HOPE:
The Evolution of a
Community Development Organization

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Undoubtedly, despite my best effort to be accurate, some errors or important omissions remain in my account of HOPE's history. I am solely responsible for any such mistakes.

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Chapter I

Introduction

Hope Federal Credit Union and its affiliates work to promote the economic and social development of low-income communities in four states: Arkansas, Louisiana, Mississippi, and Tennessee. There are numerous other community development financial institutions across the nation, but "HOPE" is unique in many ways. For one, it operates in one of the poorest areas of the country, and much of its territory is rural and sparsely populated. It has a sophisticated structure, including a credit union, a loan fund, and a public policy research institution. And, its current structure and operations are far different from what was foreseen at the time of its founding twenty years ago. HOPE evolved in response to lessons from on-the-ground experience, new opportunities, and changing external circumstances.

This monograph tells the story of HOPE's evolution from its conception, as part of the Delta Partnership whose seeds date to 1991, through early 2013. The story of HOPE's evolution should not be lost because it contains important lessons for other community development initiatives and for the government agencies and philanthropic organizations that back them. There are many lessons concerning initiatives that worked well and those that did not, but the fundamental lesson is that a nimble, well-managed financial institution with a deep commitment to helping lower-income households and sufficient human and financial capital to be credible can be a particularly effective tool for regional economic development.

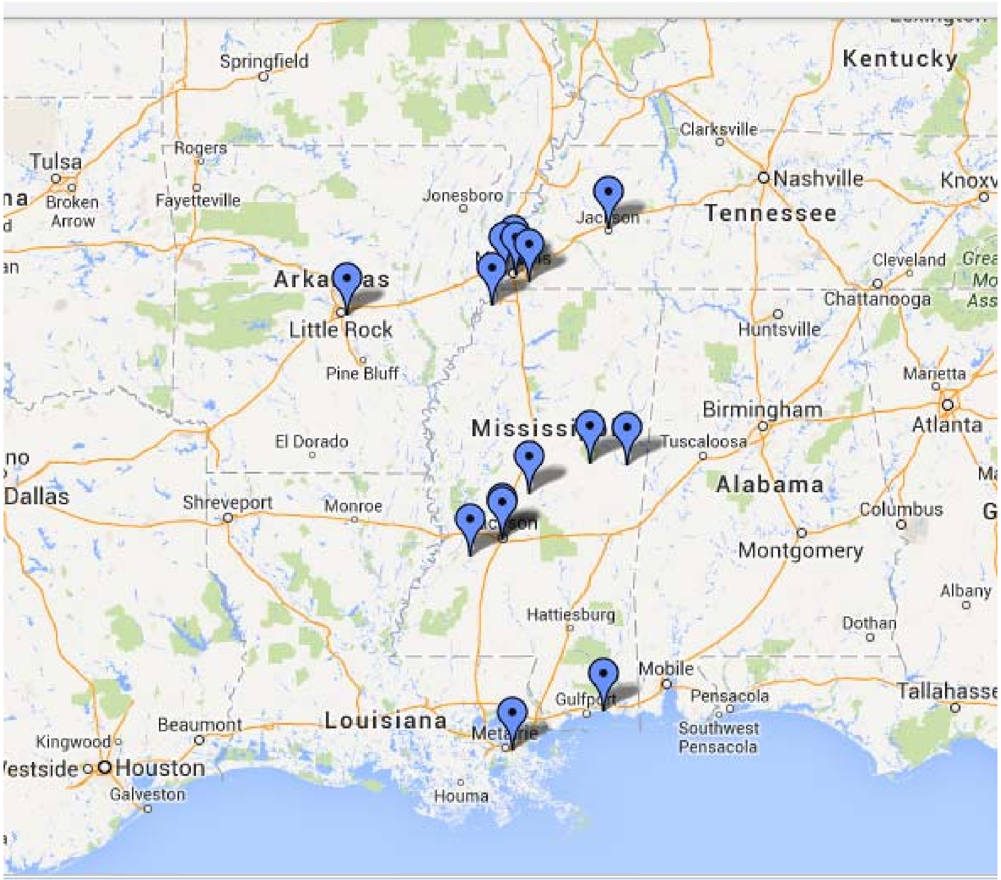
One complication in telling this story is how to name HOPE. The organization consists of a credit union (Hope Federal Credit Union, formally named Hope Community Credit Union), a community development loan fund (Hope Enterprise Corporation), and a public policy research institution (the Mississippi Economic Policy Center.) To complicate things further, Hope Enterprise Corporation was, until recently, named Enterprise Corporation of the Delta (ECD). And it was ECD that initiated the Mississippi Economic Policy Center and enabled Hope Federal Credit Union to evolve from a tiny church-based credit union into a substantial credit union with branches in four states. To simplify this, when speaking of the organization over the past five years, I frequently use the term "HOPE" and do not necessarily distinguish among the three composite organizations. In discussing the organization's earlier history, however, I generally make the distinctions and use the name "Enterprise Corporation of the Delta" and Hope Community Credit Union.

HOPE's goals are to help lower-income households and communities in the Mid-South by increasing job opportunities, improving or expanding local community health and childcare facilities, and ensuring that affordable and appropriate consumer financial services are available to lower-income families. To achieve these goals, HOPE, by itself and in partnership with other organizations:

- lends money to growing businesses likely to create good jobs accessible to lower-income individuals,
- helps prepare low- and moderate-income individuals for homeownership and provides them with appropriate mortgages,
- provides technical assistance and financing to community facilities benefiting lower-income households,
- provides accessible and affordable basic consumer financial services in underserved communities in many regions of the Mid-South, and
- works to understand how public policy can benefit or harm lower-income households and strives to educate the public and legislatures about ways to improve relevant policy measures.

HOPE's structure serves these goals. At its core is a credit union with 14 branches, nearly all located in underserved communities in the four states (see the map below). At these branches, people can open savings accounts, obtain consumer loans and mortgages, and apply for small business loans. The credit union also educates clients (actually, "members" since credit unions are cooperatively-owned, not-for-profit institutions) about the importance of credit histories and good budgeting practices. Hope Enterprise Corporation (HEC) sponsors Hope Federal Credit Union (HFCU) and has provided the credit union with much of its capital. This benefits HEC because the capital it provides HFCU can be leveraged with deposits in the credit union, enabling HEC to expand the financial resources it deploys in its development mission. In addition, HEC's affiliation with HFCU benefits both organizations since it enables them to do deals that neither could do alone. Because HEC has its own capital and does not have the government-backed deposit insurance that HFCU has, it can make larger, riskier, and more flexible business loans than the credit union. It can also use its capital to guarantee the loans of HFCU, enabling the credit union to take on more risk than can a traditional credit union when that serves HFCU's community development goals. And HEC can join HFCU in financing business loans, where the credit union takes the low-risk part of the deal and the loan fund takes higher risk part. Finally, the Mississippi Economic Policy Center (MEPC) benefits from its affiliation with HOPE. HOPE can provide it with a steady flow of information about the real-world struggles its lower-income members face and how changes in public policy might help them to find affordable child-care, housing, and financial services. In turn, the MEPC gives HOPE access to high-quality public policy research relevant to the needs of its clients and provides a mechanism to influence public policy in order to benefit lower-income households in the Mid-South. As a coordinated team, these three organizations can be amazingly effective, far beyond what each could do individually.

Hope Office Locations as of Mid-2013



Before analyzing HOPE's regional impact, it is important to put its size in perspective. At the end of 2012, Hope Federal Credit Union and Hope Enterprise Corporation had consolidated assets of $242 million, a consolidated net worth of $70 million, and about 150 employees. Such size makes HOPE equivalent to an extremely well-capitalized community bank, far too small one might think to have a discernible impact in a four-state region. But HOPE has been able to have an impact in its region, well beyond what its financial resources would suggest. HOPE does this, first, by highly focusing its efforts in areas that are most likely to benefit lower-income households. Second, it has used its reputation as a mission-driven and highly competent organization to bring new resources into the region. Third, HOPE frequently partners with other organizations, including traditional commercial banks, in order to leverage its impact.

A complete list of HOPE's activities over the past three years would be exhausting, but a thumbnail sketch is useful. From 2010 to 2012, HOPE underwrote almost $60 million in residential first mortgages. Over 80 percent of these mortgages went to first-time home buyers and well over half were to racial minorities and low-income households. Many were to people with impaired credit histories. HOPE worked with such members to improve their credit records and prepare them for homeownership. Over this same time period, HOPE made over $80 million in commercial loans, most of which were to businesses or community facilities located in economically distressed communities. Such loans provided job opportunities, health and child-care services, and decent affordable rental housing to people living in some of the poorest regions of the U.S. Through its credit union, HOPE has provided convenient, safe savings and payment services to thousands of households who might otherwise remain unbanked or had to incur substantial travel costs to reach a formal financial institution. HFCU has also provided alternatives to high-cost "payday loans," and individually, or in concert with other non-profits, it has provided financial literacy education and free tax-preparation assistance to thousands of lower-income households. In fact, since its founding, HOPE has assisted in providing over $1 billion in financing to entrepreneurs, homebuyers, and community development projects that have benefited an estimated 40,000 people in its four-state region.

I should emphasize that my account of HOPE's evolution is selective and personal. A full account of all of HOPE's activities over twenty years would be overwhelming, so I have tried to recount what I consider to be only the most important events in its development. At some points, however, I include some more minor activities just to give a flavor of the wide range of initiatives and strategies that occupied HOPE's staff at any particular time.[1] This account is personal in the sense that it is told from the perspective of an academic economist who never worked for HOPE. My account also undoubtedly differs from that the staff of HOPE, some of whom have been with it since its founding, would tell. However, as a consultant at points in time to some of the foundations that funded ECD, I was able to closely observe HOPE's operations periodically from the time of its founding to more recent years. I do not hide the fact that I have consistently admired the dedication, entrepreneurship, and intelligence that HOPE's staff has exhibited in seeking to further HOPE anti-poverty mission. This is not to say that my account of HOPE's history ignores the organization's mistakes. With 20/20 hindsight, over 20 years HOPE clearly made some. In every one of these cases, however, HOPE was aware that it was trying something that was new and risky but that it believed had a reasonable chance of benefitting lower-income households. Moreover, HOPE has always prided itself on gathering data on its initiatives, honestly evaluating the implications of the data even when the data suggest that a development strategy is not cost-effective, and making adjustments to its strategies.

I tell the story of HOPE's evolution in four subsequent chapters. The next chapter, Chapter II, focuses on the conception and launch of the Enterprise Corporation of the Delta, the organization that would eventually become HOPE. In these initial years, ECD struggled to raise capital, to put its loan operations in place, and to become known in the Delta region of Arkansas, Louisiana, and Mississippi. Chapter III follows ECD from 1997 through 2000 as it added capital and staff, began to finance firms in the service sector, became a more complex organization, and became known not only regionally, but nationally. The fourth chapter covers the period from 2001 through mid-2005. In this era, ECD cemented its affiliation with Hope Credit Union and launched the Kellogg Foundation's Emerging Markets Partnership which, among other things, called on ECD to function as an intermediary, making small grants to other organizations in the Delta with promising economic or social development initiatives. In addition, ECD/HOPE began to devote significant financial resources to expand homeownership opportunities for lower-

[1] In this account, I frequently give specific numbers on the scale of HOPE or its activities. To reduce the disruption of footnotes, I don't generally give the specific reference. In nearly all such cases, the sources are documents and reports produced by HOPE or its predecessor, ECD.

income households and to improve access to good health-care facilities in rural areas. During this period, ECD/HOPE increasingly worked to influence state policies that could benefit lower-income communities in the Mid-South. Chapter V analyzes HOPE's activities between August 2005, when Hurricane Katrina hit, and late 2012. In this period, HOPE expanded rapidly to address the vast needs created by Katrina and it served as an intermediary for many agencies and organizations seeking to respond to the crisis. HOPE also formalized its role as a public policy organization, founding the Mississippi Economic Policy Center in 2006. As the disaster created by Katrina began to wane, the region was hit by the housing crisis and recession, and ECD/HOPE worked hard to offset the adverse effects in its communities and to help businesses and community facilities grow in the face of strong headwinds. In this era, the credit union greatly expanded its geographic reach, the composite organization began to call itself simply "HOPE," and the organization formally defined its operating region as the Mid-South rather than just the Delta. In a concluding chapter, I briefly review the key issues that emerge from the history of HOPE and the lessons this history offers for community development financial institutions generally. I also speculate on what the future might hold for HOPE.

Before telling the story of ECD's evolution over the past twenty years, I should note six, often interrelated, themes that emerge in the narrative:

1. HOPE's history is one of significant growth in its financial strength, human resources, and organizational complexity. At the time of its founding, no one could imagine that within twenty years HOPE would have assets of over $240 million and employ almost 150 people in offices throughout a four-state region. For the most part, this growth was driven by three factors. First, HOPE had to grow to become financially sustainable. To be an effective development organization, it needs a large, specialized staff and these fixed costs need to be spread over a large asset base. Second, HOPE has grown to respond to perceived needs and opportunities. When the W.K. Kellogg Foundation, for example, wanted a local partner to manage its investments in the development of the Delta, HOPE added staff to fulfill this role. When Hurricane Katrina hit and HOPE joined the recovery effort, it added staff. As HOPE merged with other credits unions, it generally incorporated their staff into its own. When HOPE realized that it needed a dedicated policy center to more effectively inform and shape policy making in Mississippi, it co-founded and staffed the Mississippi Economic Policy Center. Third, HOPE has had to grow because it is trying to have a development impact in a very large region. Even with nearly $250 million in combined assets, HOPE is just the size of a modest community bank, and yet it is working in a four-state region. Clearly, HOPE will need to keep growing if it is to eventually reach a size commensurate with the development needs of its region.

2. Throughout its history, HOPE has been an analytical organization, making extensive use of a wide range of data to better understand the social and economic needs in the Mid-South and to assess its own effectiveness. As a result of this data analysis, HOPE has launched new initiatives to address unmet needs and it terminated strategies that it determined were not cost-effective. To maintain its data-driven approach, HOPE has had to devote significant human and financial resources to gathering and analyzing regional socioeconomic statistics and data on its own operations and effectiveness.

3. As noted above, HOPE has always been small relative to the region it seeks to influence. HOPE has consistently tried to address this discrepancy by partnering with commercial banks, government agencies, foundations, and other development organizations to accomplish its goals. Indeed, HOPE is uniquely placed to build effective partnerships because it is highly respected for its commitment to its social mission as well as for its bottom-line orientation and extensive contacts in the business, government, and non-profit communities. HOPE has frequently functioned as a broker, bringing together private-sector entities, government agencies, and others around mutual goals that further HOPE's anti-poverty mission.

In addition to partnering, HOPE has tried to magnify its impact by influencing public policy relevant to its mission. In its early years, these efforts were often informal, such as its efforts to promote the Children's Health Insurance Program. Over time, however, HOPE built the capacity, reputation, and contacts to intervene much more extensively. At the national level, most of its work has related to the funding and operations of the Treasury Department's Community Development Financial Institutions Fund, to the Community Reinvestment Act, and to the Consumer Financial Protection Bureau. At the state level, HOPE has worked to shape agency regulations to encourage anti-poverty investments in the Mid-South and to increase the awareness among state legislators of how budget choices can benefit or harm disadvantaged households. As with all of its initiatives, HOPE has frequently formed partnerships with other organizations to promote these goals.

As the C.E.O. of HOPE, William ("Bill") Bynum, stated in a 2002 interview:

> *… what sets the Enterprise Corporation [HOPE] apart is our commitment to partnering. We approach our work knowing that we can't do it all ourselves. To make a significant difference in the region is going to take the private sector, the public sector, and the volunteer sector—the non-profits and the philanthropies—to come together and make strategic investments. We are fortunate that we are in a position where we have good relationships with businesses, with banks, good foundation support, and very strong partners in community organizations throughout the region… Our focus is not on growing the Enterprise Corporation to the largest organization that it can be, providing as many loans as we can provide, because at the end of the day, the number of loans that we provide is miniscule relative to what a bank can do. But if we can bring a bank to the table and help them recognize that there are opportunities for them to invest in that accomplish their economic objectives and strengthen their communities, we think that we will have multiplied our impact tremendously. The same thing happens with public agencies. When we can influence public policy related to how healthcare services are provided, how SBA loans are deployed in the Delta, it far outstrips the role that we play directly. We are very proud of the fact that we have assisted more than 1,400 businesses over the years. But that's a drop in the bucket relative to the need. The greater impact is the leveraging that we do of our resources.*[2]

[2] Bill Bynum interview with W.K. Kellogg Foundation, 1 July 2002. http://www.wkkf.org/default.aspx?tabid=68&CID=160&ProjCID=160&ProjID=10&TID=940&NID=32&LanguageID=0.

4. Another theme in HOPE's history is the importance of building strong institutions with a commitment to a region's social and economic development, rather than simply funding one-time initiatives. A corollary of this point is the law of unanticipated consequences. Consider two examples. First, HOPE was originally conceived of as an economic development loan fund. In order to accomplish this mission HOPE had to build a strong capital base; attract people to its staff with accounting, banking, and legal skills; build close working connections with banks and government agencies; and develop a solid understanding of the economic forces shaping the Delta. This made it a highly unusual non-profit organization. As with many other non-profits it had a deep commitment to its social mission, but it also had financial and human resources that few other non-profits could match. The unintended consequence was that foundations and government agencies started to look to HOPE for advice about their activities in the region and to manage some of their regional initiatives. HOPE at its core remained a community development financial institution, but its more significant impact may have come from its ability to influence government policies, to attract new resources into the region that might not have come were the providers of those resources unable to channel them through an organization such as HOPE, and to build the capacity of other regional organizations with which HOPE partnered.

