



# ENGINES OF GROWTH: Why Low-Income Communities Need Small Business

Housing development has long been a staple for community development practitioners working to revitalize low- and moderate-income neighborhoods. Efforts to promote new home construction, homeownership, and affordable housing have been key to urban renewal in many areas. But housing alone is not a panacea; rather, housing must be one part of a broad, holistic approach to community revitalization that also includes small business development.

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Small businesses and micro-enterprises (businesses with fewer than five employees) have an important role to play in low- and moderate-income communities: Often they are the engines of growth in these neighborhoods, providing employment opportunities, generating tax revenues, and helping to anchor the community. In addition, owning a business can be an important way for individuals to build wealth, both for themselves and the community.

Small business development in low- and moderate-income areas can have a multiplier effect, according to Michelle Long, national coordinator of the Business Alliance for Local Living Economies, a national network of independent business alliances. Locally based businesses “support other local folks through employment, wages, and product support; they strengthen the long-term stability and diversity of the community;

and they support the work of local nonprofits,” she explains.

But attracting and retaining businesses in low- and moderate-income communities is not without its challenges: Negative perceptions about doing business in distressed communities remain. Al Jones, retired director of the U.S. Small Business Administration’s office in Pittsburgh, says the “misperceptions or barriers that exist are the accusations of overpricing, selling inferior merchandise, and providing less than quality service.”

Many believe that local small businesses have a significant advantage: intimate knowledge of their market. Small businesses “know their community better [than national chains], they can offer products and services that are unique, and they have stronger interpersonal relationships—all of this helps with customer loyalty, better services, and profitability,” says Long.

These relationships among low-income communities and small businesses create lasting bonds that can boost business for small firms. According to Jones, “it is necessary to marry the business with the community the business serves... Small business owners know the ‘heartbeat’ of the low- and moderate-income communities.”

Businesses that locate in lower-income areas may also have an advantage because they face little competition. “Business owners can absorb most of the market share, therefore generating enough sales to make a profit... This is especially true for businesses such as grocery stores, clothing stores, and restaurants,” says Bill Edwards, executive director of the Association for Enterprise Opportunity, a trade group for microloan funds.

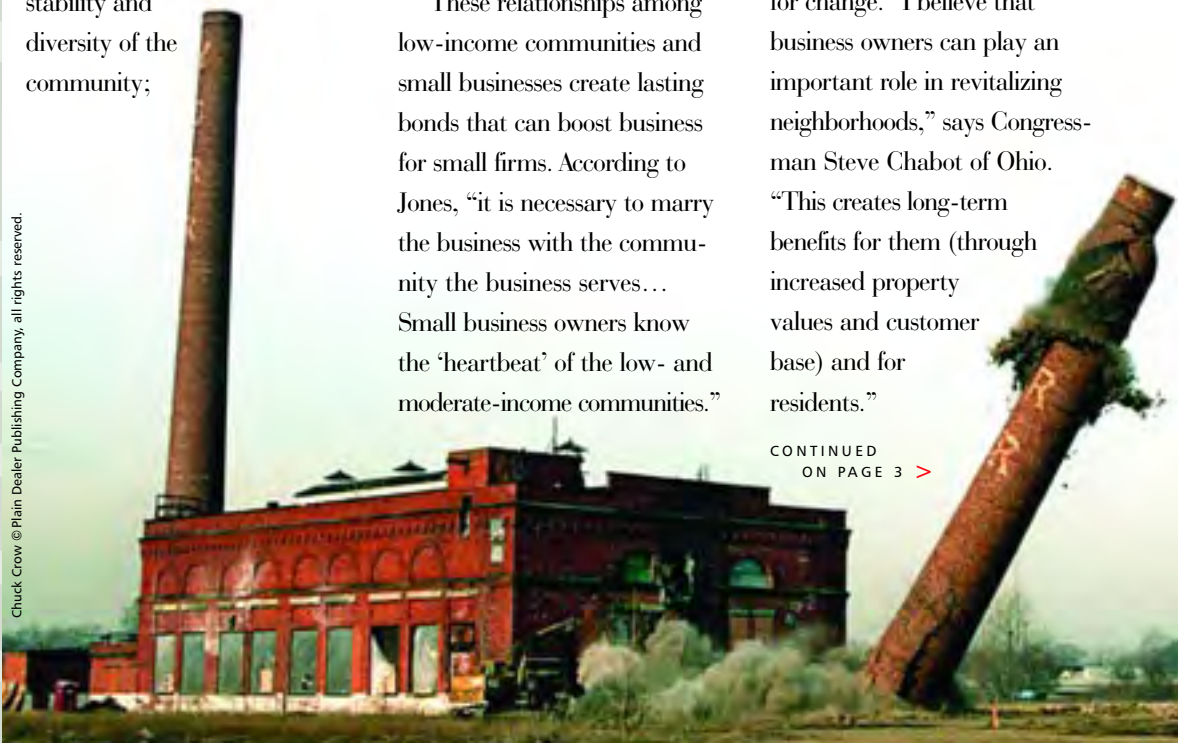
### Making a Personal Commitment to Growth

