discussed was an update on the Detroit Works Project presented by representatives of the city of Detroit Planning and Development Department.

According to the presenters, the Detroit Works project is an opportunity for our community to come together and build a roadmap from the Detroit of today to our future, a better city. The Detroit Works project consists of four phases of neighborhood forums and meetings with community groups. Phase one was completed in October 2010 and consisted of five community forums promoting planning awareness. Phase two began in November 2010 and will consist of 40 community forums to obtain public input and ideas on helping Detroit move forward. Phase three will consist of six forums with the purpose of choosing a strategic direction. Phase four will involve public review and comment regarding the plan adoption.

According to the presenters, the mayor is committed to an inclusive, transparent, and comprehensive process. The city is facing challenges that cannot be solved overnight and it is necessary to provide residents and stakeholders the opportunity to participate.

Call for papers: 2011 Community Affairs Research Conference

Arlington, VA – April 28-29, 2011

The Community Affairs Officers of the Federal Reserve System invite paper submissions for the seventh annual Federal Reserve Community Affairs Research Conference. The goal of the conference is to highlight new research that can directly inform community development policy and practice in the wake of the deepest recession since the pre-War period. Visit www.frbsf.org/community/2011ResearchConference for more information on submission guidelines.

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