The W.F. Kellogg Foundation's major 2001 grant to HOPE provides a second example. As part of the grant, known as the "Emerging Markets Partnership" (EMP), HOPE solicited proposals from organizations in the Delta that sought to initiate or expand programs to improve the well-being of lower-income households in the region. In the process, HOPE built the in-house capacity to evaluate the proposals, to fund selected proposals and set specific performance benchmarks, and to monitor the organizations' progress toward those benchmarks. By 2005, when Hurricane Katrina hit, HOPE had a demonstrated capacity to identify and fund effective regional organizations and to monitor and report on the outcomes associated with their projects. This capacity proved to be critically important in the face of a regional crisis such as that provoked by Katrina but, of course, Kellogg and HOPE could not have anticipated this when they designed the EMP.

5. The fifth theme in HOPE's evolution is its persistent need to find funds to subsidize its operations. In the early 1990s, some policy analysts thought that community development financial institutions (CDFIs) could become financially self-sufficient once they achieved a sufficient scale. The idea was that banks overlooked good loan opportunities in low-income communities, so a CDFI with adequate scale, competence, and experience should be able to make loans in these communities and earn a sufficient rate of return to sustain its operations and capital indefinitely. That has not been HOPE's experience. Its four-state region is largely rural and sparsely populated. This means that its loan officers must devote substantial time simply to find firms that need its financing and to monitor those firms once they have the financing. In addition, so it does not duplicate what banks are already doing, Hope Enterprise Corporation tends to fund deals that are too risky or too complicated to attract banks' attention. Often the firms need technical assistance in addition to financing, and it is costly for HEC to provide this or to assist the firms to find other sources of TA. If HEC were to function more like a traditional bank and focus its efforts on the lower-risk, easier deals in the more populous regions, then it could certainly become self-sufficient, but its impact would also be minimal since its loans would simply displace bank loans. A similar story can be told for Hope Federal Credit Union. There are many

self-sufficient credit unions of HFCU's size but HFCU is not self-sufficient. The reason is easy to see for anyone who visits a HFCU office. In its branches one finds its staff working one-on-one with lower-income members to help them understand budgeting issues, to help them replace an inappropriate mortgage with a suitable one, and to help them get out of a cycle of payday loans. HFCU simply can't charge such customers the cost of this service. Moreover, HFCU maintains offices, simple though they may be, in lower-income communities where people need banking services, even if the volume of the business that HFCU can generate from those communities is modest. Finally, HOPE's Mississippi Economic Policy Center engages in public policy research and advocacy. Arguably, HOPE might benefit lower-income households in its region much more through this channel than through its development lending, but public policy research and advocacy inherently depend on outside subsidies.

The fundamental point is that HOPE can be self-sufficient only if it abandons or significantly curtails its community development mission, and the extent of HOPE's development activities depends on the extent to which foundations, governments, or individuals are willing to subsidize them. In years when outside support is more restricted, HOPE's development activities must also contract. In the recent recession, for example, foundation endowments declined, banks suffered losses and reduced their community development grants and investments, and state and local governments experienced declines in tax revenues. At the same time, the recession increased the demand for HOPE's services, such as small business lending and mortgage foreclosure counseling.

There is no solution to this dilemma. HOPE's development mission requires subsidies. But the need for subsidies means that the extent to which HOPE can devote itself to that mission depends on outside economic forces. HOPE could, of course, devote some of its assets to more traditional and profitable financial activities and use the profits to cross-subsidize its development work. But devoting a substantial share of its portfolio to traditional finance would also limit HOPE's social impact.

6. The final theme that emerges from this overview of HOPE's evolution is that HOPE has undoubtedly made a difference in one of the poorest regions of the country. In fact, as of 2010, HOPE's region included eleven of the nation's 25 poorest counties. Over its history, HOPE made a difference by bringing in many millions of dollars of new resources. Foundations, corporations, individuals, and the U.S. Treasury's CDFI Fund supported HOPE because of its deep commitment to its mission and its professionalism. Banks partnered with HOPE to finance hundreds of businesses and social development initiatives in its four-state region. Were it not for HOPE's ability to provide the flexible financing that these initiatives required, many of these projects could not have gone forward. When the Kellogg Foundation decided to make strategic anti-poverty investments in the Delta, HOPE played a key role in shaping its strategy and in convincing the Foundation to go forward. HOPE has partnered with other mission-driven organizations throughout the Mid-South around shared development goals and, in the process, it has frequently built their capacity to accomplish their missions. HOPE and its partners have shaped state policies in the region to promote greater economic opportunities for lower-income families. As one reads the history of HOPE's evolution, such examples are abundant. The bottom line is clear --- while the communities in the Mid-South in which HOPE works remain deeply impoverished, HOPE has made a tangible contribution to building economic and social opportunity in the region, and it is likely to continue to do so for many decades to come.

Chapter II

HOPE's Founding and Early Years, 1992-1996

It is difficult to pinpoint the exact origin of the idea for creating HOPE. In the late 1980s, there was a renewed interest by local government officials, business people, and community development organizations in the development of the Mississippi Delta, a region that borders the Mississippi River in Arkansas, Louisiana, and Mississippi and that contains one of the highest levels of poverty in the United States. Key actors from these sectors formed the Lower Mississippi Delta Development Commission which, among other things, documented the need for investment capital and business development in the Delta. At the same time, several prominent leaders from Mississippi, Arkansas, and Louisiana were concerned about the lack of regional philanthropy that could promote local social and economic opportunity, so they founded the Foundation for the Mid South (FMS).[3] FMS decided that it would initially promote initiatives in education, economic development, and early adolescence in the three states. As part of this program, in 1991 FMS organized and hosted a conference that focused on the economic development of the Delta.

One of the outcomes of this conference was that the Pew Charitable Trusts, a philanthropy based in Philadelphia, PA, provided seed money to FMS for it to prepare an economic plan for the development of the Delta. FMS in turn asked MDC, an economic development organization specializing in the development of Southern and rural regions, to devise a plan for the development of the Delta. MDC issued its report, "An Initiative to Transform the Economy of the Delta," in July of 1992. This report documented the poverty and underdevelopment in the Delta. It argued that the region's workforce was inadequately educated to participate in the modern economy and it claimed that Delta businesses needed capital and technical assistance to expand and modernize. At the same time, it noted that regional business leaders, politicians, and community organizers were unusually united on the need to overcome the traditional barriers that impeded development in the region. MDC concluded that Pew and FMS had an unusual opportunity to jump-start initiatives that might, over the long-term, "transform" the Delta.

In the late 1980s, many community development advocates were optimistic that community development financial institutions (CDFIs) could be effective tools for benefiting low-income regions and individuals. Most advocates envisioned CDFIs as not-for-profit financial institutions dedicated to raising the well-being of poor people or an economically depressed region. But CDFIs could also be for-profit financial institutions that would trade-off profit maximizing opportunities for projects that would benefit low-income regions or individuals.

MDC's 1992 report recommended that the development initiative, dubbed the "Delta Partnership," have three parts. First, FMS was to use Pew funding to help organize and support "Workforce Alliances" in six Delta regions. These "WFAs" would be alliances of educators,

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[3]The key individuals behind the founding of FMS were former Mississippi Governor William Winter; former CEO of Entergy Corporation, Edwin Lupberger, from Louisiana; and Bob Nash, a high-level economic development official from Arkansas.

business leaders, public-sector officials, and community groups committed to improve local workforce preparation of lower-income individuals. The WFAs were to strive to cross traditional racial, class and geographic boundaries that had undermined previous efforts at workforce development in the Delta. Second, MDC called on Pew to provide the initial funding for a community development financial institution, the "Delta Enterprise Corporation" (DEC). According to the MDC plan, DEC was to provide financial and technical support to new and expanding firms in the region. It was to focus its efforts in the WFA communities, but could work throughout the Delta. Interestingly, the MDC report speculated that in the long run DEC might expand its target market beyond the Delta and become the "Mid South Enterprise Corporation." The third part of the Delta Initiative called on "profit-sector" leaders of large corporations to work with the WFAs and the Enterprise Corporation to increase purchases of goods and services produced in the Delta. This part was later dubbed the "Private-Sector Initiative." In short, the goals of the Delta Initiative were to: (1) create demand for Delta-produced goods, (2) expand the capacity of firms in the region to meet that demand, and (3) ensure that lower-income Delta residents could fill the growing number of modern jobs created by the Initiative. The report referred to these mutually reinforcing elements as the "three legs of the stool."

Pew committed $1.3 million in operating support to launch the Delta Enterprise Corporation and, assuming DEC could raise $4.5 million in additional capital, Pew promised to provide $1.5 million in matching capital. Pew also committed to provide the initial funding for the other parts of the Delta Initiative. Using Pew's generous support, FMS organized the Work Force Alliances. It also hired ShoreBank Advisory Services, which had helped found a development bank in Arkadelphia, Arkansas, just a few years earlier, to help devise initial operating guidelines for the Enterprise Corporation.[4] After canvassing businesses in the region, ShoreBank's report called for the new development bank to concentrate on funding Delta-based manufacturing firms, especially those in the sheet metal industry, and on providing them with technical assistance. In late 1993, FMS hired Bill Bynum, who had worked at Self Help, a community development credit union in North Carolina, to be the CEO of what was to be named "The Enterprise Corporation of the Delta."[5] He, in turn, hired a small support staff including Alan Branson, a former banker, as ECD's chief loan officer.[6]

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[4] For a well-informed and interesting account of the evolution of the development bank in Arkansas ("Southern Bancorps"), see Richard P. Taub's *Doing Development in Arkansas: Using Credit to Create Opportunity for Entrepreneurs Outside the Mainstream* (Fayetteville: University of Arkansas Press) 2004.

[5] George Pennick was the president of the Foundation for the Mid South at the time of the founding of ECD/HOPE. Although he has since left FMS, he has continued to follow HOPE's progress and was on the board of directors of Hope Federal Credit Union as of late 2012, HOPE's affiliated credit union. In an interview in early October 2009, he discussed HOPE and commented that its founding was the "most significant thing that FMS did while I was there."

[6] Bill Bynum, Alan Branson, and Richard Campbell, who was hired as the CFO in 1995, are all still with HOPE as of 2013, a remarkable stability in the top management ranks.

ECD opened its doors for business in early 1994, chartered as a non-profit (503c) organization. It was, of course, at that time unknown in the region and was operating with a skeleton staff and an extremely modest level of capitalization. Its management faced daunting challenges. It needed to raise $4.5 million to match Pew's $1.5 million capital commitment. It needed to establish its own internal operating procedures --- setting up loan committees, accounting procedures, etc. And it needed to market its services in the Delta, which the Delta Partnership defined as a 55-county region across three states. At the time, ECD was operating from a single office in Jackson, MS.

ECD's first two years of existence were a whirlwind of activity and it achieved a number of milestones. The newly created Community Development Financial Institutions (CDFI) Fund of the U.S. Department of Treasury certified ECD as a CDFI, enabling it to apply later to the CDFI Fund for financial support. Within a year of receiving Pew's initial commitment, ECD had raised the full $4.5 million matching capital contributions. Major contributors were Entergy Corporation, a major electric utility company in the Mid-South; the Walton Family Foundation; the Ford Foundation; the Kauffman Foundation; the MacArthur Foundation; and Mott Foundation. ECD agreed to take charge of the "Private-Sector Initiative," the effort to encourage corporations to increase their purchases from Delta-based firms. In addition, ECD put in place its internal operating procedures and began to market its services throughout the Delta. To do so, ECD's small staff put in thousands of hours driving long distances to meet with business and community leaders, bankers, and operators of small Delta-based manufacturing firms.

ECD initially followed the strategy set forth in the plans for the Delta Partnership and called for in the ShoreBank study. That is, ECD made a special effort to market its services in the six (which later became seven) Workforce Alliance communities that FMS was helping to organize. It actively communicated with large corporations in and outside of the region to encourage them to increase their purchases from Delta-based firms. And, as called for in the ShoreBank study, ECD marketed its loans and technical assistance to small manufacturing firms and focused on the provision of working capital to these firms. There were four rationales for this approach. First, wages and benefits for employees of manufacturing firms tended to be higher than those in the service sector. Second, manufacturing firms generally sold a significant part of their production outside of the Delta, so an "export-oriented" strategy would bring new money into the region which should have a positive ripple effect on the demand for other local goods and services. Third, ShoreBank found that banks in the region were reluctant to provide manufacturing firms with working capital, as opposed to better-secured equipment or real estate loans. In canvassing the region, ShoreBank frequently heard that this lack of working capital inhibited the firms' growth. Finally, ECD reached out mainly to small manufacturing firms. Large ones tended to be better capitalized and financial constraints were not a significant issue for them. In addition, with only $6 million in capital, good prudential banking practices required ECD to limit its exposure to any one firm to a few hundred thousand dollars at most.

ECD booked its first loan, to TCS Caseworks based in Hughes, AR, in June 1994. TCS manufactured cabinets. Its owner was retiring and he was trying to sell the firm. The danger was that he might sell it to someone who would move its operations outside of the region or he might fail to sell it and simply shutter the operation. When the owner found a local, but inadequately capitalized buyer, ECD stepped in to help finance the purchase and keep the jobs in the

Delta. Because the collateral for the loan was modest compared to the size of the loan, it was a risky loan that a purely for-profit bank would not make. ECD's mission called on it to take into account the broader social benefits of the loan, as well as the potential financial returns to ECD, so it looked like a worthwhile risk to ECD.[7]

As ECD was becoming established, the work pace of its staff did not slacken. They continued to seek new sources of capital to enable ECD to increase its scale of operations. In addition, they worked hard to find capital-constrained manufacturing firms whose growth ECD could assist. Finding these deals turned out to be far more difficult than had been anticipated by the ShoreBank study. For one, it was hard for a young Jackson-based loan fund to become known in such a big geographic region, so many potential deals were undoubtedly not finding their way to ECD. Moreover, what ECD was looking for was fairly selective. It wanted to make loans to manufacturing firms that banks were unwilling to finance due to the risk, but that were not too risky for ECD's long-run sustainability. In addition, it sought firms whose growth or survival would provide good Delta-based jobs, especially to lower-income workers. ECD would often spend many hours with a prospect to help it refine its business plan. While working with ECD, the business could continue to seek financing from banks and other sources. In some cases, ECD's help with a firm's business plan enabled the firm to get a bank loan. Although ECD helped the firm get needed financing, ECD did not book the deal and earned nothing for the substantial time its staff put into the prospect.

By the fall of 1995, ECD had made five loan commitments and had another twelve in the pipeline. ECD's management openly admitted that it had hoped to have booked more deals than this by the end of its first 18 months of existence. ECD's staff and board responded by continuing to push hard to generate more deal flow, by adding loan officers and back office support staff, and by seeking more capital to enable it to do more and larger deals.

In its first 18 months, ECD faced three other disappointments relative to the founding expectations for how it would function. First, it found it hard to meet the technical assistance (TA) needs of many prospective loan clients as well as firms already in its portfolio. Some manufacturing firms had specialized needs that ECD could not satisfy with its in-house expertise, which mostly centered on financial and business planning. ECD tried to locate affordable outside sources of TA to which it could connect these clients, but the quality of this assistance was erratic. Numerous prospective deals were with firms that needed just basic management assistance, which ECD could provide. But many of these deals would fail to close or were very small scale, so it was not cost-effective for ECD to devote the time of one of its few loan officers to provide the needed assistance. ECD's management thought hard about how it might solve this conundrum. It was little help that other community development financial institutions throughout the country were struggling with the same issue and there was no obvious solution.

The second disappointment that ECD encountered relative to the founders' expectations concerned the Private-Sector Initiative (PSI). Large companies consistently told ECD that Delta-based manufacturing firms, as a general rule, could not meet their needs for either very large

[7] This loan turned out well. ECD was repaid and the firm continues to operate out of a Delta-based location as of early 2013.

quantities of homogeneous goods or highly specialized products. ECD did not abandon the PSI but, rather, altered the strategy and tried to work with the intermediate-sized firms that supplied the large firms. Ultimately, however, this too would prove to be fruitless and by 1997 ECD was not longer counting on the PSI to create significant demand for the products of Delta manufacturers.

The third disappointment concerned ECD's relation to the Workforce Alliance communities that Foundation for the Mid South had helped organize. Several of the WFAs succeed in mobilizing inter-racial cross-sector groups around improving workforce preparation within multi-county regions. But such efforts, even when successful, would bear fruit over years, not months. ECD was working with small, weak manufacturing firms that had to focus on their own immediate growth and survival. These firms could not realistically play a significant role in workforce development initiatives. The WFAs, in turn, appropriately focused their energies on the public schools, community colleges, technical training programs, and the largest local employers. Simply put, the Delta Partnership that MDC had envisioned was not, practically speaking, a good fit. ECD was reluctant to abandon the concept and it continued to focus its efforts in WFA communities through 1997. By 1998, however, ECD, while still active in WFA communities, no longer gave them special priority. Also, in that year, ECD became completely independent of the organization --- the Foundation for the Mid South --- that founded it. In subsequent years, however, ECD and FMS periodically worked as partners around shared goals.

Despite these three setbacks relative to what was envisioned in its founding, ECD completed its first 18 months of existence in a strong position. It had gone from just a plan on paper in 1992 to a fully capitalized loan fund with a small but capable staff by 1995. ECD encountered some setbacks and it altered its strategies and some details of its operations in response, but it did not alter its commitment to its fundamental mission.

At the same time as ECD was establishing itself, there was a largely unrelated development in Jackson. In 1995, the Anderson United Methodist Church established Hope Community Credit Union to provide its members, many of whom were low- and moderate-income individuals, with simple, affordable savings and credit services. As with many church-based credit unions, Hope was tiny and depended on volunteers, including Bill Bynum of ECD, to sustain its operations. Unbeknownst to the founders of ECD and Hope, ECD and Hope Community Credit Union would eventually become deeply-linked partners.

