



# Federal Reserve Bank of New York

**Community Development Unit – Strategic Direction**  
*Condensed Version*

Fall 2020



## Executive Summary

As the central bank of the United States, the Federal Reserve System manages the macro economy under a dual mandate: fight inflation while maintaining maximum employment. The Federal Reserve is empowered to formulate monetary policy and regulate depository institutions, but recognizes that these tools are not always enough to fully address the challenges facing low- and moderate-income Americans. Since the passage of the Community Reinvestment Act in 1977, the Federal Reserve System has operated a community development function to better understand the needs and issues facing low- and moderate-income (LMI) communities.

Economic mobility has declined in the United States over the past fifty years. “More than 90 percent of children born in the 1940s grew up to earn more than their parents. Today, only half of children grow up to earn more than their parents.... This sharp decline in mobility over the past half-century is primarily because of growth in inequality.”<sup>1</sup> There are 94 million Americans residing in LMI communities and 42 million Americans living in poverty. Black and Latinx people are disproportionately represented in LMI communities and among those living in poverty, accounting for 48 percent (20 million) of the total population in poverty, while only representing 32 percent of the U.S. population.<sup>2</sup>

Given the urgency of the situation for many Americans who have low to moderate income, this is an opportune moment for the Federal Reserve Bank of New York’s Community Development Unit to do more to influence how community development investments are made and what impact they have. The Unit serves almost 10 million people residing in LMI communities in the Bank’s Second District, which comprises New York State; Northern New Jersey; Fairfield County, Connecticut; Puerto Rico; and the U.S. Virgin Islands.<sup>3</sup> With new Bank leadership—President John Williams and Senior Vice President David Erickson—the Unit has an opportunity to rethink its strategy and increase its impact on economic mobility. Others in the community development field have encouraged the Bank to capitalize on its new leadership and unique positioning to affect catalytic change in community development.<sup>4</sup>

In response to the compelling need for change and opportunity for a strategic shift, the Community Development Unit engaged The Bridgespan Group in a planning process to develop a bold strategic framework and a concrete impact goal:

**The Community Development Unit will: 1) elevate three ideas or approaches to target the drivers of, or barriers to, economic mobility for low- and moderate-income people, especially those facing poverty and/or structural disparities related to race or ethnicity and 2) educate, influence, and catalyze capital providers to invest in creating more opportunities for those groups.**

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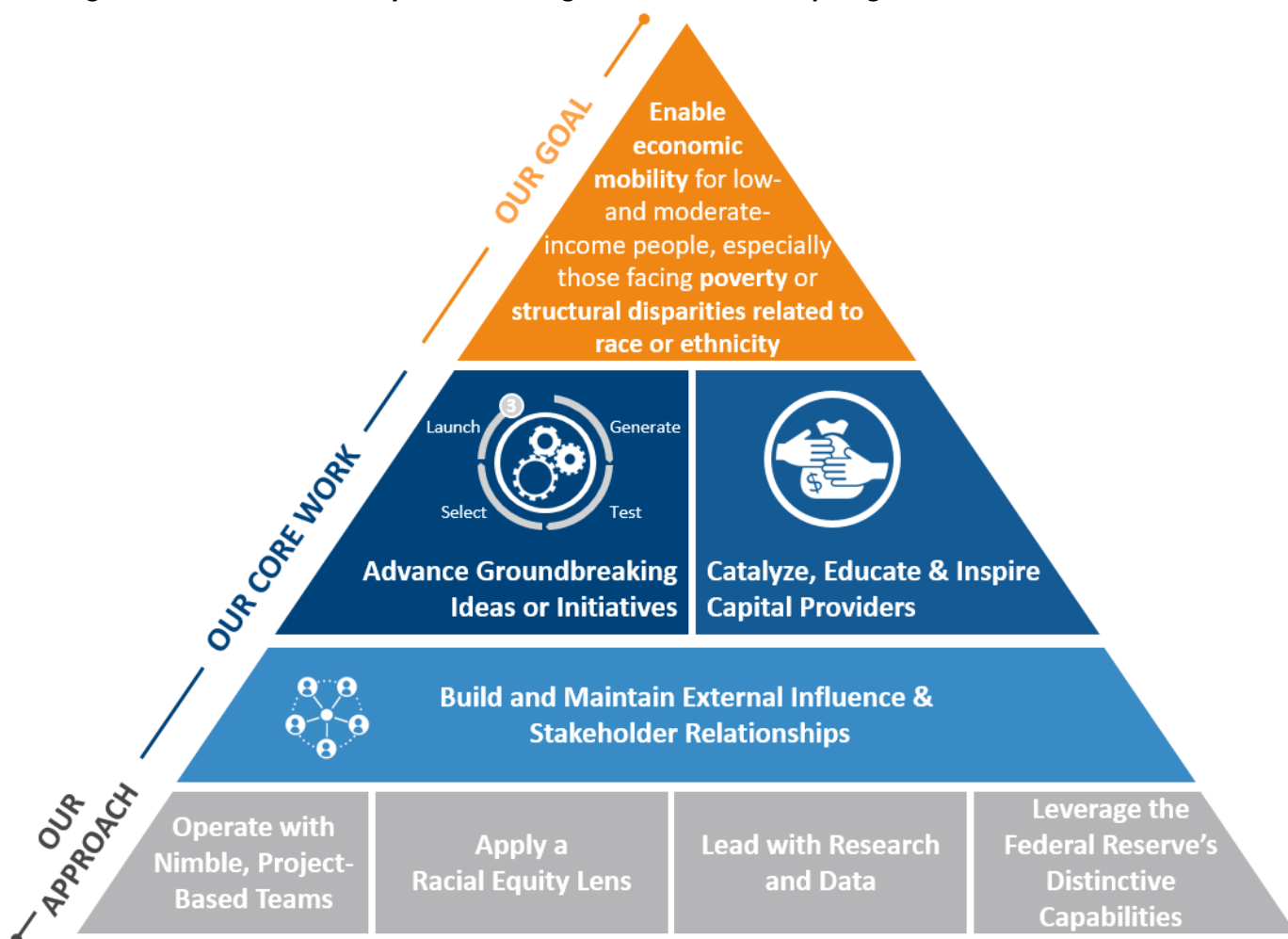
<sup>1</sup> Raj Chetty et al., “The Fading American Dream: Trends in Absolute Income Mobility Since 1940,” *The National Bureau of Economic Research*, December 2016, <https://doi.org/10.3386/w22910>.