In addition to the benefits that small business brings to communities in the form of jobs and tax revenue, business owners themselves can play a powerful role as community leaders. Often, entrepreneurs become personally invested in the communities they serve, acting as spokespeople for their neighborhoods and as catalysts for change. “I believe that business owners can play an important role in revitalizing neighborhoods,” says Congressman Steve Chabot of Ohio. “This creates long-term benefits for them (through increased property values and customer base) and for residents.”

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Demolition of the abandoned Collinwood  
Rail Yard, site for the new Jergens Inc.  
plant in Cleveland, Ohio.



For instance, when Cleveland-based tooling components manufacturer Jergens Inc. went looking for a new home for its 150-employee operation, it found an opportunity to make a difference in the city's east-side Collinwood neighborhood.



The new Jergens Inc. facility at the abandoned Collinwood Rail Yard site.

President Jack H. Schron Jr., whose family founded the company in 1942 and grew up in Collinwood, initially considered locating on a greenfield site or moving out of the city altogether. Instead, the company chose land then occupied by the abandoned Collinwood Rail Yard, once a hub of activity for the New York Central Railroad that had become environmentally blighted.

Schron believed that if Jergens got the ball rolling by

redeveloping the Collinwood Yards, others would follow suit. He was right: In addition to Jergens's 105,000-square-foot facility, which opened in 1999, the Cleveland Foodbank and the Cleveland Clinic now have properties on the site.

Although the move made business sense—the space would give Jergens enough land to continue to expand in the future, and its proximity to Interstate 90 makes it convenient for employees—it also became a personal commitment for Schron, who has opened up the building for community events and helps to organize the neighborhood watch.

Other entrepreneurs, too, cite their commitment to their communities as one reason they're in business. Carolyn Dorsey, an independent State Farm insurance agent, has operated her business in East Liberty, an inner-city neighborhood in Pittsburgh, for 20 years despite pressures to move to a more affluent area. "I wanted to be in a community where... I could help advise people and make my services available, because so many businesses..."

Carol Foster, a Pittsburgh-based real estate agent working in the city's Manchester neighborhood, also believes that her personal connection to the neighborhood benefits both her business and her customers: "I concentrate on Manchester because they are my neighbors—I ensure they get the service they deserve," she says. "It's a great neighborhood. I have a competitive advantage through my detailed knowledge of the neighborhood: I know the residents, I know the market."

### Fueling Small Business Development

**H**ow can community development practitioners create a fertile environment for small businesses and micro-enterprises? Some of the best resources for start-ups in low- and moderate-income communities are small businesses themselves, which can form invaluable mentoring relationships and networks for sharing information and best practices. According to Bill Edwards, "Building relationships... is especially important for business owners in low- and moderate-income communities. To be known as a 'good neighbor' can lead to free publicity and community loyalty."

In the Pittsburgh area, the African American Chamber of Commerce of Western Pennsylvania "tries to assist members in finding access

to capital through various government lending programs and through working with the local financial institutions," explains Doris Carson Williams, the chamber's executive director. "We have helped several members by providing them a contact at a local bank that is not only sensitive to some of their issues, such as credit ratings, but looks for ways to improve their lending programs for small business."

In addition to these formal and informal local networks, small businesses that choose to locate in low- and moderate-income areas can take advantage of a number of tax incentives and loan programs, such as the New Markets Tax Credit Program and the Main Street initiative. Firms can also tap community development financial institutions, many of which specialize in higher-risk start-ups and minority- and women-owned businesses.

Small businesses are a powerful economic force, and nowhere is this more true than in low- and moderate-income communities. In fact, neighborhood revitalization cannot be complete unless local businesses are strong. By complementing our efforts in affordable housing and financial literacy with small business development, we can work toward stronger, more self-sufficient communities that will thrive and grow over the long term.

