



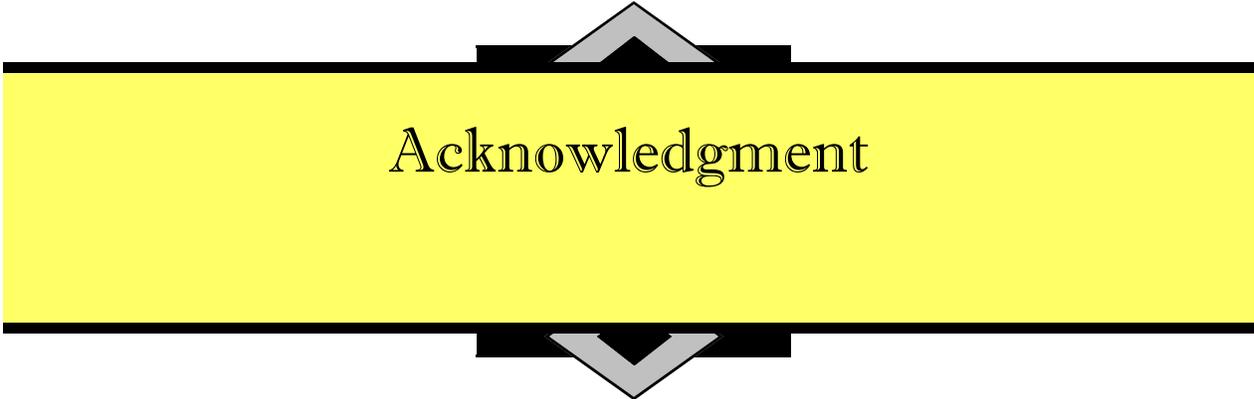
Office of Thrift Supervision

BEST PRACTICES IN RURAL DEVELOPMENT

including
Agriculture Information
Bulletin Number 710
"Understanding Rural America"



Community Affairs



Acknowledgment

The Office of Thrift Supervision gratefully acknowledges the efforts of Kevin J. Davis, a Community Development specialist who has served in the OTS Fellowship Program since July 1997, in the preparation of this paper, "*Best Practices In Rural Development*". Much of this paper was prepared by Mr. Davis following his year long effort to research and locate the twelve diverse rural development programs featured as Best Practices and interview those individuals who are primarily responsible for the success of each of these programs. The Office of Thrift Supervision also appreciates the cooperation of the staff of the United States Department of Agriculture who, among other things, permitted the use of Agriculture Information Bulletin No. 710 "*Understanding Rural America*" to provide this paper with a comprehensive overview of rural America.

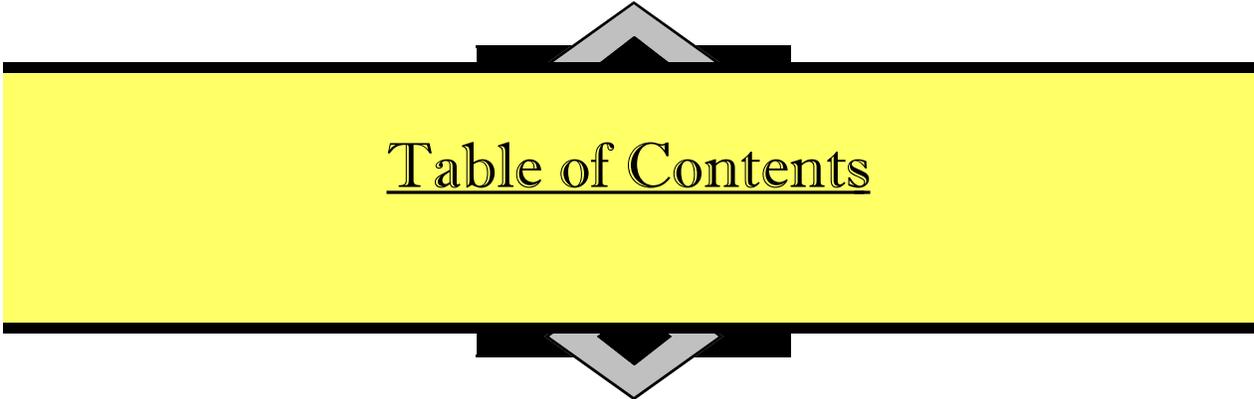


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Introduction

As the regulator of a large number of financial institutions that are located in rural areas, the **Office of Thrift Supervision** (“OTS”) has a particular interest in improving the economic outlook of rural communities. That interest is grounded in the belief that efforts expended toward such improvement are not only socially desirable but also can represent sound business decisions when they improve the economic prospects of the markets in which the financial institutions operate. For these reasons, the OTS has endeavored to identify programs and initiatives designed to provide capital and credit to rural areas. Our findings are presented in the following paper entitled “*Best Practices in Rural Development.*”

Recent U.S. Department of Agriculture (“USDA”) studies indicate that rural America contains 83 percent of the nation’s land and is home to 51 million people, or about 21 percent of the total population of the United States. In its publication titled “*Understanding Rural America,*” the USDA points out that the economic well-being of this significant segment of America’s population depends upon many things including the availability of good-paying jobs; access to critical services such as education, health care, and communication; strong communities; and a healthy natural environment.