Over the course of 1996, ECD made significant progress on three fronts: (1) adding to its scale and financial strength, (2) finding a cost-effective way to provide TA to large numbers of small firms, and (3) becoming known in the region and building private-sector and public-sector partnerships. ECD continued to be unusually successful raising capital funds from a diverse set of philanthropic foundations. In addition, in mid-1996 the CDFI Fund of the U.S. Treasury announced that it had approved a $2 million capital grant to ECD. By the end of 1996, ECD had assets of nearly $12 million and employed almost 10 people. This was impressive for such a young organization, but it still left ECD as a tiny organization relative to the region it was trying to serve. ECD's staff continued to look for creative ways to address this deficiency.

One of ECD's most notable accomplishments of 1996 was its creative response to part of the TA problem. As noted above, ECD found that many of the small-scale entrepreneurs and potential entrepreneurs that applied to it for financing lacked basic business management skills. ECD had the in-house capacity to provide this training but it was not cost-effective for its loan officers to work one-on-one with such entrepreneurs. At the same time, ECD did not want to ignore the issue. Small firms could make significant contributions to the growth of the Delta economy. Moreover, many women-owned and African-American-owned businesses were small, and part of ECD's mission was to promote wealth accumulation by such under-represented groups. ECD's creative solution reflects one of the themes I discussed in the introduction --- ECD partnered with others who shared its goals to solve the problem. In this case, ECD partnered with the Ewing Marion Kauffman Foundation, of Kansas City, which had a deep commitment to promoting entrepreneurship, and with Delta-based universities and community colleges.

The Kauffman Foundation had developed a basic entrepreneurship curriculum, which it named "FastTrac." The Foundation was encouraging groups throughout the U.S. to use the FastTrac program to help potential entrepreneurs gain basic management skills, write a business plan, and decide whether they were really ready to take on the risks associated with business ownership. ECD teamed up with Kauffman and enlisted several colleges and universities (Delta State University, University of Arkansas at Pine Bluff, Northeast Louisiana University, and Mississippi County Community College) to offer the curriculum. It was ECD's role to monitor how well the curriculum was working, to track the number of students taking the courses, and to follow their subsequent decisions to start businesses or not.[8] ECD also announced that it would welcome loan requests from FastTrac graduates and make a special effort to meet the needs of graduates with strong business plans, even if the graduates planned to open firms in the service sector, as most did, and even if the loans were too small to be cost-effective for ECD.

In launching this program, ECD was clearly deviating from the founding plans for the organization. As noted earlier, these plans called for ECD to finance manufacturing firms and to provide in-house or brokered TA to these firms. But, in another sense, ECD was living up to the most important goal of the founding plans, i.e. ECD was expected to be an entrepreneurial organization that could respond nimbly to new opportunities to help the poor, women, and minorities build wealth by starting successful businesses or by gaining new or better jobs in expanding businesses.

As 1996 came to end, ECD had much to be proud of. It had the staff and capitalization in place to meet the needs of a reasonable number of small-scale Delta manufactures. It had become moderately well known by banks and other deal-referral sources throughout its large geo-

[8] After monitoring the implementation of the FastTrac curriculum, ECD quickly concluded that it needed to be altered to better meet the needs of potential Delta entrepreneurs, many of whom had limited formal education. ECD communicated its findings to the Kauffman Foundation and the Foundation developed a lower-level curriculum, dubbed "First Step." The FastTrac courses have been offered to thousands of Mid-South residents since 1997, many of whom have started successful businesses. More importantly, perhaps, many of those whom have might have lost their savings starting unsuccessful businesses realized that they were not ready to become entrepreneurs after taking a FastTrac course.

graphic region. Its reputation for nimbleness, managerial excellence, and knowledge of the region made banks and others willing to join it in financing deals and in promoting regional development. Finally, ECD had established a Delta-wide entrepreneurship training program that met this need without straining ECD's lean staff structure.

Despite these successes, ECD still faced significant challenges. The organization needed to grow to a much larger scale and figure out how it could further leverage its influence before it would be able to have a detectable development impact in such a large region. It needed to become yet more widely known throughout the Delta in order to attract more higher-quality development financing deals. And there were signs that some of the firms in ECD's portfolio were struggling, which could portend future loan losses.

Chapter III

ECD Grows and Becomes a More Complex Organization, 1997-2000

The period from 1997 through 2000 was one of significant growth and maturation for ECD. It started this era with about $12 million in assets. It ended 2000, with almost $39 million in assets. There were other important changes. ECD gradually moved away from a focus on financing manufacturing firms. The organization started to become significantly more complex as it added a subsidiary and began to participate in various loan-guarantee programs. As a reflection of its growing profile and efforts to leverage its influence, ECD formed new partnerships with private- and public-sector entities. At the same time, its growing reputation and desire to magnify its impact led ECD to begin to work to influence public policy, mainly state policies, that could benefit lower-income residents in its three-state region. Finally, during this era, ECD greatly increased the resources that it devoted to data analysis relevant to regional socioeconomic trends and the oversight and assessment of its own performance.

Over the course of 1997 and 1998, ECD's managers focused most of their attention on four issues. First, they began to rethink ECD's development strategy. By mid-1997, ECD had three years of operating experience and the organization was solidly established. The management took this opportunity to ask itself whether it could have a bigger development impact by revising its operations or target market. The ECD staff had numerous meetings to share their thoughts about what lessons they could learn from their experience and whether they needed to make a strategic shift. ECD also contracted with the consulting firm, Bain & Company, to provide an outside perspective on this same issue.

The most important outcome of this effort to rethink ECD's strategy was a decision to give much greater emphasis to providing financing and technical assistance to firms in the service sector. There were multiple rationales for this move. The service sector was growing more rapidly than manufacturing and was expected to create more job opportunities. The service sector included health-care facilities that provided good employment opportunities for many lower-income Delta residents as well as services that were critical to people's well-being. The service sector also included child-care businesses which could also be sources of employment and meet child-care needs for working parents. By moving into this sector, ECD could diversify its portfolio and potentially reduce its risk. In addition, as noted earlier, many minority- and women-owned firms were in the service sector, so ECD could more reach more of these entrepreneurs with a broader target. Finally, broadening the range of firms that ECD would finance was expected to increase the quality and quantity of the potential deals that ECD reviewed.

As ECD's CEO, Bill Bynum, explained to a reporter in 2000:

> *Our focus began to shift in early 1998. It was clear that future job growth in the Delta would be driven by the service sector. If the gap between the Delta and other areas was going to close, then we have to complement manufacturing and industrial recruiting with investments in technology, health services and other*

promising sectors. Since ECD diversified its financing, the number of applicants has increased steadily.[9]

Another strategic innovation that ECD began to experiment with in 1998 was to assist counties and other local governments with their economic development efforts. As ECD's reputation spread, it was natural that smaller development operations might turn to it for advice and back-office support. This started in early 1998, when Panola County, Mississippi, started to negotiate with ECD about providing oversight and back-office support for its small revolving loan fund.

The second area of focus for ECD's management in 1997 and 1998 was to continue to build its capitalization so that it would have the resources to create a greater impact in the Delta. To do this, ECD applied for grants from philanthropic foundations and the U.S. Treasury's CDFI Fund. It was frequently successful. In 1998, the CDFI Fund awarded ECD a $2.5 million grant to enable ECD to expand its business lending activity, launch a venture capital initiative, and finance infrastructure development in partnership with rural municipalities.

Beyond expanding ECD's capitalization through grants from foundations and the CDFI Fund, ECD also sought to attract for-profit investors, such as banks. To do this, ECD started a for-profit subsidiary, named "ECD Investments" (ECDI). ECDI was incorporated in early 1997. It was to be a for-profit financial firm, but one with a "double bottom line," i.e. it was willing to sacrifice some profits if it believed this would promote ECD's social development mission. ECD's goal was to raise $15 million for ECDI from outside investors. Banks that invested would get credit towards meeting their Community Reinvestment Act obligations as well as a chance for a modest financial return. In brief, the Community Reinvestment Act calls on banks to make special efforts to invest responsibly in lower-income communities in their service areas.

In addition to providing ECD with greater resources to lend in the Delta, ECDI's investment guidelines enabled it to make equity (or equity-type) investments in ECD clients. This gave ECD greater flexibility in the type of financial contracts that it might make with clients, i.e. ECD or a bank might provide debt financing and ECDI could provide equity financing or convertible debt financing. In the mid- and late-1990s, many people active in community development argued that community development financial institutions (CDFIs) should provide equity financing ("venture capital") to promising firms in addition to loans. They argued that the typical growth-oriented firm in a low-income region was already near its debt-capacity and that, by providing equity, a CDFI could share in the profits if the firm became successful.

As ECD raised money for ECDI, ECD considered the extent to which it should use ECDI's flexibility to make a selective number of venture-capital-type investments. Of course this would not be equivalent to traditional venture capital (VC) that was usually directed to high-tech firms with explosive growth potential. Rather, it would be "community-development" VC that was willing to settle for lower potential returns in exchange for job creation or other community benefits.

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[9] "Market-Based Economic Development Model Reaping Results in Delta; Enterprise Corporation of the Delta has Assisted More than 1,000 Firms." *Business Wire*, 27 April 2000.

After careful thought, ECD decided to use ECDI's capital to make two initial venture capital investments in early 1998. One was in a Delta-based firm that sought contracts to clean linens for hotels and casinos along the Mississippi River. The other was in a specialty textile firm that was opening a manufacturing plant in the Delta. But ECD's bread and butter financing continued to be providing clients with working capital. In fact nearly 70% of the loans on its books at that time were term loans or revolving lines of credit for working capital.

The third area of focus for ECD's management in 1997 and 1998 was to improve its financial controls and management of the risks in its portfolio. As ECD's portfolio matured, it started to experience loan losses. To some extent this was unavoidable for a CDFI whose mission was to take on greater risk in order to achieve broader social goals, but ECD had to also worry about its long-term sustainability. ECD responded to the emerging delinquency and default problems in its portfolio by demanding better quality and more timely financial data from its clients and by hiring an in-house credit analyst. In taking these steps, ECD faced some difficult trade-offs. If it became too conservative in its credit decisions, it would discourage loan applications and hurt its development mission. But if it took on too much risk, it would undermine its long-term sustainability. Similarly, if ECD devoted too many resources to managing the risks in its portfolio, this would take resources away from making new development loans. Over the course of 1997 and 1998, ECD tried to find the right balance among these difficult tradeoffs.

ECD's fourth area of focus in 1997 and 1998 was to improve the technical assistance (TA) that it provided its clients. This served two purposes. It could help the firms become successful and grow, contributing to ECD's development mission. It could also stabilize struggling firms, reducing potential losses in ECD's portfolio.

By 1997, ECD had concluded that it was not cost-effective to try to build an in-house capacity to meet the TA needs of the firms in its portfolio. ECD's loan officers continued to provide some general management TA, but in many cases ECD's clients needed fairly specialized TA related to their manufacturing processes, marketing, or business development strategies. ECD either did not have the skills or time to meet this need adequately on its own. ECD decided that its role would be to build a database of TA resources and information on the cost and quality of TA providers. Using the database, ECD could refer clients to appropriate TA sources and, in some cases, provide the clients with financial assistance to pay for the TA. That is, ECD would act as a broker. It would identify good quality, affordable sources of TA, it would refer clients to these sources, and it would monitor the interaction to ensure that the client's needs were met and to sort out the reliable sources of TA from the unreliable.

Throughout 1997 and 1998, ECD worked hard to implement this strategy. It built a database of TA providers and sought information on their cost-effectiveness. It helped to bring the Mississippi Technology Extension Partnership to the Delta and helped establish the "Delta Manufacturing Technology Center" at Delta State University. This center would serve as a source of engineering technical support for manufacturing firms. It provided a grant to a struggling firm in its portfolio to enable it to hire a marketing consulting from International Executive Service Corps, and ECD monitored the quality of this interaction. In early 1998, ECD teamed with an Arkansas-based CDFI, Arkansas Enterprise Group (AEG), to bring "alt.Consulting" (Alt) to the

Delta. Alt had established a successful track record of providing general management assistance to small- and mid-sized firms in the South, but it did not have a presence in Arkansas, Mississippi, or Louisiana. ECD and AEG partnered to encourage Alt to offer its services in the Delta and ECD contracted with Alt to provide a specific number of hours of TA to ECD's clients. ECD found Alt's assistance to be very cost-effective and ECD frequently referred clients to Alt for many years. In addition, ECD continued to use the FastTrac program to deliver basic management training to very small-scale entrepreneurs and to people thinking that they might want to open a small business.

The second two-year period, 1999-2000, covered in this chapter was important for ECD's evolution for several reasons. During this era, ECD received several large grants and ECDI raised substantial funds, so ECD continued to build its financial strength and scale of operations in the Delta. At the same time, ECD continued to improve and refine its strategy for delivering TA to its clients. ECD also introduced a new strategy to push the development of the Delta when it launched an initiative, discussed below, to promote improved telecommunications in the region. Moreover, the period from 1999 to 2000 marked the beginning of ECD's significant involvement in trying to influence government policies and the beginning of its ties with Hope Community Credit Union. Undoubtedly, however, the signature event of this era was the visit that President Clinton made to the Delta - which ECD helped to orchestrate - and the attention that the President drew to ECD and development opportunities in the Delta.

President Clinton came to Clarksdale, Mississippi, in July of 1999 to launch his "New Markets Initiative," which provided incentives for private businesses to invest in economically distressed communities. During his visit, which was heavily covered by national newspapers and other media outlets, Clinton called attention to the fact that a number of banks, corporations, foundations, and individuals had made investments in ECD in order to promote the development of the Delta. And he encouraged Congress to pass legislation that would provide tax incentives for private-sector investments in poor communities throughout the country. As the President explained during his visit to Clarksdale, which included a visit to a firm financed by ECD,

> *…ever since I have become President, I have done what I could to increase investment in underdeveloped areas through … setting up community development financial institutions, or supporting those that are already in business, like the Enterprise Corporation of the Delta…It is a real success story. Just since 1994, it's given financial or technical assistance to more than 600 companies.. I'm trying to get Congress to pass a bill which will give tax incentives, tax credits and loan guarantees to people to invest in the Delta and other poor areas of America, just like they get today to invest in poor areas around the world.*[10]

Congress would, in fact, pass this legislation which created the "New Markets Tax Credit" program.

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[10] "Remarks by President Clinton in Roundtable Discussion on Investment in the Delta Region, " July 6, 1999. http://clinton2.nara.gov/WH/New/New_Markets/cities/clarksdale_remarks.html

Clearly such a high-profile visit by the President of the United States to the Delta, especially when the President publicly recognized ECD for its work promoting the development of the region, was a big boost for ECD and its mission. And funders continued to provide ECD with a strong vote of confidence during this time. In 1999, ECD received new capital grant commitments from several foundations, including a $3 million pledge from Pew and a $5 million pledge from the Walton Family Foundation. Following Clinton's visit, Entergy (a large regional public utility) announced that it would make a $5 million investment in ECD. This was the largest non-foundation investment in a CDFI to date.[11] In 2000, the CDFI Fund awarded ECD a $2 million grant to help ECD expand its development lending. These generous grants and investments in ECD (including ECDI) left ECD with assets of almost $40 million at the end of 2000 --- quite an accomplishment for a fund that was just over five years old.

In 2000, ECD began to move beyond the business development niche envisioned at the time of its founding. Building on its previous experience helping small public-sector economic development loan funds to think strategically and to administer their operations, in 2000 ECD created the "Delta Reinvestment Fund," which formalized ECD's efforts in this regard. ECD partnered with East Arkansas Enterprise Community (EAEC) to establish a $2 million loan fund to provide financial and technical assistance to small businesses in four eastern Arkansas counties. ECD agreed to provide joint financing with the EAEC fund and to manage its operations. As a loan officer for the EAEC explained,

> *ECD takes care of all lending tasks – from the application through repayment. That frees the resources of EAEC to refer customers and address other economic revitalization and human resources development needs in the area.*[12]

Similarly, ECD agreed to provide the back-office support for the Ouachita Enterprise Community, a public-sector organization that made economic development loans in Ouachita Parrish, Louisiana.

The 1999/2000 era saw a growing involvement of ECD in public policy issues. In some cases, ECD worked to ensure that low-income residents of the Delta had access to government benefits. ECD, for example, devoted substantial staff time to raising awareness of the Children's Health Insurance Program. ECD initiated the Delta Employment Enhancement Project to help lower-income adults and their employers utilize public-sector incentives to facilitate the entry and advancement of these individuals in the workforce. Although there were a number of such government incentives, ECD found that most small businesses in its region were unaware of them. ECD tried to fill this gap by developing a list of the programs and qualifying criteria so that more Delta-based firms would make special efforts to help low-income workers advance in the labor market and would be rewarded for the effort. In 2000, ECD contributed it analysis to Governor Musgrove's "Advantage Mississippi," which set out an economic development strategy for the state. ECD also participated in Governor Huckabee's Arkansas Delta economic

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[11] "Entergy Invests in Its Service Territory." *PR Newswire*, 24 September 1999.

[12] *ECD Works* newsletter, July 2003.

roundtable. It worked with the Mississippi Department of Human Services and Mississippi Employment Security Commission to analyze best responses to opportunities created by the Workforce Investment Act and the availability of TANF funds for workforce development.

Finally, the period from 1999 to 2000 was marked by growing ties between ECD and Hope Community Credit Union ("Hope"). In 1999, Hope, which had been a church-based credit union, expanded its field of membership to include other religious groups and ECD's staff and supporters. In 2000, Hope opened an office in a Jackson, MS, shopping mall. ECD loaned some of its staff to Hope to enable it to develop more sophisticated consumer financial services. Hope and ECD also began to think about how they could combine forces to bring basic banking services to underserved communities throughout the Delta and to provide financing to businesses poised to grow.

