

## Community Investments

**EDITOR-IN-CHIEF**  
Joy Hoffmann

**MANAGING EDITOR**  
Lena Robinson

**CONTRIBUTING EDITOR**  
Jack Richards

**ART DIRECTOR**  
Cynthia B. Blake

If you have an interesting community development program or idea, we would like to consider publishing an article by or about you. Please contact:

**MANAGING EDITOR**  
*Community Investments*  
Federal Reserve Bank of San Francisco  
101 Market Street, Mail Stop 620  
San Francisco, California 94105

**Community Affairs Department**  
**www.frbsf.org**  
**(415) 974-2978**  
**fax: (415) 393-1920**

**Joy Hoffmann**  
Vice President  
Public Information and Community Affairs  
joy.h.molloy@sf.frb.org

**Jack Richards**  
Community Affairs Senior Manager  
jack.richards@sf.frb.org

**Bruce Ito**  
Associate Community Investment Specialist  
bruce.ito@sf.frb.org

**H. Fred Mendez**  
Senior Community Investment Specialist  
fred.mendez@sf.frb.org

**Craig Nolte**  
Senior Community Investment Specialist  
(Seattle Branch)  
craig.nolte@sf.frb.org

**John Olson**  
Community Investment Specialist  
john.olson@sf.frb.org

**Adria Graham Scott**  
Community Investment Specialist  
(Los Angeles Branch)  
adria.graham-scott@sf.frb.org

**Lena Robinson**  
Community Investment Specialist  
lena.robinson@sf.frb.org

**Mary Malone**  
Protocol Coordinator  
mary.malone@sf.frb.org

**Judith Vaughn**  
Staff Assistant  
judith.a.vaughn@sf.frb.org

# Editor's **NOTEBOOK** by Fred Mendez

## — STAFF PERSPECTIVE —

While some aspects of the "new economy" have gone the way of the leisure suit, web portals continue to evolve and change the way business is done. The possible implications of this evolution on the democratization of credit are boundless. Historically, businesses have served a particular geographic marketplace, forcing them to tailor their products and services to the needs of the population in that geographic marketplace. Some businesses have found ways to serve a much larger marketplace, not limited by geographic boundaries, by providing homogenous products and services with broad customer appeal in order to achieve economies of scale. Our new economy has provided ways for some businesses to achieve economies of scale by providing tailored products to a marketplace defined by customer rather than geography.

Case in point: log onto the Internet and shop for a dress shirt with a 19-inch neck and 28-inch arm length and presto . . . a business in Vermont can confirm your order and have the shirt delivered within days. It would be safe to assume that Vermont does not have a large population of men who need such shirts. The Internet provides this business with a link to brand name portals like Yahoo or America Online, a global marketplace for odd-sized dress shirts, and "customized" economies of scale.

Any time spent on-line at lending portals indicates that financial institutions are searching for their place in the new economy. Most institutions are under pressure from shareholders and analysts to provide their products and services in a streamlined and cost-efficient manner in order to maintain strong earnings growth, which has led to standardization of products. Laws like the Community Reinvestment Act (CRA) encourage financial institutions to focus more on geography than a target customer base; a focus that has been criticized by financial institutions as limiting their evolution to serve the same role as the odd-sized shirt manufacturer in Vermont, while being supported by community-based organizations as a way for financial institutions to be responsive to local community needs. Both sides are right, and the current review of the CRA regulation will offer an opportunity for both to find a compromise.

Also important in determining where financial institutions can fit within the new economy are the capital markets. The products underlying existing mortgage-backed securities are typically very conservative, and although many of the loans originated by community development financial institutions over the last decade are virtually standardized, there has been surprisingly little appetite for securities backed by these loans. Although the CRA's investment requirements for large financial institutions have encouraged the purchase of geographically targeted mortgage-backed securities, low-income housing tax credits and community development municipal bonds, these CRA-related investments are simply a re-labeling of existing products that were already widely available. It would seem that the capital markets aren't in a position to lead financial institutions towards the new economy.

Perhaps there are investors out there who would happily purchase securities with different maturities and weighted interest rates, regardless of geography. The demand created by these investors would spur the development of a lending portal where potential borrowers of different income levels could request customized loans that exactly match need with payment ability. The current review of the CRA regulation provides us with an excellent opportunity to discuss these types of issues and look to the day when purchasing a home with a customized loan is as easy as buying an odd-sized dress shirt.