<sup>2</sup> “Communities At Risk: Data and Demographics,” Outreach and Education, *The Federal Reserve Bank of New York*, Based on Federal Reserve Bank of New York authors’ calculations from the U.S. Census Bureau’s 2014-2018 American Community Survey, <https://www.newyorkfed.org/outreach-and-education/communities-at-risk>.

<sup>3</sup> “2nd Federal Reserve District Bank Market Definitions,” *The Federal Reserve Bank of New York*, <https://www.newyorkfed.org/banking/regrept/mktdef.html>.

<sup>4</sup> Federal Reserve Bank of New York Staff and partners, interviewed by The Bridgespan Group, February 2020.

**Figure 1. Schematic summary of Unit strategic framework and impact goal**

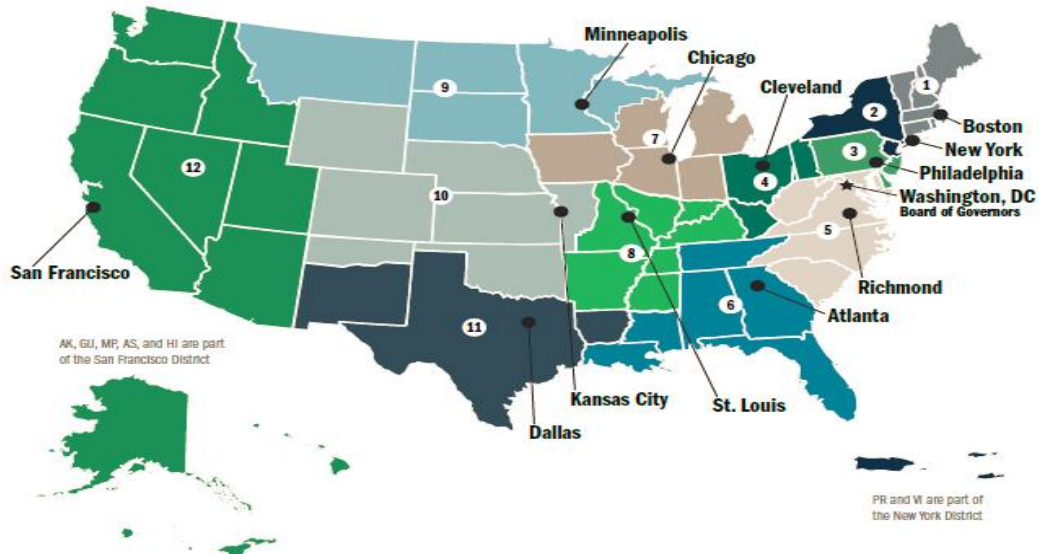


The Community Development Unit hopes to play a “thought leadership” role on “issues that impact the nation and the communities we serve,” in the language of the Bank’s new mission statement. Focusing on a few ideas—with more intensity and around themes they can communicate—is a more promising strategy to spark new thinking and new business models to create more opportunities for LMI communities and communities of color. This strategy will help the Unit play its role in meeting the goal outlined in the Bank’s new vision statement to help “shape a better economy for all.” Though the Unit’s primary focus for this goal is in the Second District, it also seeks to have broader impact by influencing and incorporating the perspectives of national and international actors.