Chapter IV

The Emerging Markets Partnership, the "Merger" with Hope, and New Development Initiatives: 2001-2005

From 2001 through the summer of 2005, thanks mainly to a substantial grant from the W. F. Kellogg Foundation and a large New Markets Tax Credit allocation, ECD grew substantially.[13] This period also coincided with three other big changes. First, using the Kellogg grant, ECD began to function as an intermediary, providing seed funding to other Delta-based organizations with promising social or economic development initiatives. Second, ECD became the sponsor of Hope Community Credit Union, enabling ECD to attract deposits via Hope and to offer consumer financial services in addition to its business lending. Third, ECD broadened its range of investments, making significant financial commitments to health-care facilities, homeownership initiatives, and an effort to bring broadband to Delta communities.

For ECD, 2001 was a transformative year. In that year, the Kellogg Foundation decided to make a major five-year commitment, which it called the "Emerging Markets Partnership" (EMP), to the economic and social development of the Delta. After extensive discussions, Kellogg selected ECD to manage this $20 million initiative. Under the contract, ECD was to use about $5 million to fund the social and economic development initiatives of other organizations in the Delta**.** ECD was to solicit and review grant proposals from organizations throughout the Delta and decide which ones to fund with seed grants. Beyond funding these projects, the intent was to strengthen the capacity of the organizations receiving the grants. In addition, ECD was to network with the organizations and form, where appropriate, partnerships around their initiatives. This is why Kellogg and ECD dubbed the initiative a "Partnership." ECD was to use the remaining $15 million of the award to expand its business development financing in the Delta, to monitor the performance of the organizations whose seed projects ECD funded, and to cover general administrative costs. In a related development, Fannie Mae pledged to invest at least $45 million in initiatives to increase homeownership among low-income Delta households.

The EMP brought three major changes to ECD. First, it increased ECD's capitalization, allowing it to operate on a significantly larger scale. Second, it reinforced ECD's natural inclination to build partnerships to promote the development of the Delta and, for the first time, it put ECD in the role of an intermediary that channeled funds from outside of the region to other organizations. As discussed in the next chapter, ECD would again play this intermediary role in responding to the Hurricane Katrina crisis. Third, it facilitated ECD's entry into new lines of business, such as the financing of health-care facilities. Below I discuss these developments, sometimes making clear that the initiatives or activities were the result of the EMP and, at other times, omitting this designation. Simply put, however, almost everything that ECD did in the

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[13] As I explain below, the New Markets Tax Credit (NMTC) Program enables taxpayers to receive a credit against their federal income taxes in exchange for making investments in designated "Community Development Entities," such as ECD.

Delta between 2002 and 2007 was at least partially funded by the EMP and should be considered part of it.

ECD threw itself into its new role as a grant-making intermediary, notifying hundreds of organizations of the possibilities offered by the EMP. In particular, ECD and Kellogg agreed that the EMP would focus on building regional capacity in six areas: affordable housing, health care, enterprise development, telecommunications, child care, and workforce development. By 2003, ECD had reviewed the grant applications and selected 25 for funding. In most cases, the proposals aimed to expand health-care and child-care facilities, to promote entrepreneurship, or to increase affordable housing opportunities.

A Brief Profile of Two EMP Projects

As part of the EMP, ECD used Kellogg funding to contract with the Mid South Delta Local Initiatives Support Corporation *(*LISC) in 2002. The contract called for LISC to initiate the "Delta Housing Initiative" or DHI. Under the DHI, LISC provided technical assistance to eight grass roots community development corporations (CDCs) that were building affordable housing in the Delta. LISC helped the CDCs plan their housing projects, develop effective counseling programs, and find sources of funding for their operations. In some cases, LISC provided construction loans. By 2007, LISC reported that the CDCs assisted by the DHI had built (or were building) 172 homes, had assisted 61 lower-income individuals to purchase homes, and had provided home-buyer or credit counseling to over 4,000 people.

In a second EMP project, ECD used Kellogg funding to invest in workforce development initiatives of the Good Faith Fund (GFF), based in Pine Bluff, Arkansas. With this support, GFF documented that Arkansas' workforce training programs were poorly organized and uncoordinated as of 2001. GFF joined a public policy alliance that successfully advocated for local Workforce Investment Boards to undertake sectoral training initiatives. It successfully proposed state legislation to create a committee to work on better coordinating state workforce training efforts. It joined with the Arkansas Association of Two Year Colleges to launch the Career Pathway's Project, which provided low-skilled adults with opportunities to gain work experience and training in specific economic sectors. Later, it helped to convince the state to allocate $16 million in TANF funds for replicating the Career Pathways project at eleven community colleges. By year-end 2005, 561 students had been served by this project.

2001 was transformative for ECD in second way, for it marked the start of ECD's significant involvement in financing health-care facilities in the tri-state region. In that year, ECD launched the "Mississippi Rural Health Care Loan Fund," which was to provide technical assistance and financing for health-care centers throughout Mississippi, not just in the Delta. ECD was joined in this initiative by several banks and by the Robert Wood Johnson Foundation. The idea was that ECD would initiate the loans and the banks would subsequently buy part of the loans, freeing up ECD's funds to make more loans. The goal was to improve health-care facilities in the state, potentially creating jobs in this sector and improving people's access to quality health care, especially in rural areas. As ECD's C.E.O., Bill Bynum, explained in 2001:

> *Our goal is to develop a viable health care infrastructure in rural areas of the state. Critical barriers to receiving health services include the inability to afford quality health care or the lack of access to primary care providers, which results in inadequate care.*[14]

In 2002, ECD made a $2 million loan as part of this initiative to Rural Health Management and Morton Medical Center to enable these health-care providers to buy an appropriate facility in Scott County, MS.

In 2004, drawing on the Kellogg EMP and ECD's growing experience funding health-care facilities, ECD contracted with the Mississippi and Louisiana primary care associations to provide or broker technical assistance for Delta-based health centers, enabling the centers to access loans and grants to improve the quality of care for low-income communities. In some cases, ECD financed the required improvements to the health-care facilities. In fact, between 2003 and 2007, ECD closed 13 loans to community health centers and rural hospitals totaling almost $13 million in direct and leveraged lending. In addition, as part of the EMP, ECD contracted with the Mississippi Primary Health Care Association to develop the "Pharmnet South Initiative," a pharmaceutical purchasing network among the health centers that passes on cost savings to low-income Delta residents and the centers that serve them.

As noted earlier, in the period from 2001 to 2005 ECD changed fundamentally in a third way. In August 2002, ECD formalized its close relationship with Hope Community Credit Union ("Hope," for short) by becoming its sponsor. This meant that anyone could join Hope by making a $5 donation to ECD. Since Hope was officially designated a "low-income" credit union, ECD could make long-term loans to Hope which would count as part of Hope's capital.[15]

ECD and Hope had several reasons for creating the close affiliation of the two organizations. For Hope, which had started as a tiny church-based credit union run by volunteers, it gave it access to ECD's human and financial resources. Over time, this would enable it to offer a full

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[14] "Loan fund created to provide help in rural areas of Mississippi." *The Associated Press State & Local Wire*, 11 April 2001.

[15] To be designated as a "low-income" credit union, a majority of a credit union's members must live in areas where the median income is 80% or below of that of the metropolitan statistical area or, in the case or rural areas, 80% or below of that of the state-wide non-metropolitan average.

range of banking products in lower-income communities in four states. For ECD, the merger would enable it to provide savings services to low-income households and consumer credit, something it had not been able to do as a commercial loan fund. It would also enable ECD to leverage its capital --- every dollar of capital in Hope could be matched by about $10 in deposits. Thus, $10 million of capital in Hope could eventually support somewhat over $100 million of lending to businesses and households.

In order to raise the funds to provide Hope with sufficient capital to grow, ECD applied for and received a 2002 $15 million New Markets Tax Credit (NMTC) allocation from the U.S. Treasury's CDFI Fund. In fact, ECD, working with other CDFIs, had helped to develop the NMTC program. As CEO Bill Bynum explained to ECD's Board of Directors in November of 2004:

> *In 1999 ECD began working with community development advocates and White House and Treasury officials to develop a strategy to boost private investment in the nation's most distressed areas. In June 1999, ECD hosted a visit by President Clinton to the Mississippi Delta to announce his New Markets Initiative and its centerpiece, the New Markets Tax Credit Program. Over the next several months we continued to work to secure passage of the NMTC program by Congress, and to craft regulations.* [16]

A NMTC allocation is not a grant. Rather, it is the right to raise money from investors who will receive a reduction in their future federal tax obligations as long as the funds are invested in qualifying projects in low-income communities. The tax credit is 39 percent of the amount that a firm or individual invests and is allocated in tranches over a seven-year period. The CDFI Fund awards the NMTCs on a competitive basis that takes into account the likely benefits to low-income communities of the applicants' proposed uses of the investors' funds. When a community development financial institution, such as ECD, receives an allocation, it then needs to raise the money from private investors. The tax credit provides an incentive for investors to fund projects with strong social returns but projected below-market financial rates of return.

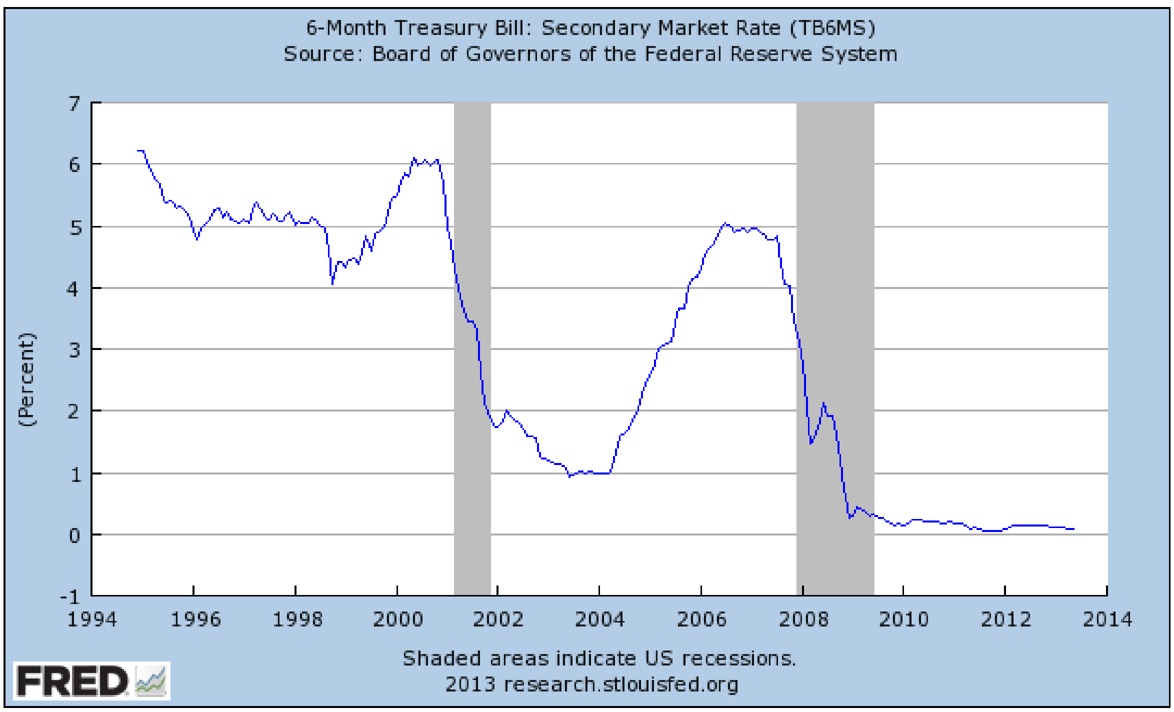
ECD's plan to use the New Markets Tax Credits to capitalize a community development credit union was unique and pioneering. For this reason, and other factors, the CDFI Fund did not finalize the award until late 2003. Over the course of 2003, ECD continued to incur substantial expenses as it subsidized Hope's growth and its own lending operations. ECD's management had not anticipated that it would take so long to finalize the 2002 NMTC allocation, and ECD experienced a serious cash crunch in late 2003 and early 2004. This adverse situation was exacerbated by the prevailing low interest rate environment. In response to its liquidity problems, ECD had to cut discretionary expenses and slowed its commercial lending in 2003 and early 2004.

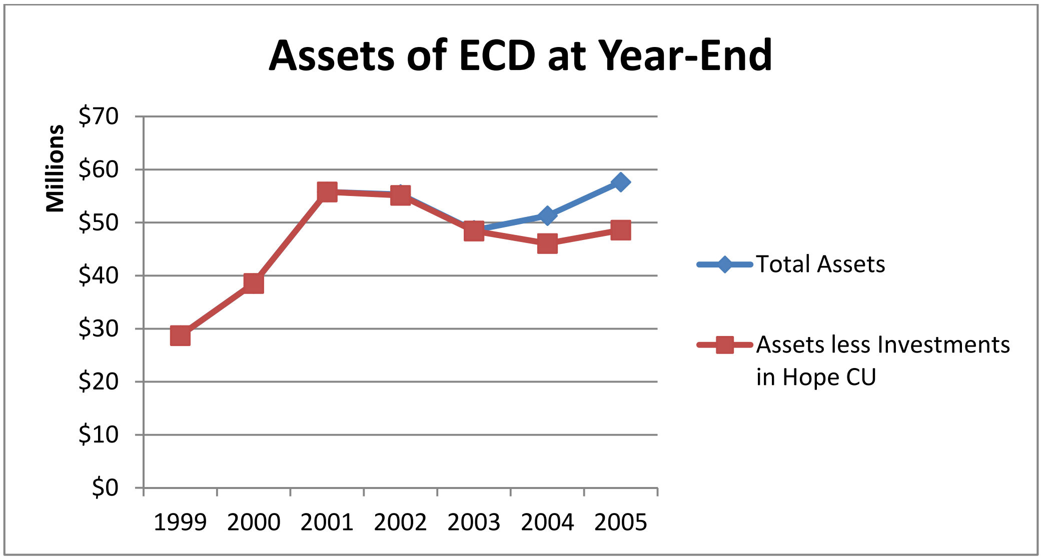
[16] Bill Bynum. *November 12, 2004 Letter to Board Members*. Q3 FY2004 Report.

Why Did Low Interest Rates Hurt ECD?

ECD supports it operations in a number of ways. One of the ways it does so is through what it earns on the spread between what it pays on its debt and what it earns from its loans and investments. Frequently, foundations and other socially-conscious investors make loans to ECD at below-market interest rates. ECD, in turn, can use these funds to buy securities paying market rates and make development loans with them. It expects to earn more on its investment and loan portfolio than it pays on its debt and use these earnings to cover the costs associated with community development finance.

The problem is that when interest rates are low, this lowers ECD's earnings from its securities and loans (most of which are short-term or have floating rates), but it does not lower the rates it pays on its debt to the same degree. In many cases, the rates on the debt are fixed and do not change with changes in short-term rates. In addition, in most cases ECD pays a concessionary rate on its debt, typically between 3 and 1 percent. Since these rates cannot go below zero, if market rates fall, say from 5 to 1 percent, the rates that ECD pays on its debt can't fall by an equivalent amount. Thus, the low interest rate environment in 2002/2004 and after 2008 hurt ECD's earnings without significantly reducing its interest expenses. In both cases, this contributed to budget crunches at ECD.





As shown in the graph above, the net effect of these developments was that ECD's assets, after growing strongly between 1999 and 2001, leveled off and declined, before starting to grow again in 2004. The graph also illustrates the share of ECD's assets that it invested in Hope Community Credit Union in these early years of affiliation.

Once ECD became Hope's sponsor and had raised capital for the credit union, it moved quickly help the credit union grow and offer a sophisticated range of financial products. In late 2002, Hope's total assets were less than $4 million. By the end of 2004, it had assets of $22 million and over $35 million by year-end 2005. This made it one of the fastest growing credit unions in the country. But its scale was still too small to support more than a very small professional staff, so ECD subsidized Hope's operations and lent some of its own staff to Hope. Drawing on ECD's support, Hope was quickly able to begin to offer checking accounts, online banking, automated telephone service, ATM/debit cards, home mortgages and small business loans in addition to its traditional car loans, personal loans, and savings accounts.