### Small Business Is Big Business

Small businesses are the backbone of the U.S. economy. According to the U.S. Small Business Administration, small businesses

- represent 99.7 percent of all employers
- employ more than half of all private-sector employees
- generate 60–80 percent of net new jobs each year
- pay 44.5 percent of the total U.S. private payroll
- produce 13–14 times more patents per employee than large firms.



# 4th district profile

## Ohio University Small Business Support Center Helps Appalachian Firm Go Global

**4** **D**ave Ellenwood could live anywhere. With an advanced degree, entrepreneurial spirit, and a sense for the global marketplace, he could have chosen to stay in Atlanta, where he was a training consultant. So why move back to southeastern Ohio, of all places—a part of Appalachia that has been hit hard by plant layoffs, unemployment, and persistent poverty—and start a company that has international clients?

To Ellenwood, southeastern Ohio is “an impeccable environment for raising a family.” After years of living and working in Atlanta, he moved back to his family farm just outside Marietta, Ohio. “I live on a 50-acre property in the country—on property that has been inhabited by my family continuously for 200 years,” he explains. “I wanted my kids to grow up in this region, know their extended family, learn the values of the region. We’re very involved in the community.”

At a time when Appalachian Ohio is suffering the outmigration of manufacturing, Ellenwood and his company, Visum, are thriving. Started in 1999, Visum is a learning services company that builds curricula for employee training programs.

“We are flourishing here,” Ellenwood exclaims. “We go to Columbus, Montreal, New York City, and bring money back. We have a service that allows us to go out to places and bring back wealth to the community.”

Visum’s leg up on the competition is the placeless nature of its work. “We can do our work from anywhere, we can partner virtually, or travel to meet the client. This is our competitive advantage.” These virtual connections enable Ellenwood to enjoy his location and play a significant role in the community. “We’re competitive, we’re growing, and we have the opportunity to be a significant part of the local economy,” he explains.

Ellenwood’s leadership is vital to the area. “Just being a part of the community is important to me. I’m commissioner of the youth football league; I’m a pastor of the church my grandfather helped build. Now there are 100 people at the church, raising money, giving money, taking care of people in the community.”

### AREI: A Key Small Business Resource

**V**isum’s success is tied to another invaluable resource in southeastern Ohio, the Appalachian Regional Entrepreneurship Initiative (AREI), a program affiliated with Ohio University’s Voinovich Center for Leadership and Public Affairs, in Athens, Ohio.

“AREI helped us write a business plan, helped conduct market research, acted as advisors, and got us venture capital,” Ellenwood explains. “Having the services that AREI provides has really catapulted us as a company. They’ve helped us do things we would not have ordinarily done.”

AREI’s Kevin Aspegren, manager of operational assistance, provides a tiered approach to technical and financial assistance for emerging and growing small businesses. “We spend time with the entrepreneur to make sure it’s a viable, sustainable, and scalable business,” he explains. “We not only want to assist small business people to receive a loan, but we want to make sure they spend the funds wisely and can sustain their operations.”



Kevin Aspegren

According to Aspegren, AREI goes beyond the standard model of traditional management consulting. “We assist clients with operational plans, technology plans, marketing plans, and guide firms through the entire process—from growth to acquisition to expansion. We want to make sure we are building strong businesses,” he says.

AREI comprises several business assistance programs that provide technical assistance and training to business and community development professionals in Appalachian Ohio. AREI’s services are designed to increase regional economic vitality by putting university resources to work for southeastern Ohio.

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Aspegren was instrumental in Visum's success, according to Ellenwood. "Kevin helped us expand and think strategically about new opportunities. I can think creatively, but Kevin coached me to think about the things I didn't think about—the big and little things. He did the heavy lifting for our venture capital funding request," which was ultimately approved.

Part of the value that AREI brings to southeastern Ohio is helping to remove the stigma sometimes associated with Appalachia. "We bring a fresh perspective" to small business development, Aspegren notes. "We help [entrepreneurs] apply for, acquire, and manage capital necessary to make their small businesses thrive. We structure small business people around commonly understood businesses practices, such as a business plan that can be 'sold' to people outside the region who may want to fund it. We structure the company in the best light for outside investors."

To Ellenwood, AREI's commitment to Appalachian Ohio and their influence in the region has been a very important element in his company's success. "In Atlanta, we would have been just another company," he says of Visum. "But here in southeastern Ohio, we have the opportunity to be leaders."

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# of interest

## Conferences and Workshops



### Big Ideas for Small Business

A conference for small business owners and entrepreneurs designed to spark new thinking about opportunities for success in a changing economy.