The Unit is well-positioned to achieve its impact goal given its distinctive assets, including a trusted brand; credibility with capital providers and key community development leaders; and a location at the heart of a global financial center. To execute its new strategy, the Unit will: conduct research and analysis to target drivers of, and barriers to, economic mobility; communicate key insights and messages to diverse stakeholders; convene stakeholders to engage with and act on ideas and approaches; and build and leverage partnerships to help translate ideas and approaches into action.

## Background

The Federal Reserve System is the nation's central bank, with a central Board of Governors, and a decentralized network of 12 Federal Reserve Banks across the country. Each of the 12 banks participates in making monetary policy and supervises regional member banks within its assigned district. As the central bank of the United States, the Federal Reserve System manages the macro economy under a dual mandate: fight inflation while maintaining maximum employment. The Federal Reserve Bank of New York upholds this dual mandate for, and balances the needs of, stakeholders in the Second District, comprising New York State; Northern New Jersey; Fairfield County, Connecticut; Puerto Rico; and the U.S. Virgin Islands.



The president of the Federal Reserve Bank of New York, John Williams, has said, “We live in a world where prosperity for any of our communities is prosperity for all our communities ... a world where our ability to reach our greatest economic potential depends on the ability of our neighborhoods and our neighbors to reach theirs.”<sup>5</sup> The Federal Reserve is committed to understanding the needs and issues in those struggling micro economies through its research and monitoring. One way it works to improve the circumstances in those places is through its community development function.

One of the oldest tools the Federal Reserve has used to help economically struggling areas is enforcement of the Community Reinvestment Act of 1977 (CRA). The CRA motivates depository institutions to meet the credit needs of the communities where they operate, especially low- and moderate-income neighborhoods. The Federal Reserve makes sure the banks it regulates comply with the law and it works to increase the impact of those investments by helping the community development finance ecosystem work better and more effectively. This ecosystem includes CRA-motivated banks, community development finance institutions, philanthropies, all levels of government, and other co-investors, such as the health sector.

Changes in the views of leadership among Federal Reserve Bank presidents, along with better trained staff at all levels of the community development function, have resulted in substantially more resources

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<sup>5</sup> John Williams, “The Jenga Tower of Prosperity: The Strong, Prosperous, And Resilient Communities Challenge (SPARCC),” (Remarks, SPARCC National Launch Event, New York, New York, March 30, 2017), <https://www.frbsf.org/our-district/press/presidents-speeches/williams-speeches/2017/march/jenga-tower-of-prosperity-the-strong-prosperous-resilient-communities-challenge-sparcc/>.

flowing to the system's community development units. Across the system, these units are increasingly tackling root-cause issues, such as systemic racism, mental health, and climate change. The Community Development Unit at the Federal Reserve Bank of New York has been a key player in this evolving community development function. It is known for its expertise in workforce development, small business research, community development finance, and new programs, such as establishing resource hubs to support recovery and resiliency of communities impacted by natural and economic disasters like Hurricane Maria in Puerto Rico.

## The case for change

In early 2020, the United States was enjoying a record 11 consecutive years of expansion with a near record-low 3.5 percent unemployment rate.<sup>6</sup> Despite this prolonged period of economic strength, economic mobility—the ability of people with lower incomes to enter the middle class—has been largely unattainable.<sup>7</sup> The unprecedented turmoil of recent months has cast these inequities into even harsher relief, as low-income populations, particularly communities of color, have disproportionately experienced unemployment, lost wages, and adverse health impacts resulting from COVID-19 and the ensuing economic contraction.<sup>8</sup> For instance, as 20 percent of all Americans employed in February 2020 lost their jobs or were furloughed in March or April, 39 percent of people working in February with a household income below \$40,000 reported a job loss.<sup>9</sup>

Economic mobility has declined in the United States over the past fifty years. “More than 90 percent of children born in the 1940s grew up to earn more than their parents,” notes Raj Chetty and his colleagues. “Today, only half of children grow up to earn more than their parents.” This sharp decline in mobility over the past half-century is primarily because of growth in inequality.<sup>10</sup> There are 94 million Americans residing in LMI communities and 42 million Americans living in poverty. Black and Latinx people are disproportionately represented in LMI communities and among those living in poverty, accounting for 48 percent (20 million) of the total population in poverty, while only representing 32 percent of the U.S. population.<sup>11</sup>

There are a number of critical issues preventing people from attaining upward mobility, including:

- High and rising healthcare costs—an average of nearly \$11,000 per person annually.<sup>12</sup> Unexpected health care costs pushed nearly seven million people, who were previously at 150 percent or more of the poverty line, below the poverty line.<sup>13</sup>

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<sup>6</sup> “Job market remains tight in 2019, as the unemployment rate falls to its lowest level since 1969,” *Bureau of Labor Statistics*, April 2020, <https://www.bls.gov/opub/mlr/2020/article/job-market-remains-tight-in-2019-as-the-unemployment-rate-falls-to-its-lowest-level-since-1969.html>.