In late 2004, Hope opened its first branch office, in a low-income community called "Central City," in New Orleans. The community, with about 20,000 residents, had lacked a mainstream financial institution for two decades. The opening of the branch was strongly supported within the community. As Dr. Linda Udsin of the neighborhood organization, Making Connections, remarked:

> *I can't think of another business or institution that would have more of an impact than the opening of a financial institution, not only because of access to the banking services most of us take for granted, but for the vote of confidence in this neighborhood from Hope.*[17]

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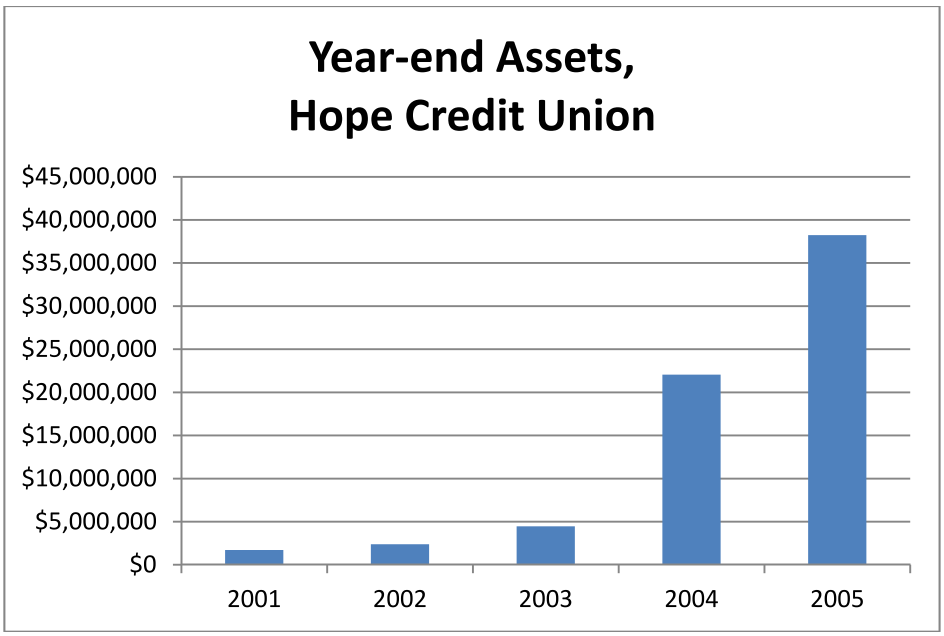
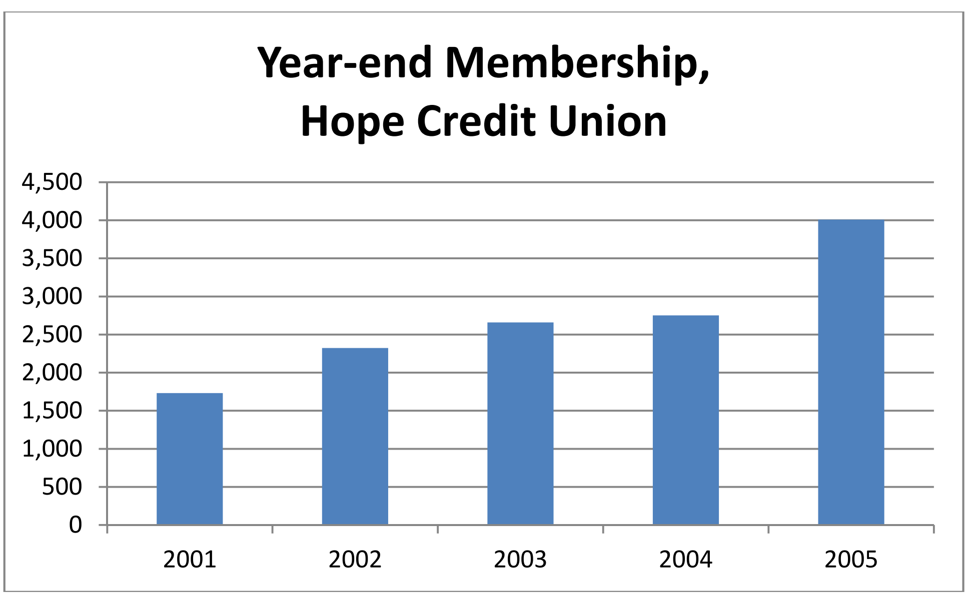
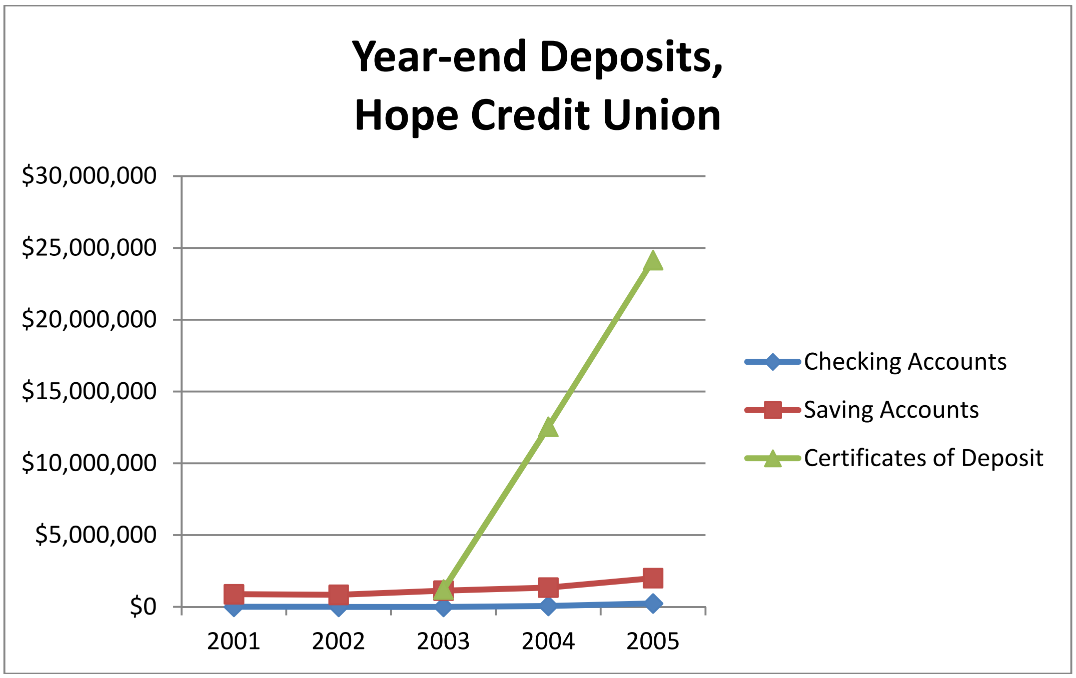
[17] ECD/HOPE press release. "Hope Brings Affordable Financial Services Back to Central City," 10 December 2004.

At tax-filing time, ECD and Hope offered free tax-filing assistance in Hope's branches through the Volunteers in Tax Assistance program to over 200 families in New Orleans and Jackson, saving the these filers an estimated $10,000 in fees that they would have paid to for-profit tax preparation services. In 2005, Hope opened a third office, located in Jackson in a former branch of AmSouth Bank. The bank donated the branch office to Hope in recognition of Hope's strong commitment to serve "underserved" communities.





After ECD became Hope's sponsor and Hope set out to become a substantial community development credit union in a large geographic region, Hope sought to attract large, socially-conscious deposits at below-market rates. It could invest these funds in market-rate loans and securities and use the "spread" to subsidize money-losing development activities, such as maintaining small-balance consumer accounts, providing financial literacy education, making uneconomical small consumer and business loans, etc. The graph below illustrates this strategy. Prior to 2003, Hope offered only a simple savings account. Once ECD became Hope's sponsor, Hope added checking accounts and also began to raise large-value socially-conscious deposits. By year-end 2005, Hope's deposits consisted of about 500 checking accounts and 4,000 savings accounts, each with an average balance of about $500. But Hope also had 425 certificates of deposit, with an average balance of about $56,000.



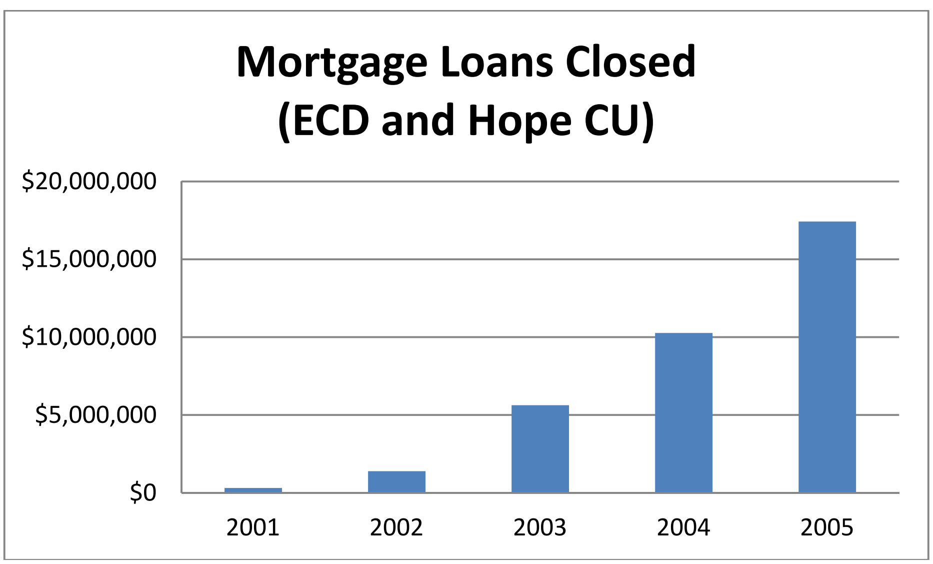
Prior to 2003, almost all of Hope's small loan portfolio consisted of unsecured personal loans and used vehicle loans. By 2005, it had added new car loans, mortgage loans, and small business loans. At year-end 2002, it had $1.8 million in outstanding loans. By year-end 2005, this had grown to $19.4 million.

<u>Homeownership initiatives</u>

As noted above, as part of the Emerging Markets Partnership, Fannie Mae pledged to work with ECD to support low-income homeownership in the Delta. In 2002, ECD drew on this support to develop the Mid South Home Ownership Program. Under this program ECD planned to purchase banks' mortgage loans made to lower-income households in the Delta. ECD would then sell these mortgages to Fannie Mae. The mortgages had to meet specific prudent underwriting guidelines, but they could be riskier loans than banks could traditionally sell in the secondary market. Thus, the program encouraged banks to make mortgage loans to lower-income households that the banks might not otherwise make.

As it turned out, this program never reached the envisioned scale. Many of the loans that ECD evaluated for purchase could not immediately meet Fannie Mae's underwriting criteria and ECD did not have sufficient capital to purchase and hold the loans while they became more seasoned. Moreover, during much of 2002 to 2005, banks that might partner with ECD were besieged with refinancing applications due to historically low interest rates. Thus, few banks found the time to implement the procedures necessary for the Home Ownership Program.

Drawing on the support of Fannie Mae, the Kellogg Foundation, the Ford Foundation, and the State of Mississippi, ECD shifted in 2003 to a second strategy for promoting low-income homeownership: ECD began to originate its own mortgages and to support homeownership counseling initiatives throughout the Delta. Specifically, using EMP resources, ECD formed partnerships with several community organizations in the Delta to help them deliver high-quality homeownership counseling. By year-end 2002, more than 1,400 individuals received ECD-supported homebuyer counseling. Frequently, these organizations referred their counseled clients to ECD for mortgages. From 2003 through 2005, ECD continued working to build strong homeownership counseling programs in the tri-state region. It also indentified numerous sources for potential down payment assistance enabling it and other mortgage lenders to make loans that they would not otherwise have been able to make. As shown in the graph below, in 2004 ECD and Hope financed $10 million in mortgage loans and nearly $17 million in 2005.



Bringing Broadband Service to the Delta

As ECD staff worked throughout the Delta and did research on socioeconomic conditions in preparation for the EMP, it was apparent that many rural areas lacked fast and reliable internet connections. Frequently this hurt business development opportunities. As ECD's CEO Bill Bynum explained in 2002:

> *Part of the research that we did in preparing for the Emerging Markets Partnership …showed us that 60% of the zip codes in the tri-state Delta have no Internet service providers. That's really remarkable when you realize that more and more people are buying and selling their products over the Internet. So to be competitive, that's an incredible need that needs to be addressed.* [18]

ECD felt that it had to tackle this problem and it tried to do so, as was typical, by forming a partnership. In this case, ECD formed a partnership with a private company, called Air2Lan, that was interested in bringing fast and reliable internet service to cities in the South. Air2Lan had not seriously considered the underserved smaller cities of the Delta, but ECD convinced it that it should. Air2Lan had the technical know-how but lacked the capital. ECD had the capital.

In early 2002, ECD and Air2Lan began a joint venture in which ECD invested $500,000 as part of the Emerging Markets Partnership. Air2Lan planned to use the funds to initiate service in Vicksburg and Yazoo City, MS. Based on its experience in these markets, it expected to develop an expansion plan to include more communities in the tri-state region. In 2003, ECD made an additional $250,000 investment in Air2Lan to enable it to enter the West Memphis market. After Air2Lan developed broadband service in several Delta small cities, it needed more funding to continue its expansion into new markets. Unfortunately, that effort coincided with major nationwide disruptions in the telecommunications industry and investors were withdrawing from the market. Air2Lan could not be profitable without increasing its scale. Caught in this dilemma, it merged with other companies and ECD's interest in the firm was eventually diluted to nothing.

Based on this experience and other disappointments in its venture capital portfolio, ECD decided to stop making equity investments in firms, concluding that it was outside its area of expertise. ECD could, of course, build the expertise but it never planned to do enough venture deals to justify the expense. It decided that the prudent course was simply to stop considering venture investing deals.

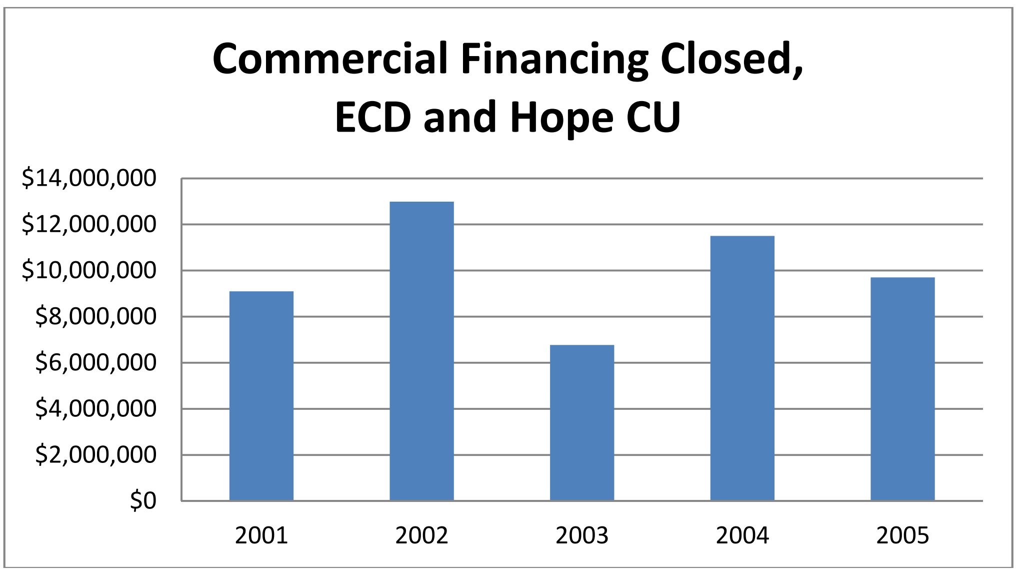
Business Development Lending and TA

While ECD was developing these new lines of business in order to extend its impact in the Delta, it did not ignore the key initiatives that it had started prior to 2001. Specifically, ECD continued to develop the Delta Reinvestment Fund, its initiative to help local governments in the

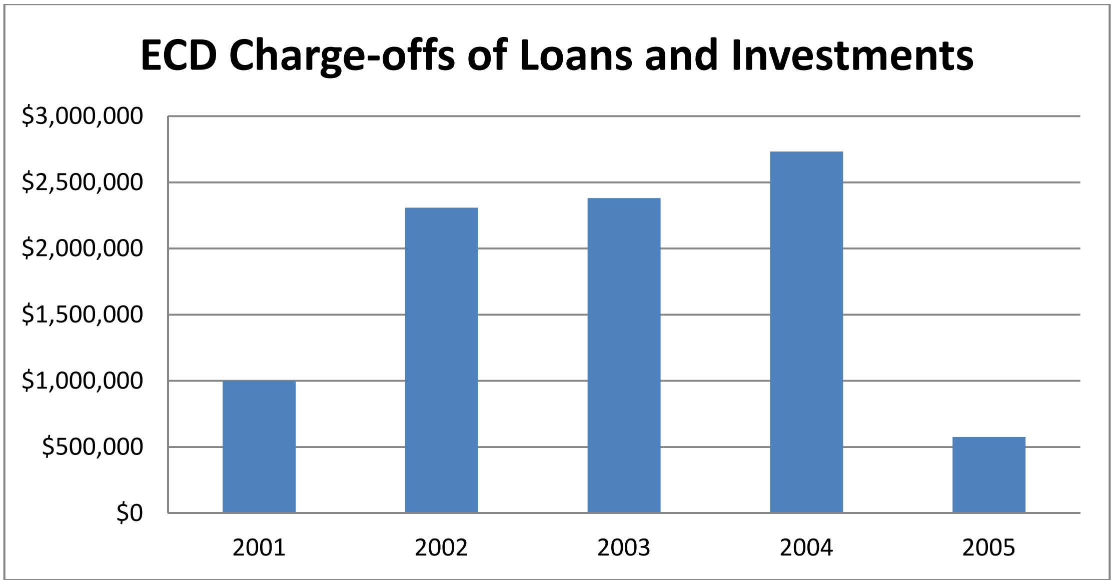
[18] Bill Bynum interview with W.K. Kellogg Foundation, 1 July 2002. http://www.wkkf.org/default.aspx?tabid=68&CID=160&ProjCID=160&ProjID=10&TID=940&NID=32&LanguageID=0.

tri-state region manage their own economic development resources and leverage their impact. In 2003, for example, ECD worked with the Mississippi Development Authority, HUD, and officials from six Mississippi counties to secure final approval and funding for the Mid-Delta Community and Individual Investment Corporation (MDCIIC), which was an $8.5 million regional business development loan fund that was first authorized in 1996. MDCIIC asked ECD to manage the loan fund on its behalf, which ECD agreed to do.

ECD also continued to lend to small- and medium-sized business in the tri-state region. As illustrated in the graph below, after a particularly strong year in 2002, ECD contracted significantly its commercial financing in 2003. As noted earlier, this was largely due to a temporary cash crunch at ECD.



As illustrated in the graph below and discussed earlier, ECD incurred significant loan losses in its commercial portfolio in 2002 and 2003. It had seen this problem developing in prior years and had provisioned for the losses, but ECD decided that it had to curtail such losses in order to survive. Accordingly, beginning in 2000 it began to make greater use of government loan guarantees, especially those of the Small Business Administration. A few years earlier, it had started to diversify its portfolio, reducing the prior emphasis on manufacturing firms and increasing the share of the portfolio devoted to the service sector. It had also improved its financial controls. But, to some extent, the losses of 2002 and 2003 may have been unavoidable. In its earliest years, ECD had to make loans, even quite risky ones, to establish its presence in the Delta. In any case, by 2005, charge-offs had diminished considerably.



