Speech to the Central Valley Banking Forum
Fresno, California
By Janet L. Yellen, President and CEO, Federal Reserve Bank of San Francisco
November 14, 2006, 1:00 PM Pacific Standard Time

# Exploring the Valley's Unbanked Opportunity

Good afternoon. I'm Janet Yellen, President and CEO of the Federal Reserve Bank of San Francisco. On behalf of the San Francisco Fed and our co-hosts, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank of San Francisco, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision, I would like to thank you for joining us today to explore innovative ways to help immigrants and low-income families in the Central Valley access mainstream financial services.[1] As I will discuss later in my remarks, access to a bank account is an important stepping stone to financial stability for these families, and I commend you on your efforts.

Before I begin, I have to confess that this is my first real visit to Fresno. Like many coastal residents, my Central Valley experience has been limited to driving through it on my way north. While I-5 and highway 99 are iconic symbols of a region that stretches from Redding to Bakersfield, everyone in this room knows it is a mistake to equate the Central Valley with these narrow bands of asphalt. It is really only when you get off the freeway and venture onto the Valley's city streets and rural back roads that its richness becomes apparent. The communities of the Valley are incredibly diverse, bringing together early settlers from Texas and Oklahoma with recent migrants from Mexico and Southeast Asia. Once predominately rural, the Valley has become increasingly urban, with Fresno, Modesto, Sacramento, Stockton and Bakersfield now ranked among the largest 100 cities in the country. And yet agriculture remains a vital part of the region's economy, producing approximately a quarter of the nation's food supply and over 300 different crops. Yesterday, I had the opportunity to drive to Fresno from San Francisco and see first-hand one of the richest agricultural regions in the United States.

Driving along Shaw Avenue in Fresno reveals another side to the Central Valley, however: the challenge of persistent poverty in the region. More than 400,000 children in the Central Valley are growing up in poor families, with significant consequences for their future well-being.[2] This statistic alone highlights the importance of community development in the region, and the role it plays in ensuring that low-income families and neighborhoods benefit from the region's vitality and growth.

As President of the San Francisco Fed, I often talk about monetary policy and the Fed's mandated goals of price stability and maximum sustainable output and employment.

---

[1] In this speech, the Central Valley refers to the 19 counties of Butte, Colusa, El Dorado, Fresno, Glenn, Kern, Kings, Madera, Merced, Placer, Sacramento, San Joaquin, Shasta, Stanislaus, Sutter, Tehama, Tulare, Yolo, and Yuba.
[2] U.S. Census 2000 Summary File 3 (SF 3) – Table P87. Poverty Status in 1999 by Age.

Today, I'd like to step away from this big picture—to leave the freeway, if you will—and reflect on the role of community development in the Valley. While perhaps not as well known as its monetary policy role, the Federal Reserve also conducts research and outreach on community development as part of its official responsibility for enforcing the Community Reinvestment Act and fair lending laws for state member banks.

My remarks today will focus on two key themes. The first theme is the importance of tailoring community development policies to local needs and priorities, recognizing and responding to the unique factors that shape poverty in places like Patterson and Modesto. The second theme is the importance of using strategic collaborations among public, private, and nonprofit organizations to leverage resources for community development.

**Lessons from the Community Development Field**

The fact that I'm even talking about "local needs" and the importance of "public/private partnerships" is evidence of how much the community development field has changed over the last 40 years. In 1964, when President Lyndon B. Johnson famously declared that "for the first time in our history, it is possible to conquer poverty,"[3] these concepts were not part of the community development lexicon. Neighborhood revitalization projects were much more likely to involve federal mandates and bulldozers than 'design charettes' or 'asset mapping.' The large-scale public housing projects of the 1940s and the urban renewal efforts of the 1960s had unintended consequences, isolating residents from educational and economic opportunities and creating neighborhoods with high levels of concentrated poverty, unemployment, and crime.

Clearly, our approach to community development has evolved considerably since Johnson's day. For one thing, I think we have all become much more humble about our ability to address the underlying causes of poverty. We now know that effective community development isn't about building affordable housing units alone—it requires a comprehensive approach that provides job training, supports entrepreneurs, offers opportunities to save and build assets, and connects families to important services like reliable transportation and child care. We also have become more sophisticated in the ways we fund community development activities. While early community development projects were funded largely by centralized federal grants, today's initiatives are more likely to be financed by a combination of public and private dollars, and entails both equity and debt financing. Community development efforts are also much more likely to involve residents in the planning process, compared with just 40 years ago.