<sup>7</sup> Raj Chetty et al., “Economic Mobility,” *Stanford University Center on Poverty*, 2015, [https://inequality.stanford.edu/sites/default/files/SOTU\\_2015\\_economic-mobility.pdf](https://inequality.stanford.edu/sites/default/files/SOTU_2015_economic-mobility.pdf).

<sup>8</sup> Kim Parker, Rachel Minkin, and Jesse Bennett, “Economic Fallout From COVID-19 Continues To Hit Lower-Income Americans the Hardest,” *Pew Research Center*, September 2020, <https://www.pewsocialtrends.org/2020/09/24/economic-fallout-from-covid-19-continues-to-hit-lower-income-americans-the-hardest/>.

<sup>9</sup> “Report on the Economic Well-Being of U.S. Households in 2019,” *Board of Governors of the Federal Reserve System*, May 2020, <https://www.federalreserve.gov/publications/2020-economic-well-being-of-us-households-in-2019-financial-repercussions-from-covid-19.htm>.

<sup>10</sup> Raj Chetty et al., “The Fading American Dream: Trends in Absolute Income Mobility Since 1940,” *The National Bureau of Economic Research*, December 2016, <https://doi.org/10.3386/w22910>.

<sup>11</sup> “Communities At Risk: Data and Demographics,” Outreach and Education, *The Federal Reserve Bank of New York*, Based on Federal Reserve Bank of New York authors' calculations from the U.S. Census Bureau's 2014-2018 American Community Survey, <https://www.newyorkfed.org/outreach-and-education/communities-at-risk>.

<sup>12</sup> David Bass, “The Impact of Healthcare Costs on Upward Mobility,” *Georgia Center for Opportunity*, August 12, 2019, <https://georgiaopportunity.org/the-impact-of-healthcare-costs-on-upward-mobility/>.

<sup>13</sup> Andrea S. Christopher et al., “The Effects of Household Medical Expenditures on Income Inequality in the United States,” *American Journal of Public Health* 108, (October 24, 2017):351-354, <https://doi.org/10.2105/AJPH.2017.304213>.

- Unaffordable housing—there is a shortage of seven million affordable rental homes for families living below the poverty line.<sup>14</sup>
- Climate change—climate change-related issues continue to increase the exposure and vulnerability of the most disadvantaged and, if not addressed, Americans in the lowest socio-economic income quintile will likely face economic losses equaling seven percent of GDP.<sup>15</sup>
- Automation—the U.S. is expected to lose 18 to 30 million of today’s jobs in the coming decades due to automation; the education and workforce systems are not adequately preparing enough students and workers to undertake new roles in the future economy.<sup>16</sup>

The U.S. is in need of more investments for compelling high-impact and scalable ideas or approaches that target the drivers of, or barriers to, economic mobility. And, less capital goes to help increase mobility for those that need it most. As Nancy Andrews, former CEO of the Low Income Investment Fund, has said, “Light sprinklings of community supports are not sufficient to enable prosperity.”

While there is capital flowing to LMI communities and to the social safety net, this capital is insufficient, too poorly coordinated to enable maximum effectiveness, and, in the case of the social safety net, at risk of budget cuts.<sup>17,18</sup> And while there is significant capital from diverse capital providers—hedge funds, large financial institutions, impact investors, high-net-worth individuals—that has the potential to support economic mobility, much remains on the sidelines. In addition to having too few investment opportunities, capital providers may not be aware of compelling community development investment opportunities or may not have knowledge about community development finance or information about the magnitude and type of financial returns community development-focused financial instruments can have.<sup>19</sup>

### **The opportunity for the Federal Reserve Bank of New York’s Community Development Unit**

Given the urgency of the situation for many Americans who have low to moderate income, this is an opportune moment for the Federal Reserve Bank of New York’s Community Development Unit to do more to influence how community development investments are made and what impact they have. President John Williams has designated community development as a key focus area for the Bank, and David Erickson’s recent appointment as the head of the Community Development Unit brings respected community development experience, extensive networks, and a strong vision around impact to the Unit. As Denise Scott, Chair of the Federal Reserve Bank of New York’s Board of Directors remarked, “We couldn’t be in a better place under John’s and David’s leadership to tackle critical community development issues.”<sup>20</sup> Leaders in community development have emphasized the need and opportunity for the Community Development Unit to exert a more substantive leadership role in the field and among capital providers. They have described the Unit as well positioned to have, as one interviewee said,

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<sup>14</sup> Andrew Aurand et al., “GAP: A Shortage of Affordable Homes,” *National Low Income Housing Coalition*, March 2020, [https://reports.nlihc.org/sites/default/files/gap/Gap-Report\\_2020.pdf](https://reports.nlihc.org/sites/default/files/gap/Gap-Report_2020.pdf).