Between 2001 and 2005, ECD continued to promote FastTrac as a way to provide TA to small entrepreneurs and potential entrepreneurs. In 2003, as part of the Emerging Markets Partnership, ECD funded nine different organizations, mainly local universities and community colleges, to enable them to offer the course, and ECD monitored the quality of the courses. As it did with nearly all of its initiatives, ECD also collected extensive data on the outcomes, i.e. how many FastTrac graduates applied to ECD for loans to expand existing businesses, how many started new businesses, etc. As of 2004, ECD reported that just over 1,500 people in the tri-state region had completed one of the FastTrac courses.

ECD had collected data on its operations and outcomes since its inception, but it was only by 2000 that it had sufficient experience and scale for the managers to have much confidence that the data revealed meaningful patterns. Consequently, beginning in 2000, ECD began to issue, usually on an annual basis, reports that described the type of firms that it was financing, the demographics of the firms' owners, and the pay and benefits provided at the firms. ECD also issued periodic reports on its technical assistance activities, its mortgage initiatives and, after it merged with Hope Community Credit Union, on the demographics of the population that Hope served. These reports served three principal purposes. First, they documented the volume and range of ECD's activities in a way that pure financial statements could not. Second, they were a means for ECD to communicate shifts in its strategies and the rationale for these shifts. Third, and perhaps most importantly, they provided data on the extent to which ECD was benefiting lower-income households, minority- and women-owned firms, and community facilities in the Mid-South. This was important for ECD funders and its boards of directors, and it helped keep ECD's staff focused on its core mission.

Child-Care Initiatives

In addition to its homeownership, broadband, and health-care initiatives, ECD devoted substantial time and resources to trying to increase the number of affordable, quality child-care facilities in the Mid-South. The dearth of such facilities hindered the ability of many low-income individuals to join the labor force, or left them using substandard child care. The fundamental problem, ECD realized, was that quality child care that was affordable to lower-income families had to be subsidized, and the states in its region were not willing to provide sufficient subsidies. From 2002 through 2005, ECD worked to influence state policies in this area. At the same time, it used its business skills, financial resources, and some Emerging Market Partnership contracts to try to find a workable child-care model.

In 2002, for example, ECD partnered with the Mississippi Low-Income Child Care Initiative to educate child-care professionals about untapped revenue sources, both public and private, and to advise them on business planning and management of child-care centers. In 2004, partnering with Arkansas Advocates for Children and Families, ECD used EMP funds to finance outreach and education efforts for parents and child-care providers in Arkansas. This effort began after the state of Arkansas committed $40 million to a new program aimed at helping children get a better start in school. In that same year, ECD closed a bridge loan with West Holmes Community Development Organization in Tchula, MS. The loan enabled West Holmes to purchase a van to transport children to the organization's child-care center. And in 2004, ECD formed a partnership with United Way of Northeast Louisiana. United Way had just received a $50,000 grant to help start the Northeast Louisiana Childcare Loan Fund. ECD helped United Way identify credit-worthy child-care facilities in its region.

ECD acknowledged, however, that these initiatives made only tiny contributions to solving the child-care problem. The fundamental problem, which ECD could not solve, was the absence of sufficient subsidies for quality centers that could be affordable to lower-income households. Nevertheless, ECD (and now "HOPE") has continued to provide loans and technical assistance to viable child-care centers in the Mid-South and to advocate for more generous child-care subsidies for lower-income families.

Policy Work

Throughout the 2001/05 period, ECD was active in a range of other public policy issues. In early 2003, for example, President Bush appointed ECD's CEO, Bill Bynum, to the Community Development Advisory Board, a group that advises the Director of the CDFI Fund. Also in early 2003, with ECD's research assistance, the Mississippi Family Economic Self-Sufficiency Project published *The Self-Sufficiency Standard for Mississippi*, a report that detailed the income working-families would need to meet their basic needs without public or private assistance. The report also: offered guidance for policymakers and program providers on how to better target their education, job training, workforce development, and welfare-to-work resources; helped unemployed and underemployed individuals choose among potential occupations; and showed policymakers how subsidizing child care, transportation, or health care affects the wages necessary for working families to make ends meet.

As part of Kellogg's Emerging Markets Partnership, ECD provided a grant in 2003 to Arkansas Advocates for Children and Families to assist its initiative to promote the Children's Health Insurance Program (CHIP). AACF enrolled more than 250 working families in CHIP through school administrators and area businesses. In addition, ECD promoted CHIP to the low-income employees of the businesses it financed. In doing so, it discovered that enrolling in CHIP was more difficult in Mississippi than in Arkansas due to minor paperwork details. ECD urge Mississippi to simplify the process, as Arkansas had done. The state did. Although no one has a precise estimate, this undoubtedly resulted in hundreds or thousands of additional children in Mississippi gaining health insurance coverage.

In 2004, ECD partnered with the National Community Reinvestment Coalition to combat efforts to weaken the Community Reinvestment Act, the law that encourages banks to lend in low-income communities. The proposed changes would have subjected banks with assets between $250 million and $500 million to a much less rigorous CRA exam. Although CRA requirements were weakened somewhat for thrifts, major changes to the law were averted. In that same year, ECD, the Mississippi Center for Justice, the AARP, and the University of Mississippi's Law School sponsored an Economic Justice Summit, during which the general public, government officials, and legal organizations came together to bring attention to the issue of predatory lending in Mississippi and to develop strategies for combating such practices. As was revealed by the financial crisis of 2008, the topic of this conference was prescient.

Chapter V

HOPE Responds to Katrina, the Recession, and a Slow Recovery: 2005-2012

Hurricane Katrina hit the Gulf Coast on August 29, 2005. It battered the region for two full days, creating the worst damage in New Orleans and the coastal cities of Mississippi. It caused an estimated $80 billion in property damage, killed nearly 2,000 people, and destroyed the homes of tens of thousands. Thanks to television, the country witnessed the tragedy and there was a massive mobilization of resources to help the region respond to the immediate crisis and to begin to rebuild. Many of the individuals, organizations, and government agencies that provided resources in this effort sought to channel the bulk of their assistance to low-income households since these families suffered disproportionately in the tragedy.

Katrina was a defining event for the region and for HOPE, where here I use the term HOPE to refer jointly to ECD, Hope Community Credit Union, and, later, the Mississippi Economic Policy Center. HOPE reacted quickly to help respond to the emergencies in peoples' lives immediately after the event and it helped devise long-term strategies for rebuilding the region. In both cases, HOPE built partnerships and it functioned as an intermediary to distribute resources and bring groups together. This role was a natural continuation of HOPE's strategy for maximizing its influence in the Delta. It also fit with the role that HOPE had played in the Emerging Markets Partnership.

HOPE grew significantly in the post-Katrina era, both financially and in terms of personnel. This was necessary as HOPE ramped up to respond to the crisis. Moreover, in responding to Katrina, HOPE worked hard to continue its anti-poverty work in other parts of the tri-state region that were relatively unaffected by the storm. At the same time, HOPE joined other organizations to found the Mississippi Economic Policy Center, which institutionalized HOPE's long involvement in public policy issues. By 2009, hurricane recovery efforts were waning, but the country was in the depths of the most serious recession since the Great Depression. Once again, HOPE made major efforts to ensure that the interests of lower-income families were not overlooked as the Mid-South states decided how to spend federal stimulus funds. HOPE also worked to address the hardships facing many families who had become seriously over-indebted during the run-up to the recession.

It is not surprising that HOPE played a significant role in the Katrina recovery. HOPE had its headquarters in Jackson, MS, not far from some of the worst affected regions and Hope Credit Union had an office in New Orleans. More importantly, HOPE was well-structured to respond. Hope Credit Union was small, with only about $35 million in assets at the time of the storm. But it was supported by the resources and professional staff of ECD, its sponsoring loan fund, so it could function like a large, sophisticated credit union. Being a credit union, meant that Hope could help people to establish, or re-establish, savings accounts, it could process payments, it could make consumer and housing loans, and it could make small-business loans. ECD/HOPE had over ten years' experience serving low-income regions in the state, and its staff was widely recognized for its professionalism. Moreover, ECD/HOPE had extensive contacts with national foundations, with service providers and housing agencies in the tri-state region, with banks and other private-sector firms, and with government agencies at all levels. As with nearly all of its work over the previous decade, HOPE carried out its hurricane-recovery initiatives in partnership with one of more of these groups.

This chapter discusses HOPE's response to Hurricane Katrina as if it consisted of two parts. The first part is the role HOPE played in responding to the immediate crisis. The second part is HOPE's role in the longer-term rebuilding effort that took place after the situation stabilized. I somewhat arbitrarily define the immediate crisis response as events that took place in the first year after the hurricane, but this is a loose definition. Many of the activities, even within that first year, were aimed at laying the groundwork for the longer-term rebuilding of the region. That rebuilding effort continued through 2010 and even later, although the pace slackened considerably by 2009 as the crisis eased and the country turned its attention to the recession.

As noted in the introductory chapter, a complication in telling this story is the name changes that the entities comprising HOPE underwent during this time period. Hope Community Credit Union became Hope Federal Credit Union when it switched from a state charter to a federal charter. The Enterprise Corporation of the Delta (ECD) became the Hope Enterprise Corporation at the beginning of 2011. This name change was to reflect its close association with the credit union and the fact that HOPE was working in numerous Mid-South communities outside of the traditionally-defined Mississippi Delta region. Being precise about the proper names of these entities in this chapter simply confuses the narrative, so I generally refer to the overall organization as HOPE, the loan fund as ECD, and the credit union as Hope or as Hope Credit Union. Where this could be misleading, I use the proper names.

HOPE's Short-term Response to Hurricane Katrina

Hurricane Katrina forced HOPE to close temporarily its credit union office in New Orleans. The office itself was not damaged, but three of its four staff members had to evacuate the region. Within days of the hurricane, however, HOPE began to mobilize to help people who were most affected. It established a Hurricane Relief Fund in partnership with the Lutheran Episcopal Disaster Response of Mississippi. In the subsequent months, individuals, church groups, private businesses, and foundations throughout the country contributed to this fund. The Ford Foundation also made a $1 million grant to ECD to help it respond to the crisis and rebuilding effort. The CDFI Fund made a $585,000 grant to ECD for the same purposes.

Playing a role similar to that it played in Emerging Markets Partnership, ECD used a substantial part of the donated funds to make grants to community-based organizations that were helping to feed and house people displaced by the storm. By May of 2006, ECD had made nearly $1 million in grants to 24 such organizations. These groups in turn helped rebuild 115 homes, furnished apartments for people living in temporary housing without furniture, helped artisans re-establish their businesses, provided financial assistance to displaced families, and helped in other ways.

ECD and Hope Credit Union also used a significant part of the incoming financial assistance to make emergency consumer and small business loans. Hope was the perfect vehicle to extend such loans. A traditional credit union would not be able to take on the associated risk. ECD, however, used its financial strength to guarantee Hope's loans, enabling Hope to extend crucial assistance in an emergency situation. Using ECD's guarantees, Hope made well over a $1 million of bridge loans to people who were waiting to receive FEMA assistance or insurance payments. It made auto loans so that people in FEMA-designated areas could replace hurricane-damaged vehicles and return to work.

Many small businesses in the region needed micro-loans to manage disrupted incomes or to replace damaged equipment. Generally, making loans of under $25,000 to businesses is uneconomical, unless the loan is simply an automated credit card advance to the owner based on his or her good personal credit. But making small business loans only on this basis would exclude many good businesses and would duplicate what banks were already doing. HOPE came up with a creative solution. It formed a partnership with Accion USA, an organization based in New York City that specialized in micro-lending. Accion USA had developed highly automated procedures to make small business lending more efficient, but it did not have offices in the Mid-South. HOPE had the staff in the region who could originate and monitor the loans. Together the two organizations began to offer “Back to Business” loans to small businesses in the region.

HOPE partnered with the utility company, Entergy, and the Foundation for the Mid South to launch the “Power of Hope,” a grant program designed to help low-income individuals and families, especially those uninsured or underinsured in Louisiana, Mississippi, and Southeast Texas, make repairs to their homes. The coalition provided $4.2 million in grants to assist more than 4,000 individuals and families. In addition, Hope Credit Union opened deposit accounts and issued associated ATM cards to people receiving insurance payments, FEMA payments, or emergency funds and who needed a place to process those payments and hold their savings. Ultimately, the credit union opened nearly 3,500 credit union accounts for individuals and businesses affected by the storms. Hope continued to waive all account maintenance fees on these accounts for a year after the hurricane hit.

Similarly, through the Hurricane Relief Fund that HOPE started immediately after the crisis, HOPE made consumer, business, and mortgage loans (often with unusually flexible terms) to storm victims. By May of 2006, these loans totaled nearly $10 million. Beyond its effort to provide needed financial services to households and businesses affected by the hurricane, HOPE partnered with Mississippi Legal Services, the Lawyers Committee on Human Rights, and Mississippi Center for Justice to organize free legal advice for residents in need of hurricane-related legal assistance (housing, FEMA appeals, basic tax issues, evictions, etc.).

A major part of HOPE’s response to the crisis centered on helping people repair damaged homes or build new ones. As usual, HOPE formed partnerships for this effort. In January 2006, HOPE partnered with Freddie Mac and others to provide counseling, banking, and mortgage services to assist hurricane evacuees in the area through the *HomeHelp* Express Bus. This bus was a touring 40-foot mobile information center, educating individuals affected by the hurricane on a wide range of housing and other issues. Specifically, it used HOPE staff, employees and volunteers from other organizations, and the bus’s telecommunications facilities to disseminate information about property insurance, mortgage relief, predatory lending, and government assistance for storm victims. It provided free credit reports and qualified credit counselors. It provided information on available rental housing in hurricane-affected areas, access to housing counselors, mortgage information, and information about down-payment assistance. In short, it was a mobile one-stop center for many emergency needs.

In another early 2006 initiative, HOPE began to work with NeighborWorks America to address the housing needs of the residents of Pass Christian, a community of about 6,000 people along the southern coast of Mississippi that was particularly devastated by the hurricane. Other groups that joined this initiative, dubbed “Home Again,” included Enterprise Community Capital, the Home Depot Foundation, the Rebuild the Coast Fund, and author and Mississippi native John Grisham. Home Again’s goal was to build cost-effective high-quality modular housing, demonstrating how this type of housing could be used to respond to emergency housing situations. This was a pioneering effort --- modular housing was widely used in some other parts of the country but not in Mississippi. In fact, existing housing codes often lumped modular housing with “trailer” homes, when in fact modular housing simply meant that significant parts of traditional home construction arrived pre-constructed from a factory. In addition, Home Again helped displaced residents negotiate fair settlements with their insurance companies and FEMA, it provided financial counseling, it oversaw the construction work, and it provided subsidies to keep the housing affordable. As Phil Eide, one of HOPE’s housing experts, explained,

> *This is the first time that modular housing has been used in such a way on the Gulf Coast. This type of housing provides a unique solution in a region that has been experiencing a shortage of materials and labor since the storm. That means we can get more people with lower incomes into affordable, quality homes.* [19]

[19] ECD/HOPE press release. “Home Again Places Final Modular Homes,” February 27, 2008.

Because HOPE had to work to revise state building codes or figure out how to work within restrictive codes, the project did not proceed as rapidly as HOPE and the other sponsors expected. But a side-benefit of the project was that HOPE helped pioneer the legal structure for modular housing within the state, so any such future projects should move more quickly. In any case, by early 2008 the initiative concluded and provided 64 families with quality new homes. Moreover, using outside funding, HOPE could provide many of these families with highly concessionary mortgages.

Participation in Longer-term Recovery Planning

In 2007, HOPE built on its substantial organizational capacity and reputation for managing projects by contracting with state agencies to manage some of their rebuilding initiatives. It contracted with the Louisiana Disaster Recovery Foundation to manage the $4.5 million Collaboration for Enterprise Development (CED), a consortium of five organizations that worked together to offer a range of financial and technical assistance services to entrepreneurs and nonprofit organizations in New Orleans. By early 2008, HOPE estimated that it and CED had assisted 275 businesses and nonprofits, made 133 loans or grants and helped to create or retain almost 1,500 jobs. In mid-2008 HOPE began laying the groundwork to serve as one of nine intermediaries that would administer a state-funded grant and loan program in Louisiana, known as the Louisiana Business Recovery Grant and Loan Program. The program provided grants of up to $20,000 and loans of up to $80,000 to small businesses that sustained financial losses as a result of the hurricane.

In 2007, HOPE contracted with the Mississippi Development Authority to provide financial counseling to homeowners who received funding from Phase II of the state of Mississippi's Homeowners Grant Assistance Program. This program was designed to provide up to $700 million in grants to assist homeowners whose homes were damaged or destroyed by Katrina. The targeted homeowners included those without flood insurance and those living in flood-prone zones, a disproportionate percentage of whom were low-income. HOPE worked in partnership with NeighborWorks to develop a homeownership curriculum to train staff members. Clients would first meet with HOPE staff, or the staff of an agency subcontracting with HOPE, to find out how much assistance they were likely to receive and to discuss options for the use of the money. Subsequently, HOPE or one of its subcontracting agencies would provide free counseling tailored to grant recipients' specific needs. If, for example, a grant recipient expressed a desire to rebuild her home, the counselor would help the recipient estimate the cost, find a suitable contractor, discuss her eligibility for a mortgage, address any problems in her credit history, etc. By mid-2009, HOPE and its subcontractors had helped about 8,000 families.

Building on its expertise in housing counseling, in the fall of 2007 HOPE contracted with "Make It Right," a foundation created by the actor Brad Pitt to build 150 affordable, energy-efficient homes in New Orleans' Lower Ninth Ward. HOPE agreed to manage the homeowner counseling component of the project. Make It Right was aware of HOPE's capabilities due to HOPE's success with the Home Again project in Pass Christian, MS.