**October 12–13, 2004**

Erie, Pennsylvania  
Contact: Dan Holland  
412/261-7947  
daniel.holland@clev.frb.org

**October 28, 2004**

Toledo, Ohio  
Contact: Maria J. Thompson  
216/579-2903  
maria.j.thompson@clev.frb.org



### Community Reinvestment Act Roundtables

The CRA Roundtables, presented by the Consumer Affairs and Community Affairs Offices of the Federal Reserve Bank of Cleveland, are interactive seminars designed to help financial institutions and nonprofit, community-based, and faith-based organizations understand the requirements of the Community Reinvestment Act.

**October 22, 2004**

Lima, Ohio  
Contact: Candis Smith  
513/455-4350  
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**November 5, 2004**

Erie, Pennsylvania  
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## Publications

### CR Report:

#### A Path to Housing Opportunities: Cincinnati Lending Analysis

This issue of *Community Reinvestment Report* explores access to credit and capital in Cincinnati's Empowerment Zone neighborhoods using HMDA and census data. The report features interviews with community development practitioners in the Cincinnati area.

### Federal Reserve Fiscal Impact Tool (FIT)

FIT is an easy-to-use software application designed to help community and economic developers estimate the effects of economic development projects. It comes in several versions, each containing detailed information for all places, incorporated or otherwise, in a particular region. Instructions are available for visually impaired users and others who use screen readers. To inquire obtain a free copy—by e-mail or on CD-ROM—visit [www.federalreserve.gov/forms/fiscalimpactrequest.cfm](http://www.federalreserve.gov/forms/fiscalimpactrequest.cfm). Be sure to identify the FIT version for the geographic region in which your community is located.

## KeyBank's Stanley Appointed to Fed Consumer Advisory Council

The Federal Reserve Board of Governors has appointed Forrest F. Stanley, senior vice president and associate general counsel for KeyBank in Cleveland, to a three-year term on its Consumer Advisory Council. The council, which meets three times a year in Washington, DC, advises the Board of Governors on its responsibilities under the Consumer Credit Protection Act and other matters related to consumer financial services.

Mr. Stanley joins James King, president and chief executive officer of the Community Redevelopment Group in Cincinnati, Ohio, on the Consumer Advisory Council. Mr. King was appointed in 2003. Special thanks to Patrick Liddy, vice president and attorney at Fifth Third Bank in Cincinnati, Ohio, who completed his term on the council in 2003.

For more information about the Federal Reserve's Consumer Advisory Council, visit [www.federalreserve.gov](http://www.federalreserve.gov).

## Board Withdraws Amendments to the CRA

In July, the Federal Reserve Board announced it would withdraw amendments to the Community Reinvestment Act (CRA) regulations that had been proposed in early 2004. Two key aspects of the proposal were (1) to raise the small-bank asset threshold from \$250 million to \$500 million, allowing more banks to benefit from streamlined CRA evaluations; and (2) to allow examiners to reduce a depository institution's CRA rating if the institution engaged in a pattern or practice of abusive asset-based lending.

Although community banks favor raising the threshold, it is uncertain whether the cost savings to the average community bank would be significant. However, the proposal's cost in terms of reducing community development capital in many rural communities is also uncertain. On balance, the Board does not believe the proposal's cost savings justify the adverse effects on certain rural communities.

Commenters were united in their opposition to the proposal to define a single abusive lending practice in the CRA regulations (abusive asset-based lending) to the exclusion of other abusive practices. For these reasons, the Board is withdrawing the entire proposal.

To view the entire press release, visit [www.federalreserve.gov/BoardDocs/press/bcreg/2004/20040716/default.htm](http://www.federalreserve.gov/BoardDocs/press/bcreg/2004/20040716/default.htm).

# in my opinion

## Manufacturing—Creating a Future Built on the Past



**John Colm**

Executive Director  
Westside Industrial Retention and  
Expansion Network (WIRE-Net)

*Formed in 1986, WIRE-Net is a membership-based economic development organization. Its mission is to retain, grow, and attract manufacturing-related businesses and to link leaders to each other and to Cleveland's west-side community. For more information, visit [www.wire-net.org](http://www.wire-net.org).*

**T**he future of many urban regions lies in manufacturing. That statement may sound a bit odd, as outsourcing, overseas job migration, and foreign competition appear to be undermining U.S. manufacturing prowess. But if cities intend to compete in the global marketplace, then manufacturing will have to build on its past glory, adding technology and innovation to help define the future.

The nature of manufacturing has changed from a dirty, sooty enterprise to a more complex, high-tech, and specialized business. Even the most basic manufacturing jobs now tend to require math, blueprint reading, and spatial skills. Computers are used in many aspects of production. Workers operate more than one machine, and “Business 101” is also required.