Underpinning these new approaches to community development are two important principles. First, in order to be successful, community development programs must reflect the needs of local communities and build on local priorities and assets. Researchers have demonstrated that poverty is driven by different factors in different places: while one community may be suffering from deindustrialization and loss of employment opportunities, another community may be poor as the result of rapid

---

[3] Lyndon B. Johnson's Special Message to Congress, March 16, 1964.

population growth and the proliferation of seasonal, low-wage jobs. Successful strategies take into account these differences, and respond to the unique attributes of each neighborhood, including the skills of its labor force, its economic base, and the cultural values of its residents. Programs like the Community Development Block Grant reflect this new approach, and allow local governments to direct CDBG funds to programs that best meet the needs of their communities.

The second principle is that today's community development strategies are much more likely to rely on partnerships across a wide range of stakeholders. This change has been particularly important as emphasis has shifted away from the top-down, government-led projects of the 1950s and 60s. Partnerships among neighborhood leaders, CDCs, intermediaries, the private sector, and government are necessary to mobilize the financing, technical expertise, and political will needed to tackle poverty. The Community Reinvestment Act has been pivotal in enlisting the support of the banking system in fostering these partnerships, particularly in the area of community development finance. Today, financial institutions make more than $100 billion in CRA-related loans and investments each year.[4] These dollars provide one of the largest and most sustained sources of capital to low- and moderate-income communities and families. Although the CRA has been controversial at times, I believe it has made an important contribution to the field, one with benefits to communities across the country.

I believe these two principles—tailoring strategies to local priorities and assets, and working through partnerships—are particularly relevant for community development in the Central Valley. Programs developed for other communities may not provide very good road maps for tackling poverty in the Central Valley. Fresno may rank as the city with the most highly concentrated poverty in the country,[5] but the communities south of Shaw do not mirror what we see when we drive around the dilapidated high rise buildings of Chicago's South Shore. How Fresno responds to the problem of concentrated poverty will have to address the unique needs of this community and build on the activities of local organizations already in the neighborhood.

What makes community development in the Central Valley different? First, the pace and scale of population growth in the Central Valley is remarkable, and distinguishes it from other regions confronting high rates of poverty. Many rural communities in Appalachia and the Mississippi Delta—to which the Central Valley is often compared—have seen their populations steadily decline.[6] Similarly, cities like Detroit and Cleveland—classic examples of cities struggling with high poverty neighborhoods —have lost nearly half their population in the past forty years.[7] In contrast, the Central Valley is one of the

[4] Michael S. Barr (2005). "Credit Where It Counts: The Community Reinvestment Act and Its Critics," *New York University Law Review* 75: 101-233.

[5] Alan Berube and Bruce Katz (2005). "Katrina's Window: Confronting Concentrated Poverty Across America." The Brookings Institution: Washington, D.C.

[6] Kenneth Johnson (2006). "Demographic Trends in Rural and Small Town America," *Reports on Rural America*, Volume 1, Number 1, Carsey Institute, The University of New Hampshire, p. 14.

[7] Data from the U.S. Census, historical time series data. Between 1960 and 2003, Detroit's population dropped from 1,670,144 to 911,402; Cleveland's population dropped from 876,050 to 461,324 over the same time period. In contrast, Fresno grew from 133,929 to 451,455.

fastest growing regions in the state. During the past 10 years, the Central Valley has gained more than one million new residents. By 2005, its population had reached 6.5 million, more than the population of 38 states.[8] Demographers predict that by 2020, the Central Valley will be home to one in five Californians.[9]

Second, the increasing diversity of the Valley's population has been as remarkable as its population growth. As recently as 1980, three out of every four residents in the Valley were non-Hispanic white. Within the next couple of years, no racial or ethnic group will constitute a majority of the Valley's population. Growth has been especially strong among Latino and Asian populations, with the Latino population increasing fivefold and the Asian population increasing more than fourfold between 1970 and 2000.[10]

These two factors alone fundamentally shape the challenge of community development in the Valley. On one hand, this demographic change and growth holds much promise. Immigrants are a powerful economic market, and often help to strengthen communities by creating a demand for housing and by jumpstarting small businesses. The large number of families with young children also lends vitality to the region, and can serve as the foundation for healthy and civically engaged communities.