Role in Public Policy

HOPE's role in public policy continued to grow in the Post-Katrina era. Within a few weeks after Katrina hit, it was clear that very substantial federal financial assistance would be flowing to Mississippi and Louisiana to help them with recovery efforts. HOPE mobilized immediately to encourage the states, and its home state of Mississippi in particular, to direct a significant fraction of the incoming funds to projects that were likely to benefit low-income people, to businesses located in low-income regions, and to small businesses. Specifically, HOPE issued a white paper in 2006 advocating that the state:

- Invest in workforce development programs that prepare area residents to participate in the impending construction boom and prepare them for jobs in the industries that were expected to remain in the region after the recovery effort.
- Ensure that small businesses have access to affordable and flexible capital that will enable them to recover and build in a timely manner
- Target disaster recovery funds to support home repair and facilitate homeownership for lower-income residents
- Modify mortgage products to accommodate hurricane-specific challenges, such as income disruption and insurance shortfalls.

HOPE's staff pushed these priorities as members of the governors' hurricane recovery planning committees in both Mississippi and Louisiana. At the same time, HOPE provided its data analysis abilities and organizational talents to a consortium of groups that advocated for lower-income households. Concerned that back-room deals among the powerful would ignore the interests of the poor, the consortium proposed state legislation that would provide oversight of the use of federal hurricane relief funds and transparency. At the federal level, HOPE helped lead efforts to secure increases in New Markets Tax Credits and the Low-Income Housing Tax Credits for Katrina-affected areas.

In the fall of 2006, HOPE, along with the Mississippi Center for Justice, created the Mississippi Economic Policy Center (MEPC) with initial funding from the Open Society Institute and the Annie E. Casey Foundation. The Center was housed in HOPE and staffed by HOPE. Ed Sivak, who had worked at HOPE since 2002 and managed much of its data and public policy analysis, was appointed to head the Center. The mission of MEPC is to provide rigorous, accessible, and timely analysis of the Mississippi budget and state policies that can inform debates on issues that affect the economic and social well-being of families and low-wealth residents of Mississippi. Specifically, MEPC was to conduct research and analysis in four key areas: the budget and tax policy, other policies affecting the incomes of lower-income working families, predatory lending, and hurricane recovery initiatives.

Immediately after its founding, the MPEC co-authored the housing and economic development chapters of *Envisioning a Better Mississippi: Hurricane Katrina and Mississippi – One Year Later,* a report issued by the Mississippi NAACP and OXFAM America. The report urged public officials in that state to ensure that the needs of low-income households were not overlooked in the rebuilding process. In the subsequent two years, the MEPC was a whirlwind of research activity and its analysis was drawn on by a wide range of advocacy groups, state agencies, and legislators. In 2007, for example, MEPC produced the *Mississippi Tax and Budget Primer*. This provided an overview of the state's fiscal structure and a review of Mississippi's budget system and tax structures particularly as they affect lower-income residents. In 2006 and 2007, MEPC published reports that analyzed the financial resources necessary to maintain a minimally adequate standard of living in the various counties of Mississippi and discussed policy options for improving the skills of lower-income workers in the state. MEPC also completed a survey of "payday lending" trends in the state. Payday loans are high-cost short-term loans that can entrap people in a cycle of debt. In 2008, MEPC issued a report documenting how the developing national housing crisis was affecting families in Mississippi. It also published a study of how improved child-care services in the state could benefit working families and businesses. Beyond these influential reports, the MEPC staff frequently spoke to journalists and government entities about public issues confronting the state.

In 2009, as the recession reached its trough, MEPC provided information to the public, lawmakers, advocates, and business groups on the effects of federal stimulus grants and spending on Mississippi. MEPC joined other groups in advocating that the state should accept federal funds for its unemployment insurance program and make the associated federally-required changes to the program. It continued to issue reports on the state budget, estimates of what should constitute a "living wage" in Mississippi, and how to improve the regulation of payday and car-title lenders. Although it was young and had a tiny staff, MEPC played a disproportionate role in educating the public, policy makers, and journalists about the issues affecting lower-income families in the state. Undoubtedly, part of the reason for its high profile was that it was filling a void. Prior to the creation of MEPC, no organization in the state systematically gathered and analyzed data around state public policy issues in the hard-nosed way MEPC did.

In addition to the work of MEPC, HOPE's staff continued its own efforts to influence federal and state policies. As national attention shifted from Katrina to the 2008 financial crisis, for example, HOPE joined other CDFIs from around the country to urge, successfully, that the Troubled Asset Relief Program, which provided temporary capital to commercial banks that had been adversely affected by the financial crisis, include capital for CDFIs. The Treasury responded by creating the Community Development Capital Initiative, which provided temporary capital to qualifying CDFIs. CDFIs that applied for and received the capital were expected to use the funds to ease tight credit conditions in lower-income communities.

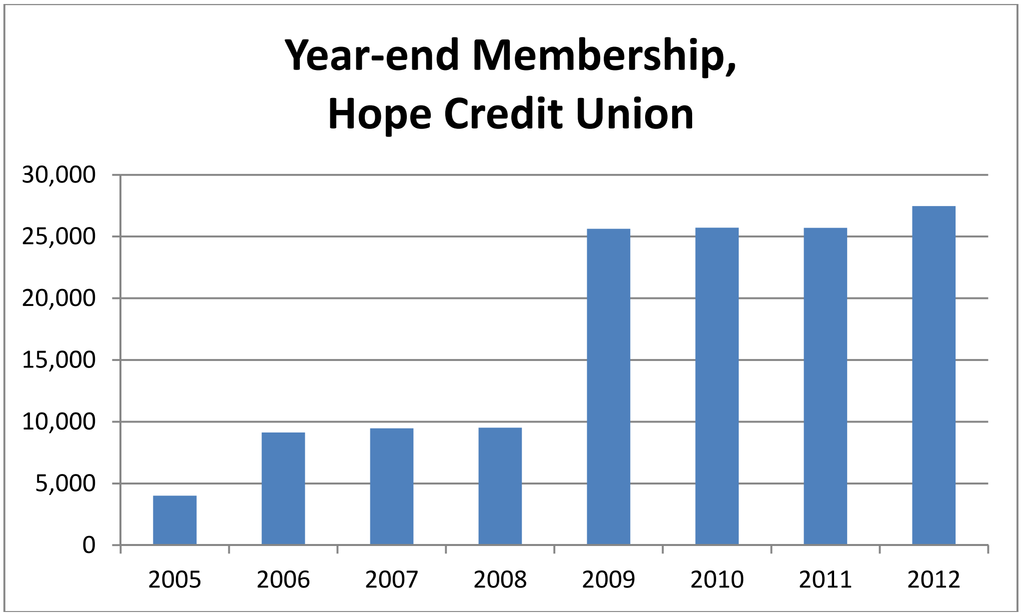
Through 2012, HOPE and the Mississippi Economic Policy Center continued to work to influence state and federal policies that affect lower-income households. The MEPC regularly issued research reports of the type described above and tried, generally in partnership with other organizations, to influence state policies in HOPE's four-state region. HOPE's prominence and understanding of the financial challenges facing lower-income households was again recognized when HOPE's CEO, Bill Bynum, was appointed to be the Vice Chairman of the newly-created federal Consumer Financial Protection Bureau Advisory Board.

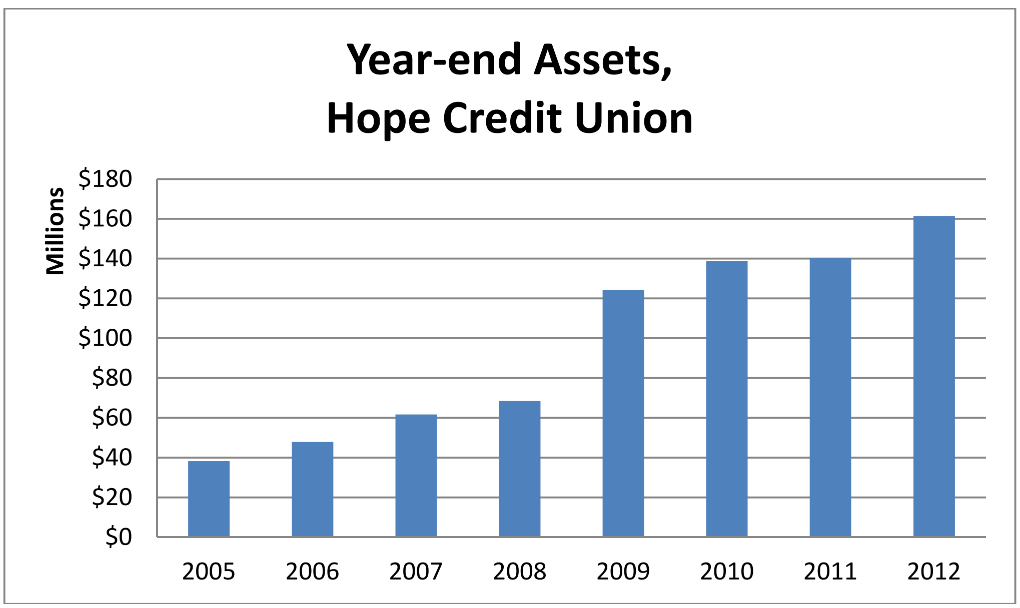
Growth

The period after Katrina, especially the first two years following Katrina, were years in which HOPE grew at an unprecedented rate. For the most part this growth wasn't foreseen prior to the hurricane. HOPE had to add rapidly staff, branch offices, and financial capacity to address the crisis and rebuilding effort created by the storm. HOPE, in particular, added staff to implement and oversee Home Again and the counseling contracts that it took on as part of the recovery initiatives. It also added staff to handle mortgage originations and for the Mississippi Economic Policy Center. But, while HOPE's growth was significant, most of the growth in offices and personnel in HOPE occurred in the credit union, so I focus on that.

As noted earlier, at the time Katrina struck, Hope was a relatively small credit union with three offices, one in New Orleans and two in Jackson. During the post-hurricane crisis, Hope's membership grew rapidly, increasing from just under 3,000 at year-end 2004 to just over 9,000 at year-end 2006, as it opened deposit accounts for people receiving hurricane assistance, originated car loans to help people whose cars were damaged in the storm, and originated small-business loans. To assist with its outreach efforts in the hurricane-ravaged coast, Hope opened a fourth office in Biloxi, MS, in 2006.

In 2008, Hope Credit Union's branch network began to spread beyond Jackson and the Gulf Coast. In the summer of 2008, Hope opened a branch in Memphis, TN, in order to reach out to underserved households in that region. A few months later, Hope took over the operations of a tiny credit union in a moderate-income area of Little Rock, AR, that was too small to offer the range of financial products that its members needed. At the beginning of 2009, Hope absorbed the American Savings Credit Union (ASCU) which had five branches in and around Memphis, TN. At the time, ASCU had about 18,000 members and $43 million in assets, but it had incurred significant loan losses and was under-capitalized. Hope could provide the needed capital and management expertise. The merger, in turn, provide Hope a significant footprint in the Memphis region and branches that were well located to serve lower-income households. Throughout 2009, HOPE devoted substantial human and financial resources to integrating the operations of the two credit unions. In 2010, Hope merged with East Central Federal Credit Union, a small credit union with two offices in eastern Mississippi. To reach underserved populations in the Mid-South, Hope selectively opened new offices and closed some that were not cost-effective. By year-end 2012 it had 14 offices in its region.



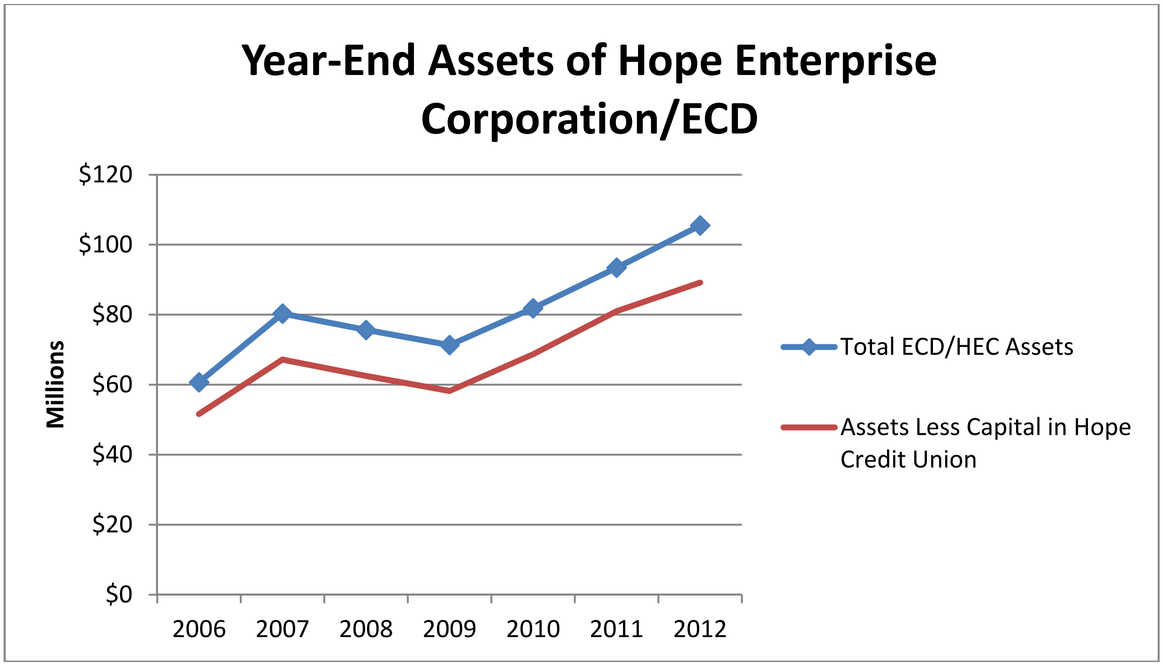


In addition to expanding its branch network, Hope Credit Union expanded the products it offered in an effort to better serve its lower-income members. In 2009, for example, Hope began to offer a short-term loan that was intended to be an alternative to a high-cost "payday" loans. Named the "StretchPay" loan, it offered members the opportunity to borrow $250 to $500 quickly, with minimum documentation, and up to a year to repay. In 2011, Hope started to offer "share-secured" loans to members with impaired credit histories. Such loans are collateralized by the member's savings account balance and so prevent little risk to the credit union. But the members' regular payments on the loans can improve their credit histories, enabling them to access traditional credit. In terms of the share of Hope's loan portfolio in dollar amounts, mortgages were the largest between 2007 through 2012. Used vehicle loans were usually the second largest.

While Hope Credit Union was growing and adding offices, its associated loan fund (ECD, which was renamed Hope Enterprise Corporation (HEC) in 2011) continued to add to its financial strength to enable it to have a bigger regional impact. In 2006, the CDFI Fund awarded ECD/HEC a $15 million New Markets Tax Credit allocation, its second, to support the recovery and redevelopment efforts in the regions hit by Hurricane Katrina. In 2009, ECD/HEC was selected for a third NMTC allocation --- this time for $20 million. HOPE planned to use the funds to expand its commercial lending in lower-income communities, particularly for non-profit and healthcare facilities, and to form partnerships with new entities, including a historically black college.

Despite HOPE’s fundraising successes, in 2009 ECD/HEC experienced a second era of financial stress. This was caused by a number of factors. ECD/HEC's staff and expenses had grown as it responded to the Katrina crisis. But the subsequent recession made fundraising for general operations much more difficult. Moreover, as noted earlier, the 2009 NMTC allocation was not a grant, only a green light to begin fund-raising. In addition, some of the mortgage-counseling contracts that ECD/HEC managed following Katrina expired in 2008, reducing ECD/HEC’s fee income. The low interest rates associated with the recession reduced ECD/HEC’s earnings from its assets. Finally, ECD/HEC incurred significant costs orchestrating the merger of its credit union with American Savings Credit Union.

ECD/HEC’s management responded to this cash crunch by: curtailing new lending by its loan fund, cutting discretionary expenses, closing some branch offices, cutting employee benefits, and cutting the salaries of top managers. By 2011, the financial crunch had eased, and HOPE was able to restore many of these cost-cutting measures. 2012 ended on a bright note, as HOPE received a $25 million New Markets Tax Credit allocation. Assuming HOPE can raise these funds, as it has with previous tax credits, this should contribute substantially to the financial strength of the organization.



The above graph, as well as the previous graphs of the assets of the credit union, indicates just how powerful HOPE could be as an economic development tool. As of year-end 2012, the credit union had assets of about $160 million and its affiliated loan fund (HEC) had assets of almost $90 million, outside of its investment in the credit union. The credit union could provide a complete range of consumer loans, mortgage loans, and low-risk small business loans. The loan fund could take on larger or higher-risk loans that offered the chance of significant positive social impacts.