<sup>15</sup> Ryan Nunn et al., “Ten Facts about the Economics of Climate Change and Climate Policy,” *The Hamilton Project at the Brookings Institutions and the Stanford Institute for Economic Policy Research*, October 23, 2019, [https://www.brookings.edu/wp-content/uploads/2019/10/Environmental-Facts\\_WEB.pdf](https://www.brookings.edu/wp-content/uploads/2019/10/Environmental-Facts_WEB.pdf).

<sup>16</sup> James Manyika et al., “Jobs Lost, Jobs Gained: Workforce Transitions in a Time of Automation,” *McKinsey Institute*, December 2017, <https://www.mckinsey.com/featured-insights/future-of-work/jobs-lost-jobs-gained-what-the-future-of-work-will-mean-for-jobs-skills-and-wages>.

<sup>17</sup> Adam Carasso, Gillian Reynolds, and C. Eugene Steuerle, “How Much does the Federal Government Spend to Promote Economic Mobility, and for Whom?,” *Urban Institute*, February 3, 2020, <https://www.urban.org/sites/default/files/publication/31456/411610-how-much-does-the-federal-government-spend-to-promote-economic-mobility-and-for-whom-.pdf>.

<sup>18</sup> United States Government Accountability Office, “Community Reinvestment Act: Options for Treasury to Consider to Encourage Services and Small-Dollar Loans When Reviewing Framework,” *Report to Congressional Requestors*, February 2018, <https://www.gao.gov/assets/700/690050.pdf>.

<sup>19</sup> Federal Reserve Bank of New York Staff and partners, interviewed by The Bridgespan Group, February 2020.

<sup>20</sup> Federal Reserve Bank of New York Staff and partners, interviewed by The Bridgespan Group, February 2020.

“catalytic conversations that fuel a mindset shift and drive investment in community development . . . [by] helping financial institutions unlock community development capital.”<sup>21</sup>

Now is the time for the Unit to experiment and innovate to achieve this kind of impact. The Unit is a trusted neutral convener, network-builder, and intellectual partner to its key stakeholders: financial institutions, community development leaders, and officials at all levels of government. It is well-positioned to help foster exploration, innovation, and scaling of critical ideas and approaches within community development.

## Impact goal

The Community Development Unit, with guidance from The Bridgespan Group, sought to define a specific impact goal that is clear about the results it hopes to achieve and what it will and will not do in pursuit of that goal. It sought a goal that is not about marginal improvements to the current community development system, but about supporting transformational shifts. After input from its team and external partners, community development leaders, and advisors, the Unit committed to the following impact goal:

**The Community Development Unit will: 1) elevate three ideas or approaches to target the drivers of, or barriers to, economic mobility for low- and moderate-income people, especially those facing poverty and/or structural disparities related to race or ethnicity and 2) educate, influence, and catalyze capital providers to invest in creating more opportunities for those groups.**

Through the pursuit of this impact goal, the Unit believes it can address critical challenges preventing economic mobility. It can guide additional capital to community development efforts and elevate new, compelling, high-impact, and scalable ideas or approaches to enable economic mobility. Though the Unit’s primary focus for this goal is on the Second District, it also seeks to have broader influence by incorporating a national and international lens.

The Unit has chosen the focus of its impact to not only encompass LMI communities, but to focus even more specifically on those who are living in poverty and/or who face structural challenges related to race or ethnicity. This decision was grounded in the concept of the “curb-cut effect:” Namely, if the Unit directs its focus on the drivers of, or barriers to, economic mobility for these populations who need it most, this will enable greater economic mobility for the broader population, including LMI communities.<sup>22</sup>

The Unit also strives to support the Bank in its goal of creating a more transparent and welcoming atmosphere. Through its impact goal focused efforts, the Unit will seek to engage and inspire a wide range of stakeholders who are concerned about enhancing economic mobility, from artists to activists to CEOs.

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<sup>21</sup> Federal Reserve Bank of New York Staff and partners, interviewed by The Bridgespan Group, February 2020.

<sup>22</sup> Angela Glover Blackwell, “The Curb-Cut Effect,” *Stanford Social Innovation Review*, 2017, [https://ssir.org/articles/entry/the\\_curb\\_cut\\_effect](https://ssir.org/articles/entry/the_curb_cut_effect).

## Impact-goal oriented work activities

Building on its previous efforts, expertise, and capabilities, the Unit will undertake a set of specific activities in support of both aspects of its impact-goal oriented work: elevating ideas and initiatives, and influencing capital towards these ideas as well as other effective community development work.

