

Speech to the Greenlining Institute's 14th Annual Economic Development Summit
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Community Development: Opportunities in Low-income and Minority Communities

Good afternoon, everyone. I'm Janet Yellen, President and CEO of the Federal Reserve Bank of San Francisco. I would like to thank Greenlining for inviting me to speak at this year's Economic Summit. Before I begin, I would just like to add my own words of congratulations to Luis Arteaga, Erin Pak, and Cory Jasperson. It is heartening to see their commitment to improving the well-being of low-income and minority communities, as well as to hear about the range of innovative strategies and programs that are needed to accomplish lasting change.

In my remarks today, I would like to speak to the theme of this year's summit, "seizing the opportunity." The focus on opportunity is an important one. Since its inception, Greenlining has worked to reframe how financial institutions view low-income and minority communities, arguing--often passionately--that these markets represent a true business opportunity and not just a regulatory obligation.

This emphasis on "opportunity" mirrors a broader shift in the field of community development as a whole. Slowly—and perhaps not yet universally—community development strategies are evolving to focus on community assets rather than on community needs. In other words, instead of framing a neighborhood by its problems, such as high crime rates or disinvestment, the community development field has begun to emphasize the sometimes hidden assets of low-income neighborhoods, such as the market potential and untapped purchasing power of inner city residents, historical architecture, unique small businesses, and talented local entrepreneurs. As Chairman Bernanke noted in his Greenlining speech last year, quantifying these assets and helping investors become aware of the opportunities in underserved neighborhoods can help to enlist market forces in the service of community development.¹

How is this focus on community assets different from community development efforts thirty years ago? Since I don't have time today to go into a detailed history of community

¹ Chairman Ben S. Bernanke (2006). "By the Numbers: Data and Measurement in Community Economic Development," speech to the Greenlining Institute's Thirteenth Annual Economic Development Summit, Los Angeles, California (via satellite) , April 20, 2006.

development, let me just illustrate how this shift in thinking can spur very different models of inner city revitalization.

As many of you know, downtown Los Angeles has undergone an incredible transformation over the past eight years. What you might not know, however, is that where we stand today—the Bonaventure Hotel—is located within the Bunker Hill redevelopment area², the site of one of the largest urban renewal projects in the country’s history. Once the home of the very rich, Bunker Hill fell into decline in the 1920s and 30s, and the neighborhood’s elegant mansions were converted into apartments to house low-income families. By the 1940s, 99 percent of the units in Bunker Hill were tenant occupied, many without running water, and the incidence of crime and disease in the neighborhood was among the worst of any area in Los Angeles.³ By 1955—after several attempts to attract private investment failed—Los Angeles city planners were convinced that only a massive infusion of federal dollars and an ambitious top-down redevelopment strategy would be able to reverse the decline. The solution to the *problem* of Bunker Hill was to remove it. Once the redevelopment plans were in place, the Chairman of the Community Redevelopment Agency boasted, “The Bunker Hill redevelopment project promises to become one of the biggest and most important slum clearance projects in the West.”⁴ It took thirty years—and for much of this time the land stood vacant—for the Community Redevelopment Agency to develop L.A.’s commercial downtown, including the Union Bank building, the Pacific Telephone and Telegraphic building, California Plaza, and the Bonaventure Hotel.

Urban renewal in Los Angeles did transform downtown L.A., and ultimately contributed to higher property values in the city. But, in hindsight, it also incurred significant costs. More than 7,000 families were displaced as their homes were destroyed to make way for commercial redevelopment in the area. Moreover, these commercial buildings were not enough to create a new vibrant neighborhood or stem the flight of businesses and families from the inner city. By the mid-1990s, downtown Los Angeles faced high office vacancy rates, problems with poverty and homelessness, and deserted streets at night.

² For maps and information about the Community Redevelopment Agency of the City of Los Angeles project areas, including Bunker Hill, visit <http://www.crala.org/internet-site/Projects/index.cfm>.