The Emerging Markets Partnership and Commercial Lending

The Kellogg-funded Emerging Markets Partnership concluded in 2007. At that time, HOPE estimated that this five-year initiative: generated $125 million in financing for businesses, housing, and community development projects; invested $83.3 million in small businesses; assisted 1,841 businesses and helped create or retain 3,717 jobs; invested in 80 community infrastructure projects; provided technical assistance for 651 companies and trained 9,765 people; financed 997 mortgages, amounting to $42.4 million in mortgage financing; and assisted 131 affordable housing developers. In addition, using EMP funds, HOPE provided grants to local organizations that tackled valuable projects. To cite just a few examples:

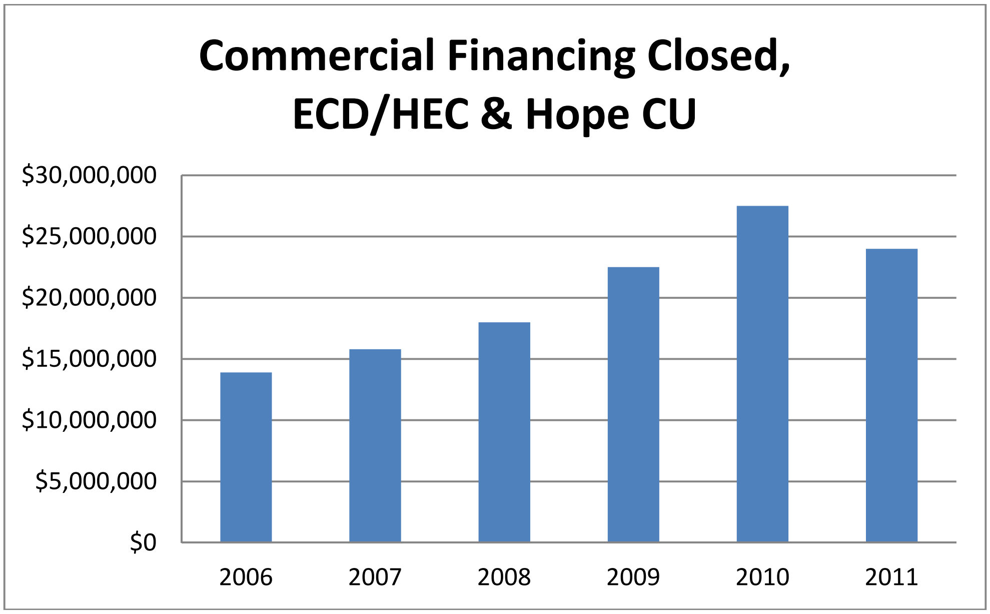
- The Arkansas Advocates for Children and Families worked to increase the percentage of children enrolled in ARKids First Medicaid programs;
- The Arkansas Center for Health Improvement organized to obtain Medicaid waivers to support neonatal and prenatal care provided by community health workers;
- The Mississippi Low-Income Child Care Initiative provided technical assistance to childcare providers and helped them to diversify their sources of funding;

- The Good Faith Fund helped Arkansas organizations access federal Workforce Investment Act funds and helped develop job-training programs that are more closely tied to the needs of small businesses; and
- HOPE worked with community colleges and other organizations to offer the FastTrac entrepreneurial training program to hundreds of adults throughout the Delta.

By almost any measure, the Kellogg Foundation must have been happy with the outcome of its investment in the EMP. But, as recounted earlier, relative to the expectations at the launch of the EMP, there were two disappointments. First, HOPE was not able to purchase large numbers of bank mortgage loans made to lower-income households and resell them to Fannie Mae. It purchased some, but the volume was much more limited than it had anticipated. HOPE responded to this disappointment by deciding to emphasize its own ability to provide mortgages to lower-income households through the credit union. HOPE's second disappointment was that its efforts to promote broadband internet service in the Delta were overwhelmed by seismic changes in that industry, both nationally and regionally. In most other areas, however, HOPE’s initiatives and EMP partnerships brought results that greatly exceeded the concrete goals set at the outset of the EMP.

Of equal importance, the EMP helped to build the institutional capacity of HOPE and its partners, and this paid unexpected dividends and will likely continue to do so. Consider three examples. First, when Hurricane Katrina hit, as part of the EMP, HOPE had already built the in-house capacity to make grants to social service organizations, set firm goals for the organizations’ performance, and monitor this performance. This capacity enabled HOPE to play an effective and critical role in responding to the Katrina crisis. Second, the EMP (through HOPE and its partners) helped the Primary Health Service Center (PHSC) of Monroe, LA, write a successful federal government grant application to expand its role as a provider of comprehensive primary and preventative health care, and HOPE financed the associated projects. In the Katrina crisis, the expanded PHSC was able to provide more than 1,800 homeless evacuees with comprehensive primary care, something it would not have been able to do were it not for the EMP. Third, the EMP enabled HOPE and its partners to offer the FastTrac entrepreneurial training course to over a thousand people throughout the Delta. Through this initiative the curriculum has become widely known in the Mid-South for its quality, and it is now commonly used in regions outside of the Delta.

While budget pressures in 2009 required ECD (but not the credit union) to curtail temporarily its commercial lending, the organization was quite active in this arena between 2006 and 2012. Building on the expertise that ECD gained in financing health-care centers as part of the Emerging Markets Partnership, ECD (now named Hope Enterprise Corporation, or “HEC”) continued to broker technical assistance and provide financing for health-care firms and facilities. In some cases, ECD’s loans to health-care centers were guaranteed through the U.S. Department of Agriculture’s Community Facilities Guaranty Program. In 2008, for example, ECD provided financing for construction and renovation of community health centers in central and southwest Louisiana through a loan with such a guarantee. In 2010, ECD joined Mercy Loan Fund and BancorpSouth to fund a $32 million healthcare building in Hattiesburg, Mississippi, for orthopedic services.



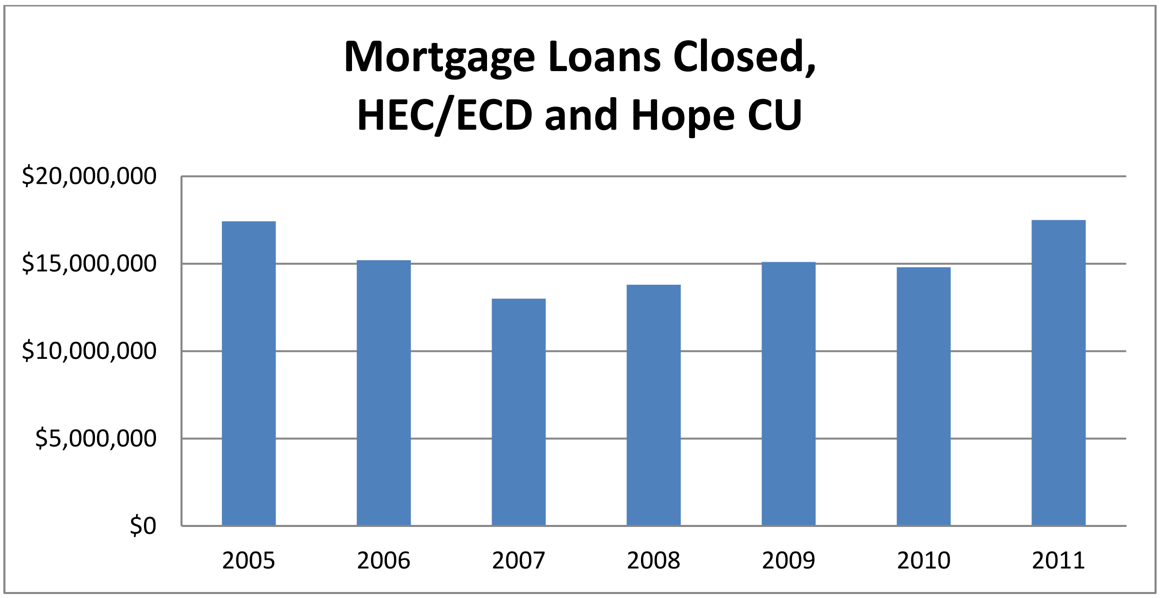
Between 2010 and 2102, HOPE also financed a number of initiatives outside of health care. In 2010, for example, it became Goldman Sach's regional partner in that bank's initiative to provide financing and technical assistance to 10,000 small businesses across the country. In 2011, using funds raised with New Markets Tax Credits, HOPE provide $11 million in financing for the development of a biofuel plant in Quitman, MS. Finally, in 2011 and 2012, HOPE helped finance several initiatives to bring fresh food and full-service grocery stores to underserved areas in New Orleans and other areas of the Mid-South.

Response to the Housing Crisis and Recession

As noted earlier, HOPE began to promote responsible homeownership initiatives for lower-income households beginning in 2002. In doing so, it was frequently frustrated by what it perceived to be irresponsible mortgage originators who had lax underwriting standards or who directed people into mortgages with low initial payments that could escalate rapidly in the future. In many cases, HOPE lost potential customers who were enticed by the low initial payments of such competitors and who often did not recognize the risk that their mortgage payments could increase to unaffordable levels in the future.

In 2007, HOPE tried to address this situation by submitted comments to the Federal Reserve, urging the Fed to issue more restrictive rules under the Home Ownership and Equity Protection Act that would require all lenders to “underwrite all loans based on the fully-indexed rate and fully amortizing payments; restrict the use of prepayment penalties; escrow for taxes and insurance; restrict the use of ‘stated income’ or ‘low doc’ loans; and provide consumers with timely, accurate information about all of the products that are available to them, and disclose information about all of the terms and conditions of any products they are considering."[20]

As we now know, the lax underwriting standards led to a wave of mortgage defaults, a sharp decline in housing prices, and a severe recession that began in late 2007. The Mid-South was certainly not spared. Not surprisingly, this greatly increased the need for HOPE's counseling services, for its financial assistance, and for its policy analysis. But it also affected its ability to deliver those services. In particular, as noted above, the fund-raising environment became much more difficult as many foundations experienced reductions in their endowments and had to reduce their grants.



In the 2008 financial crisis, HOPE often had to turn away people seeking new mortgages or wanting to refinance existing mortgages. As noted earlier, prior to 2007, when HOPE made mortgage loans, it would traditionally sell most of the loans to Fannie Mae or another institution in the secondary market. By late 2007 and through 2008, however, the secondary market for mortgages had largely stopped functioning. This constrained HOPE's ability to originate home loans since it could not prudently tie up a large share of its assets in long-term mortgages. One HOPE manager remarked in 2009 with a sense of irony,

> *We were burned twice by the housing crisis. When lending standards were too lax, we lost potential home loans to other lenders who were steering people into high-risk products. We just weren't willing to do those kinds of loans. Now, those lenders are gone and we're seeing plenty of demand for traditional mort-*

[20] ECD/HOPE. "Comments in Response to 2007 HOEPA Hearings; Docket Number: OP-1288," 15 August 2007. http://www.federalreserve.gov/SECRS/2007/August/20070821/OP-1288/OP-1288_72_1.pdf.

> *gages. The problem is that the bust that followed the lax lending killed the secondary market, so we still can't do as many mortgages as we would like.*[21]

Fortunately the secondary market began to revive in 2009, and HOPE returned to initiating and refinancing home mortgage loans. As noted in the introduction, most of HOPE's loans went to first-time home buyers, racial or ethnic minorities, and lower-income households. In addition, as it did prior to the housing crisis but with reinforced determination, HOPE partnered with numerous other organizations to assist families facing foreclosure and to counsel people with credit problems and first-time home-buyers.

Beyond its assistance to home-buyers and those home-owners facing foreclosure, HOPE began to provide financing to developers of affordable housing, whether for ownership or rental. In early 2008, for example, HOPE helped finance North Midtown Community Development Corporation's initiative to purchase 42 parcels of land in Jackson, MS, and renovate dilapidated homes and build new homes in a moderate-income community. In 2010, HOPE helped to finance the development of a HOPE VI housing project in Memphis with 158 units and a rehab clinic. (HOPE VI was the name given to a national initiative to replace dilapidated and unsafe public housing units with more modern and better-designed units.) In 2011, HOPE helped to finance a housing development in Jackson, MS, where the developers where using Low-Income Housing Tax Credits to refurbish sixty housing units that would be affordable to lower-income households. The housing complex included a center with internet access to assist residents seeking jobs, school homework help, or other information.

[21] October 2009 interview with Alan Branson.

Chapter VI

Conclusion

HOPE's evolution over twenty years offers three principal lessons. First, a well-managed financial institution with a deep commitment to helping lower-income households and sufficient human and financial capital to command respect can be a particularly effective tool for regional economic development. By building strong mission-driven community development financial institutions, such as HOPE, one creates entities that have the resources that enable them to think about long-term strategies, to gather and analyze relevant data, to adapt their tactics and operations as they learn or as the external environment changes, and to partner with and strengthen other organizations that share their development mission. This is the flip-side of the "law of unintended consequences" that I discussed in the introduction. No one knows how good ideas will work out until they are implemented and evaluated, and no one knows what challenges will arise in the future. This is why is it so valuable to have strong, professional organizations that are deeply committed to a fundamental mission but flexible enough to adapt as they learn or as new opportunities and challenges arise.

The individuals and organizations that envisioned and created HOPE twenty years ago, for example, thought that it would be a business development loan fund operating in the Delta and specializing in lending to manufacturing firms. HOPE still fulfills that role, but as it has grown, learned from its experiences, and encountered new opportunities and challenges, it broadened its range of activities. It added a credit union with offices in a four-state region. HOPE provides commercial financing to firms in the service sector as well as in manufacturing; it finances public facilities and nonprofits; it finances housing development and mortgages; and it provides a full range of consumer financial services, principally in low-income communities. Beyond such financial activities, HOPE provides mortgage and credit counseling. Through its affiliate, the Mississippi Economic Policy Center, HOPE promotes state policies that can provide greater opportunities to lower-income citizens. HOPE has also frequently functioned as an intermediary, using outside grants to fund the social and economic development initiatives of other organizations in the Mid-South. Finally, while HOPE is deeply committed to providing these services in the Delta, it has expanded its reach to work in lower-income communities in areas of the Mid-South that lie outside of the Delta.

The foundations that supported HOPE in its early years never could have foreseen what it would become. But in a broad sense HOPE did fulfill their vision. After all, the initial impetus for the Delta Partnership that created HOPE was the need for strong local institutions that could promote the region's development in unspecified ways over the long term. As noted earlier, the founding report for the Delta Partnership argued that forces were aligned in the early 1990s to "…jump-start initiatives that might, over the long-term, transform the Delta Economy." Moreover, the report speculated that the community development financial institution that was to be founded as part of the Delta Partnership might eventually, "…expand its target market beyond the Delta and become the Mid South Enterprise Corporation." Similarly, when the Kellogg Foundation funded the Emerging Markets Partnership in 2001, Kellogg and HOPE established concrete goals for the EMP to accomplish over five years. But they both recognized that a fundamental goal was to build the capacity of HOPE and its partner organizations. This would enable these organizations to better respond to unforeseeable future crises or development challenges, such as those that arose from Hurricane Katrina.

The second, closely related, lesson I draw is the importance of HOPE's indirect channels of influence. When community development financial institutions (CDFIs) started to receive significant attention from policy makers in the early 1990s as potentially effective tools for the development of lower-income communities, the idea was that their key contribution would be to finance overlooked businesses with growth potential and developers of affordable housing. The expectation was that this would help these firms to grow, create employment opportunities in poor communities, and expand the accessibility of decent housing for lower-income households. HOPE certainly did this. But as recounted earlier, its greater social impact may have come indirectly. As a sophisticated financial institution, it employs a staff with a broad range of analytical and professional skills. As an organization committed to the development of the Mid-South, it gathers and analyzes data on economic, social, and political developments in the region. This knowledge base, as well as its ability to provide financing, gives HOPE far greater influence in its region than its size alone would suggest. After all, even though HOPE is one of the larger CDFIs in the country, it is only the size of a community bank and it works in a big geographic region. Its financing activities alone can barely make a dent relative to the needs of the Mid-South. But it greatly magnifies its impact by partnering with banks to finance development projects, by assisting and strengthening other nonprofit organizations in its region that also seek to benefit lower-income households, and by working to inform and influence related public policy.

The paradox is that while this may be how HOPE has its greatest influence, it could not fulfill this role if it were not a mission-driven *financial* institution. As a financial institution, it has access to capital and a skilled professional staff that no other type of social development organization can match. This gives it unparalleled respect from foundations, government agencies, the private sector, and other nonprofits. HOPE has drawn on this unique position to greatly leverage its influence in the region.

The third and final lesson that I draw from HOPE's history is that the economic and social development work of HOPE requires ongoing subsidies. Part of its financial activities, of course, can be self-supporting, and even quite profitable. After all, some risky firms become successful and easily repay their loans. But HOPE will make loans that it does not expect to be profitable if it believes this will create jobs, build wealth for disadvantage entrepreneurs, or provide needed social services in lower-income communities. Its credit union will spend time working one-on-one with low-income members to help them build good credit histories; replace unsuitable, onerous loans with responsible loans; or find down-payment assistance that can enable them to start building wealth through homeownership. The Mississippi Economic Policy Center will devote resources to present data-based analyses that it hopes will persuade states to adopt policies that create greater opportunities for lower-income families. Such work benefits lower-income communities in the Mid-South, but it is generally not self-supporting. This leaves HOPE vulnerable to the vicissitudes of the external funding environment, and there is no easy solution. If external funding becomes tight for extended periods of time, HOPE can survive, but this means reigning in mission-oriented, but costly, economic and social development work. In other words, HOPE has a double bottom line. It generates revenue by offering a range of bank-type financial services, although generally those too risky or costly to entice traditional banks. And it knowingly undertakes some money-losing activities that it believes will make significant contributions to its region's economic and social development. The extent to which it can make such commitments depends largely on HOPE's ability to find external support.

These three lessons apply to most other community development financial institutions. The most effective CDFIs are reasonably well-capitalized and are led by entrepreneurial, profession management teams with a solid commitment to their social missions. These CDFIs are nimble, analytical organizations. Over time, they change their operations as they learn from their experiences and as new opportunities and challenges arise. Almost all of these CDFIs try to leverage their impact by influencing the behavior of government agencies, nonprofit organizations, foundations, and commercial banks. They are able to do so because they are highly respected for their professionalism, analytical skills, knowledge of their regional markets, and commitment to their basic goals. Although the degree to which they depend on outside sources of financial support varies, all face an unavoidable trade-off. They encounter numerous opportunities to support projects that they believe will bring large social benefits, but they must weight these opportunities against their ability to find ways to finance them. In some cases, the projects with significant social benefits turn out to be reasonably profitable, but this is not the rule. The CDFIs that have large social impacts depend almost universally on external grants or concessionary financing.

As for HOPE's future, the organization has the capital and the quality and depth of management to survive for many years, even in a tough external funding environment. But such an environment would constrain its ability to undertake initiatives with large social impacts. Assuming that HOPE can continue to find external support, it should be able to keep growing, learning from its experiences, and innovating to meet new challenges and opportunities. As stated in the introduction, over the past twenty years, it has clearly made a tangible contribution to creating economic and social opportunities for lower-income families in the Mid-South. HOPE will undoubtedly continue to build on and expand this track record in the decades to come.