**Table 1. Activities the Unit will undertake in support of impact-oriented work**

<b>Activity</b>	<b>How the Unit will pursue impact-oriented activities</b>
<b>Conduct research and analysis</b>	Fill knowledge gaps through data gathering to identify trends, challenges, and opportunities
<b>Source ideas and approaches</b>	Identify and align on ideas and approaches to pursue
<b>Communicate key insights and messages</b>	Produce analytical products (such as reports, blogs, essays, and journal articles); use media to educate and capture the attention of and elevate key messages to diverse stakeholders
<b>Partner and convene with diverse stakeholders</b>	Promote emerging ideas and foster collaboration through convenings, panels, and partnerships; strengthen networks of actors and institutions—including capital providers and community development organizations—dedicated to improving the life chances of LMI communities; launch or support communities of practice focused on a particular topic
<b>Strengthen community voice</b>	Enable greater transparency and openness with the community; inform the Unit’s work by soliciting input from a diverse set of community voices to build a fuller understanding of the needs and concerns of the many different communities the Unit serves, such as the recent Transforming Community Development Through Arts & Culture event <sup>23</sup>
<b>Partner with the Federal Reserve</b>	Partner with other units in the Federal Reserve Bank of New York and community development units in other Federal Reserve Banks to strengthen the Unit’s work and bolster the Unit’s influence and impact

## Ideas and approaches

The Unit will need to align on specific areas within which it will seek to pursue ideas.

### Areas of focus—health, climate, and household financial wellbeing

The Unit seeks to respond to the need for greater resiliency in vulnerable communities. This need mandates that we make more and better investments in the upstream needs of these places, so they are better equipped to weather shocks that can come from a struggling economy, natural disasters, or pandemics.

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<sup>23</sup> Hosted by the New York Fed and the San Francisco Fed, in partnership with ArtPlace America and PolicyLink, the event explored how artists are working with communities and community development organizations to tackle some of the most pressing and complex issues of our time, and why arts and culture strategies are central to equitable development and racial justice.



Accordingly, the Unit will pursue ideas that bring together capital markets and innovation, taking advantage of the Federal Reserve Bank of New York's unique access to a rich network of political and business leaders, academic experts, philanthropists, and investors centered in New York City. While this overarching theme of connecting innovation and finance to build resilient communities will shape any idea the Unit selects, the Unit may eventually choose to define more targeted areas of focus to help inspire and guide the idea generation process.<sup>24</sup>

The Unit has identified three areas of focus that provide some direction of where the group is headed. The three areas of focus are: **1) economic drivers of health and wellbeing, 2) mitigating climate-related risk in low- and moderate-income communities, and 3) household financial wellbeing and economic resiliency.**

**Economic Drivers of Health and Wellbeing.** Poverty and structural disparities related to race or ethnicity are both a cause and a consequence of poor health, which in turn, is a key barrier to economic mobility.<sup>25</sup> Nearly \$1 trillion is spent annually in the U.S. on chronic health conditions that stem from poverty and structural disparities.<sup>26,27</sup> The Unit aspires to elevate ideas that could redirect some of this \$1 trillion to enable greater economic mobility and help prevent chronic disease in the first place by addressing the social determinants of health.

The Unit has chosen this important topic as a focus area not only because of this critical link between economic stability and wellbeing, but also because of the timeliness of this topic given the COVID-19 pandemic. This public health emergency has reinforced longstanding health inequities in the United States, as Black and Latinx communities have disproportionately faced both the health and economic devastation caused by this crisis.<sup>28</sup> Furthermore, there are many examples of CRA-regulated banks and Community Development Investment Institutions (CDFIs) co-investing with hospitals and health insurers to tackle the upstream social determinants of health. To date, many billions of dollars have been invested through funds like Morgan Stanley and LISC's Healthy Futures Fund, the Nonprofit Finance Fund's AIM Healthy Fund, and Enterprise Community Partners' Health Begins with Home Initiative (co-sponsored with significant capital from Kaiser Permanente). Finally, Unit Head David Erickson brings a strong background working to address the social determinants of health, and his leadership further positions the Unit to respond to this pressing issue.

**Mitigating Climate-Related Risk in Low- and Moderate-Income Communities.** According to government and private sector experts, climate change will disproportionately impact low-income communities in both urban and rural areas in the United States.<sup>29</sup> Low-income populations already have higher rates of serious health conditions, including heart disease and asthma; have higher exposure to environmental hazards; and take longer to recover from natural disasters. Further, the projected concentration of climate change damage in the South and among low-income Americans indicates that places that are

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<sup>24</sup> See Appendix Item 2 for examples of potential areas of focus the Unit may consider in the future.