In reviewing the “Best Practices” it is important not to lose sight of the fact that rural

America is diverse and, although there are similarities between rural regions there are also profound differences. No single economic diagnosis or prescription fits all. For example, the problems and solutions in Appalachia can be quite different from those in the farm belt of the central U.S. In order to best describe the composition and needs of the various rural regions, we have relied on the experts and have included herein the USDA publication “*Understanding Rural America*” as a critical backdrop for the “Best Practice” discussions.

Although much progress has been made in improving the infrastructure of rural America, many parts of the country continue to find it difficult to attract the capital investments needed to upgrade housing, create jobs and improve the overall standard of living. Often, in isolated rural communities, a local financial institution can be one of the most important factors in a community’s economic well being.

Thrifts, by virtue of their broad regulatory and statutory authority, are able to fill the diverse needs of a given area. Traditionally, of course, thrifts have been residential mortgage lenders and they have no statutory limit on the amount of residential loans that can be made. Often thrifts will portfolio their mortgage loans rather than selling them to an investor. This can be a major benefit in rural communities where each property is often

unique and may be difficult to qualify for the secondary market.

In addition to residential mortgage loans, thrifts can also make nonresidential real estate loans, commercial loans for businesses including farm equipment loans, and a variety of consumer loans including education loans, car loans and credit card loans. Thrifts also have wide authority to make investments that will benefit their communities. For example, recently the OTS issued legal opinions concluding that a federal association has the incidental authority to (1) make equity investments pursuant to Section 5(c)(3)(A) of HOLA that further community development;¹ (2) invest in Low-Income Housing Tax Credit partnerships;² and (3) invest in Farmer Mac common stock.³

Although sharing many similarities, all financial institutions are not alike. Differences exist in the statutes and regulations governing the various types of financial institutions; the specific investment authorities and percentage limitations applicable to each institution; the experience and expertise of officers and employees; and the procedures under which investments and loans are made. However, despite these differences, the demographics, economy and needs of a community are the same for each type of financial institution located in that community.

Although the OTS regulates only the thrift industry, financial institutions of all kinds are facing the challenges of being responsive to the needs of their rural communities while maintaining profitability. Consequently, this study focuses on a variety of investments by different types of financial institutions to demonstrate various ways in which a community's needs have been met. By doing

so, we hope to provide a broad array of ideas that can then be adapted by any institution to accommodate its particular differences.

Rural communities present unique challenges for financial institutions because of their demographics and needs. In rural communities, a financial institution may be called upon to support any number of community or individual initiatives. In addition to providing loans and investments, managers at rural thrifts are often called upon to provide financial guidance and leadership within their communities. While this is certainly true in urban centers also, in rural areas there are often only one or two financial institutions serving a market. This means that individual financial institutions may exert tremendous influence over their rural communities.

There are three purposes for this study: first, to identify financial institutions in various regions of the country that have implemented innovative programs designed to address problems in their markets and, as a result, have made a positive contribution to their communities; second, to review various government and non-profit initiatives, particularly those that partner with financial institutions and offer assistance in finding solutions; and, third, to acquaint other financial institutions with what can be done, in the hope that they may learn about programs that may fit the needs of their communities.

As with any review of a topic as multi-faceted as the economic development of rural America, the twelve examples contained in this paper are by no means a complete exposition of all the programs nationwide that have been undertaken or that are available. Rather, the "Best Practices" represent those initiatives that have been brought to our

attention and that may have broad applicability. In selecting these examples the OTS attempted to present a cross section of geographic locations and organization sizes. We also selected some long standing programs and some that were in the start up phase, as well as some large programs and others that were more modest. The descriptions are necessarily brief and do not contain the myriad of details that would be necessary to implement similar programs. For that reason we have included in each "Best Practice" review the telephone number of at least one contact person who has graciously agreed to provide additional information and assistance.

The "Best Practices" section may be divided into two broad categories of rural development, housing and economic. The first seven "Best Practices" focus on innovative models that have enhanced housing opportunities for their respective communities, including single- and multi-family residential units, loans to finance rehabilitation of housing and a variety of technical assistance. The last five "Best Practices" feature models that have addressed critical economic issues and developed successful vehicles that have enhanced economic growth for the entire community, including small business, agricultural and municipal lending programs.

The 12 "Best Practice" sections that follow the USDA's publication each contain additional information sources that you may wish to consult. The final sections of this paper include a directory that lists many public and private entities that have been involved in national, regional or local rural development and a list of additional paper and video references.

Finally, it should be noted that the development of programs and initiatives to address the problems of rural America is a dynamic process. This paper is the OTS' first attempt to set forth some of the practices that we have observed. We know there are many others throughout the country that are not mentioned here and even more in the planning stages. The problems in rural America are likely to receive a much greater degree of attention in the future because of events that could reverse the last century's urbanization trend in the United States. Among the more notable events are the growing number of stressed-out urban residents who are moving to rural areas for a change of life style; and, the technological changes in the conduct of business, such as telecommuting, that make it less critical to be located in large urban areas. This is an exciting time for rural America and the financial institutions doing business there. Challenges and opportunities abound and we would urge financial institutions, particularly those in rural areas, to develop and/or participate in programs that improve the economic prospects of your communities. We hope you will find some inspiration for doing just that in the following pages.

¹ CEO Letter 41 (May 31, 1995) summarizing and providing a copy of a May 10, 1995 OTS Chief Counsel opinion.

² OTS Chief Counsel Opinion 94/CC-23 (November 10, 1994).

³ OTS Chief Counsel Opinion P97-11 (October 14, 1997).