

## THE BANK IN THE COMMUNITY

The recent recession demonstrates how conditions in local markets are closely linked to fluctuations in the macroeconomy—and that having a fuller appreciation of one can help us better understand the other.

The Richmond Fed has recently taken a closer look at the way information about the economy is gathered at the regional level. In 2009, the Fifth District created a new district-wide outreach function to improve the quality of information gathered from local business and community leaders.

The new outreach function streamlined the Richmond Fed's efforts across departments and branch locations. Outreach activities are now more closely coordinated across multiple departments within the Bank, from Research to Economic Education to Community Affairs, each with an interest in understanding and making an impact on the local economy. The new function created a stronger internal infrastructure for disseminating and sharing what each department is learning from the community, ultimately to improve the relationships, policies, and impact of the Richmond Fed.

### Understanding Local Economic Challenges

One major initiative coordinated by the new outreach function is a series of regional economic forums in Fifth District communities. In each forum, staff from the Richmond Fed, including President Jeffrey Lacker and First Vice President Sarah Green, participates in events with business, community, financial, and education leaders within Fifth District communities to better understand local economic conditions. The forums include visits to local business operations and roundtable discussions with industry leaders and bankers to discuss solutions to local economic challenges.

The forums focus on the unique issues in the region. The decline in manufacturing has been an important part of the Fifth District's recent economic history, including for Danville, Va., a river town located at the foothills of the Blue Ridge Mountains. The Richmond Fed held an economic forum in Danville in August 2009 to better understand how the decline in manufacturing has affected the region's prospects for economic recovery.

In the past, high school graduates in Danville could count on an abundance of jobs in local factories that did not require a college degree or additional training. Many of those jobs are now gone, however, and the manufacturing jobs that remain typically require workers skilled in sophisticated technologies and analytical thinking

unlike the more traditional assembly line jobs of the past. For example, Danville is the new home of Swedwood, the first U.S.-based manufacturing facility of Sweden-based furniture maker IKEA. While the arrival of Swedwood provides great hope for the Danville region, it also demonstrates that the unemployment problem is sometimes thornier than data alone would indicate. Swedwood relies on highly sophisticated, automated plant equipment used to transform IKEA furniture from raw materials to finished products with virtually no human intervention, except when there are

problems that require changes to operations. This requires on-the-fly problem solving and understanding process metrics.

In Danville, recovery might require a significant retraining and retooling of the local work force's skill set to help people acquire the tools desired by employers. Organizations like the Danville-based Institute for Advanced Learning and Research, for instance, are working to attract skilled jobs to the region and connect them with available workers.



Richmond Fed President Jeffrey Lacker meets with local officials in the city of Goldsboro during a three-day visit to eastern North Carolina. The trip included visits by Bank leaders to the Seymour Johnson Air Force Base and Fort Bragg as well as discussions with representatives from the timber industry, which has suffered from the housing downturn.

In 2010, the Richmond Fed's outreach team will visit other communities struggling with work force development issues. One area of focus will include Hampton Roads, a coastal Virginia community with a strong need for skilled labor in shipbuilding and other industries related to the region's harbors.

While providing a venue to learn about local economies directly from community and business leaders, regional economic forums have also helped the Richmond Fed respond to the strong desire for economic information in the wake of the financial crisis. The forums provide a medium for the Richmond Fed to spread information about issues relating to the Fed's direct responsibilities, including monetary policy, changes to consumer protection, foreclosure prevention solutions, neighborhood stabilization strategies, and the Fifth District's view on policy issues. Policy issues—ranging from the likely path of inflation to the “too big to fail” problem—can have a real impact on local businesses' plans and the lives of people in those communities.

### Identifying Local Barriers to Foreclosure Solutions

Many symptoms of recession are not new, such as work force development issues when local industries shift or decline and neighborhood blight following mass foreclosure. Many of these problems arise cyclically, but the solutions are not uniform. As difficult as the foreclosure crisis has been for homeowners and communities, it has also provided a valuable opportunity to learn about the problem of foreclosure from both banks and homeowners.