<sup>25</sup> "Social Determinants," Health Poverty Action, accessed October 16, 2020, <https://www.healthpovertyaction.org/how-poverty-is-created/power-and-politics/social-and-political-determinants/>.

<sup>26</sup> Hugh Waters and Marlon Graf, "The Costs of Chronic Disease in the U.S.," *Milken Institute*, August 2020, <https://milkeninstitute.org/sites/default/files/reports-pdf/ChronicDiseases-HighRes-FINAL.pdf>.

<sup>27</sup> Jane Goodman and Claire Conway, "Poor Health: When Poverty Becomes Disease," *University of California San Francisco*, January 6, 2016, <https://www.ucsf.edu/news/2016/01/401251/poor-health-when-poverty-becomes-disease>.

<sup>28</sup> Black and Latinx Americans are three times as likely as their white neighbors to contract COVID-19 and were more likely to report a loss in wages or inability to pay bills as a result of the economic downturn. (Richard A. Opiel Jr. et al., "The Fullest Look Yet at the Racial Inequity of Coronavirus," *New York Times*, July 5, 2020, <https://www.nytimes.com/interactive/2020/07/05/us/coronavirus-latinos-african-americans-cdc-data.html>. Mark Hugo Lopez, Lee Rainie, and Abby Budiman, "Financial and Health Impacts of COVID-19 Vary Widely by Race and Ethnicity," *Pew Research Center FactTank*, May 5, 2020, <https://www.pewresearch.org/fact-tank/2020/05/05/financial-and-health-impacts-of-covid-19-vary-widely-by-race-and-ethnicity/>.)

<sup>29</sup> U.S. Global Change Research Program, "Impacts, Risks, and Adaptation in the United States" *Fourth National Climate Assessment*, 2018, doi: 10.7930/NCA4.2018.

already struggling, particularly communities of color, will be hit the hardest.<sup>30</sup> Recent events such as wildfires in the West and stronger hurricanes highlight future risks.<sup>31</sup> The economic costs of climate change, therefore, threaten to exacerbate widening economic inequality.<sup>32</sup>

The Unit has chosen this topic given the nexus of its economic significance and our unit’s Impact Goal, elevated public and private sector attention following the recent spate of natural disasters, and the unique role the Fed can play as a nonpartisan research organization and cross-sector convener. Although disaster mitigation and adaptation efforts are underway, they are currently insufficient to avoid major costs to our economy, environment, and health in the coming decades. To achieve the scale needed, the Community Development Unit will bring together leading innovators in private, government, and nonprofit sectors to incubate new ideas and link them to new sources of capital.

**Household Financial Wellbeing and Economic Resiliency.** Tens of millions of households in the US are one emergency away from financial ruin. Around 40 percent of Americans are not prepared to withstand even small financial disruptions.<sup>33</sup> This lack of economic resiliency is particularly acute among communities of color. Over 58 percent of Black and Latino households are liquid asset poor.<sup>34</sup> In addition, Black families have about 10 cents for every dollar in wealth held by white families.<sup>35</sup> For these households, unexpected events such as illness, loss of job or experiencing a natural disaster in their region can have disastrous multi-generational consequences.

The Unit is interested in addressing this focus area for three reasons. First, the issue is ripe for disruption. Past interventions and billions of dollars of investments by the public, private and nonprofit sectors have produced valuable lessons, but the problem persists (and now is worse due to COVID-19). Second, an economic resilient household is a necessary starting point for most successful community development interventions. Other focus areas selected by the Unit—health and climate change—will likely require household financial stability as a strategy to be successful. Third, the Federal Reserve has direct influence or ownership over critical assets that the Unit can leverage to advance ideas in this space. Among these assets are: 1) survey instruments such as the Survey of Household Economics and Decision-Making (SHED) and Survey of Consumer Finances that provide key insights into the behaviors of target populations; 2) initiatives such as the new payment and settlement service FedNow that will facilitate access to funds for these families; and 3) connections with financial institutions and other stakeholders that could play a key role in supporting these households during emergencies.

## Embedding racial equity in the Strategic Direction

The Unit has chosen to pursue ideas using a racial equity lens, informed by the notion of the “curb cut” effect, which proposes that if the Unit directs its focus on the drivers of, or barriers to, economic mobility for these populations who need it most, this will enable greater economic mobility for the

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<sup>30</sup> Ryan Nunn et al., “Ten Facts about the Economics of Climate Change and Climate Policy,” *The Hamilton Project at the Brookings Institutions and the Stanford Institute for Economic Policy Research*, October 23, 2019, [https://www.brookings.edu/wp-content/uploads/2019/10/Environmental-Facts\\_WEB.pdf](https://www.brookings.edu/wp-content/uploads/2019/10/Environmental-Facts_WEB.pdf).