On the other hand, the scale of growth places real demands on the region's ability to build new schools and roads, provide jobs, supply water and power, and protect the environment. Government agencies and local nonprofits have not been able to keep pace with the region's rapid growth, and funding per capita for community development activities falls well below resources available to organizations in places like Los Angeles and San Francisco. [11] As the demand for housing in the region has pushed home and land values upwards, it has become increasingly difficult to build affordable housing. The large number non-English speaking immigrants, especially those with little education or formal job training, also presents challenges for educational and job development programs in the region.

These trends raise questions about the types of community development strategies that will be needed to respond to poverty in the Central Valley. How can we meet the workforce development needs of the immigrant population, and take into account the seasonal nature of agricultural labor? How can we think more broadly about the resources that might be available for community development in the Valley? What innovative financing can be brought to bear on the challenge of providing affordable housing? Is there a role for rural venture capital? And how can we engage religious organizations, employers, and other community institutions in the Valley's community development activities?

---

[8] Public Policy Institute of California (2006). "Just the Facts: California's Central Valley." Public Policy Institute of California: San Francisco, CA.
[9] State of California, Department of Finance, *Population Projections by Race/Ethnicity for California and Its Counties 2000–2050,* Sacramento, California, May 2004.
[10] Hans P. Johnson and Joseph M. Hayes (2004). *The Central Valley at a Crossroads: Migration and Its Implications.* Public Policy Institute of California: San Francisco, CA, p. 9.
[11] Great Valley Center (2002). *State of the Great Central Valley: Assessing the Region via Indicators - Community Well-Being.* Great Valley Center: Modesto, CA.

These are not easy questions to answer. But I think that there is a real opportunity for the Central Valley to develop innovative, creative approaches to them, approaches that will serve as models for other rapidly growing areas in the West like Las Vegas, Tucson, and El Paso. Many of the community development initiatives across the Valley have already taken a step in this direction—taking a 'traditional' challenge like affordable housing or small business development and giving the solution a uniquely "Central Valley" stamp. While I do not have time to discuss all the good programs in the region, let me just highlight three that demonstrate this powerful combination of local innovation and broad based partnerships.

One of the early community development efforts in the Central Valley—and, ironically, starting right at the time that East Coast cities were struggling with the unintended consequences of large-scale urban renewal programs—was in the area of affordable housing. In 1965, Self-Help Enterprises opened its doors in Visalia as the first rural self-help housing organization in the nation.[12] Initially established to meet the housing needs of migratory farm workers in the Central Valley, the organization's programs have evolved to meet the changing needs of local residents. While still building affordable rental units and helping small rural communities in places like Kern County build water and sewer connections, Self-Help has expanded its work to help low-income families become homeowners.

This shift to affordable homeownership opportunities reflects a changing local reality—immigrants and farm workers in the Central Valley are becoming less transitory, and are eager to establish roots in their new home, build assets, and provide community stability. As of the end of 2005, Self-Help has helped over 5,000 low-income families become homeowners.[13] In partnership with other community-based organizations and local government agencies, Self-Help also provides a wide range of other critical kinds of support, including computer training classes, English as a Second Language classes, early childhood education, and business education workshops. Today, the Self-Help model is being replicated in rural communities across the country.

Second, the Fresno Regional Jobs Initiative, a public-private partnership that seeks to create 30,000 new jobs that pay an average annual salary of just under $30,000 by 2008, also reflects this spirit of local innovation.[14] This initiative is a partnership involving hundreds of business, civic, and public organizations that aims to strengthen and diversify the region's economic base. What is noteworthy about this effort is that it seeks to build on the region's strengths in promoting economic development and new jobs, identifying industry clusters such as irrigation technology, and working with Fresno State to develop

---

[12] Fannie Mae Foundation (1999). *Maxwell Awards of Excellence Case Studies: La Vina Self-Help Housing,* case study profile available at http://www.fanniemaefoundation.org/grants/casebook11/se-profile.shtml.
[13] Self-Help Enterprises (2005). *SHE News, Annual Report 2005,* available at http://www.selfhelpenterprises.org/about_us/pdfs/2005Annual2.pdf.
[14] Hans P. Johnson and Joseph M. Hayes (2004). *The Central Valley at a Crossroads: Migration and Its Implications.* Public Policy Institute of California: San Francisco, CA, p.69. Also see Fresno Regional Jobs Initiative (2003). *Implementation Plan.* Available at http://www.fresnorji.org/about/.

training programs for Valley residents to learn these new technologies. The Regional Jobs Initiative is also unique in that, before even developing its strategic plan, the staff sought out the views and input of business, education, civic, and grass roots leaders. The values and strategies developed through this collaborative process guide the RJI's mission, and ensure that the initiative's outcomes are consistent with local priorities.