One of the Richmond Fed's primary roles in this area is aiding the implementation of government programs created to assist homeowners at risk of foreclosure,



This foreclosed home in Front Royal, Va., was targeted for rehabilitation under the federal government's Neighborhood Stabilization Program, which helps communities struggling with foreclosure. The Richmond Fed visited the area in July 2009 as part of a case study conducted with the Cleveland Fed that analyzed how communities were implementing the program.

including federal loan modification programs enacted to address the effects of the housing downturn. The Fifth District partnered with nonprofit organizations such as HOPE NOW and NeighborWorks America to host events that bring together mortgage servicers and homeowners at risk of foreclosure to work out potential mortgage modifications. The events were free and open to the public, held in regions with some of the highest percentages of home foreclosures in the mid-Atlantic and Southeast, including the Washington, D.C., and Charlotte, N.C., metropolitan areas. The Richmond Fed

contributes by providing technical and in-kind support to these events.

Yet given the size of the foreclosure problem and the challenges to achieving mortgage modifications, it is clear that foreclosures will continue to pose big problems for communities. The Richmond Fed also has helped communities address the negative effects of foreclosure by focusing on neighborhood revitalization in conjunction with organizations such as the federal Neighborhood Stabilization Program, which was created by the Housing and Economic Recovery Act of 2008.

Areas that have experienced large numbers of foreclosures can face property blight, further declines in home values, and crime—all of which are a roadblock to economic recovery. In some communities it is not immediately clear who even owns foreclosed homes since lenders and loan servicers are not always willing to claim ownership. The Richmond Fed's Community Affairs team partnered with the Cleveland Fed in publishing a study that analyzed how to most effectively implement the Neighborhood Stabilization Program, a federal initiative that devotes funds to communities struggling with foreclosure.

In many ways, community revitalization will be best supported by local economic recovery. The Fifth District has worked to strengthen Community Development Financial Institutions, or CDFIs. These are financial institutions, including some credit unions, community development banks, and venture capital funds, working specifically to support local economic growth by providing access to credit and other services to underserved and typically low- to moderate-income populations. CDFIs are funded largely by private sources like banks and nonprofit foundations, but also receive support through the federal government's CDFI Fund.

In October 2009 the Richmond Fed presented research at a conference in Charlotte, N.C., hosted by the Opportunity Finance Network, the Mary Reynolds Babcock Foundation, and the U.S. Treasury to help strengthen community development finance capacity in the Southeast. The session provided education to banks, nonprofits, and policymakers about the work of CDFIs, highlighting potentially profitable opportunities for them to work together, and explored possibilities for increasing CDFI capacity.

## A Regional Insight to Policy

Richmond Fed outreach events are not one-time interactions with those in the community. In many cases, they support the Richmond Fed's more formal tools for gathering regional economic information. The contacts established through outreach have resulted in ongoing relationships with local business and community leaders. Many of these relationships result in invitations to serve on the Fifth District's boards of directors and advisory councils, as well as contacts for the Beige Book's survey of regional economic conditions and the Fifth District's other regional economic surveys.

Since economic data can often come with a lag, these councils and surveys provide real-time insights into economic conditions that can precede or qualify hard data. This is critical for policymaking, as it can bring emerging issues to light that could otherwise stay hidden.

Gathering information at a local level would not be possible without proximity to the businesses and institutions that are the engines of regional economic activity. Furthermore, having independent regional Reserve Banks within the Federal Reserve System allows each regional

Fed to pursue individual research agendas that help the Fed presidents formulate independent positions on policy issues. Without a doubt, this diversity of perspectives—gained in part through insight resulting from local relationships—is one of the greatest strengths of the Fed's structure.

Each of the Richmond Fed's outreach efforts supports the Federal Reserve System's mandate to support the health of the overall economy. Maintaining relationships with local business and community lead-

ers casts a clearer perspective on the regional component of that picture. Gaining this critical intelligence creates better opportunities to identify and respond to emerging economic issues and helps the Fifth District refine its stance on key policy issues. Applying the Fifth District's outreach resources strategically to the communities that need them most contributes to a more sound regional and national economy. ■■



Attendees gather information on foreclosure prevention at a HOPE NOW event in the Washington, D.C., area. The Richmond Fed sponsored three such events in 2009 in Fifth District locations that exhibited high rates of mortgage delinquencies.