³ Mara A. Marks (2004). “Shifting Ground: The Rise and Fall of the Los Angeles Community Redevelopment Agency,” *Southern California Quarterly* 86(3), p. 247.

⁴ *Ibid.*, p. 261.

In contrast to this top-down approach, the current transformation of downtown Los Angeles is driven from the bottom up—by local government working with the private sector, residents, nonprofits, and local entrepreneurs—all of whom are empowered by new resources to capitalize on their ideas and unlock the economic potential of this community. For example, rather than tearing down the old commercial buildings, this strategy relies on infill development and the adaptive reuse of historic buildings for new housing units. Investors are supporting local entrepreneurs and providing private equity to inner city businesses. Nonprofit organizations and community development financial institutions are helping to incubate new businesses by providing technical assistance and small business loans to low-income and minority entrepreneurs.

Equally notable are local efforts to ensure that downtown residents benefit from these investments. The Staples Center Community Benefits Agreement sets an important precedent for how local government, private developers, and community groups can work together to promote equitable development. Among other features, the Agreement ensures that 20 percent of new housing units in the project area will be affordable to low-income households, and stipulates that 70 percent of the jobs at the new center pay a living wage. The Agreement also provides for preferential hiring treatment to local and displaced residents.⁵

While these two different vignettes greatly over-simplify the complex realities of redevelopment, I hope that this brief exercise in “comparing and contrasting” does illustrate how much the model of inner city revitalization has changed over the last 30 years. It also points to how much the financing of community development has changed. Whereas early efforts at urban renewal were funded largely by centralized federal grants, today’s community development projects are more likely to be financed by a combination of public and private dollars. The Low Income Housing and New Markets Tax Credit programs, for example, both reflect a shift in the federal government’s role in community development. Instead of providing funds directly to neighborhoods, these programs encourage private investment by offsetting risk through tax incentives. The community development finance field has also become extremely innovative in the way it secures both equity and debt financing, and has brought a much wider range of investors, lenders, and funders to the table. Today, you have government investing alongside

⁵ For more information about the Community Benefits Agreement along the Figueroa corridor, visit http://www.saje.net/site/c.hkLQJcMUKrH/b.2315801/k.9080/Figueroa_Corridor_Coalition.htm.

banks, pension funds, and venture capitalists, all looking at ways to develop the assets that are present but underutilized in low-income neighborhoods.

Despite these innovations in community development finance and the shift to a “bottom-up” strategy, the lessons from the past should also caution us against thinking that the road ahead will be easy. While these new approaches hold much promise, Los Angeles must still contend with difficult issues such as homelessness, education, workforce training, and additional affordable housing for low- and moderate-income families. Substantial gaps in access to credit and capital also remain. To provide just one example, research studies suggest that minority-owned small businesses have a harder time getting access to credit than other businesses, even after controlling for a wide variety of factors related to creditworthiness.⁶ Finding new ways to help connect capital with viable investment opportunities in these underserved markets is critical for an asset-based approach to community development to work. At the San Francisco Fed, the Center for Community Development Investments is conducting research and holding conferences to explore ways to improve access to capital for community development, for example, by securitizing community development loans, expanding the availability of community development venture capital, and overcoming information barriers to investment in emerging domestic markets like downtown L.A.

In bringing my remarks to a close, I would like to underscore how important your efforts are to the strength of the communities across the country. 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 am confident that the ideas and partnerships that you develop in forums like these will help to answer the critical challenges facing the community development field. Thank you.

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⁶ For a review of these studies, see Michael S. Barr (2005). “Concluding Remarks,” paper presented at the Conference on Entrepreneurship in Low- and Moderate-Income Communities, Federal Reserve Bank of Kansas City, November 3-4, 2005. Available online at: <http://www.kc.frb.org/publicat/Commaffrs/Entrepreneurship.htm>.