Finally, other local partnerships are working to help immigrants become successful entrepreneurs. The Valley Small Business Development Corporation, which began by working with Hmong farmers in the region, recently partnered with the Fresno Area Hispanic Chamber of Commerce and Wells Fargo to extend their services to the Hispanic population. Wells Fargo provided an initial $250,000 equity-equivalent investment to the partnership for a revolving loan pool. The initial pool of capital was disbursed within the first 30 days of the program's existence, and Wells Fargo has since invested an additional $500,000 in the program. The program has resulted in 35 loans to local Hispanic entrepreneurs, helping to stimulate new business activity, create jobs, and contribute to the long-term financial stability of these families. These successes would not have been possible without drawing on the cultural knowledge and community connections of the Hispanic Chamber.[15]

I would like to conclude my remarks by coming back to the reason why you're all here today. These principles of local innovation and collaboration are evident in the discussions you had this morning about expanding access to mainstream financial services. A bank account is certainly not a solution to poverty, but it is an important building block for financial security for low-income families. Without a bank account, families often must resort to check cashers and payday lenders, paying more for basic financial services. A bank account also forms the basis for saving and access to credit.

Immigrants in the Central Valley face significant barriers to opening a bank account, and traditional approaches to reaching new customers are unlikely to succeed. Tapping into this market will require a sophisticated understanding of each community's financial services needs. There are likely to be significant differences in the financial practices of Hmong refugees and recent immigrants from Mexico, for example. And it will require innovative partnerships with organizations that can serve as "trusted advisors" in these communities, helping to educate consumers about their financial choices. The pilot projects being undertaken in communities like Newman, Patterson, and Parlier can serve as important models for financial institutions trying to understand these rural markets and provide insights into effective strategies for reaching the unbanked.

I also encourage you to see this effort to reach the unbanked as part of a wider strategy of asset building. The partnerships and outreach strategies you develop in providing immigrants financial access can also be leveraged to connect low-income families to other opportunities. For example, how can you capitalize on these partnerships to raise awareness of the Earned Income Tax Credit? Every year, approximately 20 million lower-income households receive tax refunds through the EITC. The average EITC

---

[15] For a more detailed description of this partnership, see "Supporting Hispanic Entrepreneurs in the Central Valley," *Community Investments* 18(1). The Federal Reserve Bank of San Francisco: San Francisco, CA.

refund is around $1,700; some are as high as $4,000. The EITC is now the largest federal program to help the working poor, and it removes more children from poverty than any other single federal program.[16] Yet, we know that in the Central Valley a large percentage of families eligible for the EITC fail to claim it. What approaches might be needed to help more eligible families claim this important credit? Similarly, how can you work with other organizations to help combat the spread of predatory lending and mortgage fraud in your communities? What opportunities are there to provide financial education and raise awareness about the risks and rewards of credit? I am confident that the ideas and partnerships that you develop in forums like these will help to answer these critical questions.

In conclusion, I would like to underscore how important your work is to the strength of the communities of the Valley. I encourage you to continue working together to help provide increased economic opportunity in your communities, and I wish you the best of luck in your efforts. I look forward to my next visit, and to learning more about your successes. Thank you.

# # #

[16] David Francis (2006 ) The Earned Income Tax Credit Raises Employment. National Bureau of Economic Research Digest, August 2006; Stuhldreher, Anne (2004). "Tax Time—The Right Time: Federal Policy Recommendations to Help all Americans Save and Build Assets," *Asset Building Program Issue Brief #5*, December 2004, New America Foundation: Washington, D.C.; U.S. General Accounting Office (2001). Earned Income Tax Credit Participation. GAO-02-290R. Washington, D.C.: U.S. General Accounting Office.