But many of the essential principles that helped manufacturing thrive in the twentieth century still play an important role today:

■ **An ongoing commitment to place.** The co-location of suppliers, workers, and services in city neighborhoods provides a powerful and practical incentive for companies to move in, stay, and grow. With a large workforce nearby—many of whom have a background in manufacturing—the fit is ideal. And beyond the high-tech jobs, manufacturing still offers many entry-level and low-skilled positions for which people tend not to drive across town.

■ **Cheaper costs compared to building elsewhere.** Manufacturing firms locate in cities because the supplier networks are already in place. Communication is easier and shipping times are minimal when firms are co-located. Many buildings are adaptable to new uses, and competition among utility firms can also make costs more favorable in the city.

*Manufacturing employment is growing in Cleveland's west-side neighborhoods.*

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■ **A critical mass of social services and training programs.** Manufacturing training centers, job placement services, and high school trade programs offered in the city provide workers the boost they need to prepare for manufacturing positions.

Challenges exist, to be sure. Some city properties contain brownfields or face other contamination issues that create barriers to development. Obsolete buildings need to be adaptable for reuse or demolished, and the process for remediation and reuse of these sites needs to be accelerated.

All too often, though, the negative stories outshine those of the manufacturing firms experiencing growth. Even during the recession, many

**If cities intend to compete in the global marketplace, then manufacturing will have to build on its past glory, adding technology and innovation to help define the future.**

smaller firms were consistently adding employees and production, but their growth is considered minimal unless combined with all the other small firms that are growing right alongside them.

On the west side of Cleveland, the WIRE-Net economic development model has proved to be a success. Despite the massive loss of manufacturing jobs over several decades, roughly 600 manufacturing and related companies remain here, and they consider their

west-side location a competitive advantage. WIRE-Net leverages additional resources such as the city of Cleveland's Cleveland Industrial Retention Initiative and Mayor Campbell's "Advancing Cleveland Trade" effort to build trust and goodwill among these firms.

Over the past 15 years, west-side neighborhoods have stabilized, jobs have been added, and companies have been retained, increased, or expanded. Our approach seems to be working: Between 1993 and 2000, manufacturing employment in the WIRE-Net area grew over 9 percent while the city plummeted and Cuyahoga County flat-lined. As WIRE-Net continues to focus on procuring an educated workforce, developing a coordinated real estate initiative, and building strong, innovative companies, manufacturing once again has a future in Cleveland.

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## Commercial CRA Lending: Keep It in Mind

By Catherine Toth, Consumer Affairs Examiner

Although we often think of the Community Reinvestment Act (CRA) in connection with access to credit for low- and moderate-income homeowners, business lending is also an important part of the CRA.

In addition to sweeping changes that implemented the lending, service, and investment tests that large banks (over \$250 million) are familiar with, the 1995 CRA analysis also incorporated institutions' records of small business, small farm, and community development lending. Banks can and should consider the impact of small business lending on their CRA strategy, though this component is often overlooked.

Small business loans are defined in the Call Report as loans under \$1 million made for business purposes, while small farm loans are those under \$500,000 made for agricultural purposes. According to the CRA, community development loans must provide housing or services to low- or moderate-income individuals, revitalize or stabilize low- or moderate-income geographies, or promote economic development by financing businesses or farms that meet the eligibility standards of the Small Business Administration or have gross annual revenues under \$1 million.

Before the 1995 changes, CRA evaluations did not formally recognize small business lending. But community groups and many banks pushed for the change, pointing out that small business loans

are a critical part of economic development in low-income and underbanked areas. Banks that engage primarily in commercial lending were also eager to have their efforts recognized publicly.

Small business and farm loans and community development lending fall under the CRA lending test, the most heavily weighted portion of the CRA evaluation at 50 percent. Small business and farm loans are evaluated by analyzing the geographic distribution of loans and the distribution of loans to businesses or farms with gross annual revenues of \$1 million or more. In evaluating community development lending, examiners review the number and dollar volume of lending, as well as the responsiveness, complexity, and innovativeness of these loans.

For communities and banks, the evaluation creates an opportunity to find creative ways to increase economic development where it is needed most: in low- and moderate-income geographies and in small businesses that may not have access to traditional sources of credit. Increasing credit to small businesses boosts job growth, in turn creating more borrowers. Small businesses may grow into larger businesses with established credit histories, giving them access to additional sources of financing, and successful small business owners often become bank customers for their personal banking.

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