<sup>31</sup> David Keellings and José J. Hernández Ayala, “Extreme Rainfall Associated with Hurricane Maria over Puerto Rico and its Connections to Climate Variability and Change,” *Geophysical Research Letters* 46, no. 5 (March 16, 2019): 2964-2973, <https://doi.org/10.1029/2019GL082077>.

<sup>32</sup> Solomon Hsiang et al., “Estimating Economic Damage from Climate Change in the United States,” *Science* 356, no. 6345 (June 30, 2017): 1362-1369, <https://doi.org/10.1126/science.aal4369>.

<sup>33</sup> Board of Governors of the Federal Reserve System, “Report on the Economic Well-Being of U.S. Households in 2019, Featuring Supplemental Data from April 2020,” May 2020, <https://www.federalreserve.gov/publications/files/2019-report-economic-well-being-us-households-202005.pdf>.

<sup>34</sup> The Liquid Asset Poverty Rate is the percentage of households without sufficient liquid assets to subsist at the poverty level in the absence of income. Prosperity Now, “Prosperity Now Scorecard,” January 2020, <https://prosperitynow.org/sites/default/files/PDFs/Scorecard%202020/2020 Prosperity Now%20Scorecard Whats Most Important.pdf>.

<sup>35</sup> Ana Kent, Lowell Ricketts, and Ray Boshara, “What Wealth Inequality in America Looks Like: Key Facts & Figures,” *Federal Reserve Bank of St. Louis (Open Vault Blog)*, August 2019, <https://www.stlouisfed.org/open-vault/2019/august/wealth-inequality-in-america-facts-figures>.

broader population, including LMI communities. Many different measures including health, education, income, and economic mobility outcomes, indicate that in the Second District, and the nation as a whole, the most marginalized communities are communities of color – particularly Black and Latinx, and Native American populations.

The Unit has embedded a racial equity lens as well as inclusive practices in the strategic direction in the following ways: including diverse voices throughout the process; embodying principles of diversity, equity, and inclusion within the Unit; and establishing selection criteria and evaluation measures that center racial equity.

## Educating, influencing, and catalyzing capital providers

The Unit's work to educate, influence, and catalyze capital providers will focus on the three areas of impact. However, the Unit will selectively pursue some work to drive capital toward other community development efforts when doing so dovetails with other dimensions of the Unit's work (e.g., external relationships activities).

Although the Unit has had some prior experience educating, influencing, and catalyzing capital providers in service of increasing economic mobility, the vision going forward is significantly more ambitious. For it to bring substantial capital to bear for community development efforts in the Second District and to influence national and international institutions, the Unit will need more expertise about capital and more diverse, strategic relationships with key capital providers.

To develop a strong knowledge base and bring that to the field, both generally and within its areas of focus, the Unit will need to both know more about the availability and role of capital and stay current with capital trends and innovations affecting economic mobility in the Second District, U.S., and internationally. It will also need to conduct research; collaborate with partners; and communicate insights about capital gaps, compelling community development investment opportunities, and policies and tax regulations that could unlock capital to advance economic mobility. The Unit's efforts will focus on low- and moderate-income populations and will have a particular focus on those living in poverty and/or facing structural disparities related to race and ethnicity. These insights will create the opportunity for the Unit to influence capital in the Second District and to provide relevant insights to the field.

Further, the Unit will seek to develop a framework for evaluating the racial equity implications of partnerships with potential capital providers. This will include a set of criteria for evaluating the commitment of potential capital partners to equitable investment practices as well as a set of criteria for evaluating the potential impact on communities of color of driving specific forms of capital toward an idea.

To influence and catalyze capital, both broadly and in its areas of focus, the Unit will work with a diverse set of capital providers to enable a better understanding for those institutions around the context of community development and its needs and opportunities. This set of providers will be diverse in terms of type, the financial tools they use, and the demographics of their leadership (race, ethnicity, background, gender). In addition, the Unit will consider convening capital providers alongside community development leaders to start to build relationships and facilitate conversation around the ideas. Finally, the Unit will seek to inspire capital providers to act by engaging them on key insights and providing a steady stream of interesting and financially compelling investment opportunities that are both tailored to the providers' interests and needs and in service of the Unit's target population of focus.

## Conclusion

The Community Development Unit's ambitious impact goal will require significant effort from the Unit and its Bank colleagues to execute against it effectively. However, the Unit can do so, building on powerful strengths, including the Bank's trusted brand, its credibility with capital providers and key community development leaders, and its location at the heart of a world financial capital. In an era of tremendous economic inequality, the Federal Reserve Bank of New York's Community Development Unit can capitalize on its unique positioning to help bring about a paradigm shift in community development and take meaningful action to increase economic mobility for low- and moderate-income Americans, especially those facing poverty or structural disparities related to race or ethnicity.