



Federal Reserve Bank *of* New York

Investing in Our Communities

A Case Study on Closing the Digital Divide



www.nyfed.org/cra



Investing in Our Communities: A Case Study on Closing the Digital Divide

*NY Fed Community Development
Finance*

Introduction

This case study serves as a complement to the publication, “Closing the Digital Divide: A Framework for Meeting CRA Obligations”. Together the framework and the case study provide a practical and instructional guide for financial institutions, community organizations, municipalities, and others who are interested in understanding how broadband and digital access are essential to communities and the role of the Community Reinvestment Act.

For more information on this publication or the framework please contact anyone of the authors.

Disclaimer

The content of this case study is provided for informational purposes only. It does not represent the regulatory standards of the New York Fed or any other part of the Federal Reserve System for assessing compliance with regulations, nor advice on how to fulfill the requirements of the CRA. The New York Fed does not sponsor or endorse the resources, tools, hyperlinks and other documents by third parties included throughout this document.



Background - 5 minutes

New Amsterdam¹ is a small urban area in the Northeast region that has suffered economic hardship since the collapse of manufacturing in the late 1980s and early 1990s. Unemployment in the region is higher than the state average, health metrics are lower, and population is decreasing as more residents leave for other parts of the state.

Five years ago, a grassroots community organization was established in the region called the Greater New Amsterdam Partnership (GNAP). This regional partnership has two goals:

- Bring civic leaders, community organizations, and commercial interests together to leverage existing resources and identify opportunities to collaborate
- Lobby potential capital providers for more resources for community development

In just five years, GNAP has established itself as a robust organization. It has active conversations with regional firms, financial institutions, foundations, and a wide variety of development organizations, from universities to government agencies.

STEP 1: Identify the Community's Needs- 5 minutes

A. Anecdotal Evidence

Last month GNAP held a community listening session in a low-income neighborhood of New Amsterdam. During the session, residents made the following comments:

- "I've missed out on several job opportunities because the potential employer keeps emailing me, and I can only get to the computers in the public library every other day due to my work schedule."
- "My kids are struggling to do their homework because so many assignments are online."
- "I spend a large amount of time driving to and from the bank depositing checks."
- "The other day a customer told me that she wanted to recommend my famous ribs to a friend, but couldn't find my restaurant online. I can't help but think how many customers I'm missing out on because I can't create a website."
- "My sister on the West Coast can renew her prescriptions from an app on her phone. I still have to go to the nearest pharmacy that is 10 miles away."
- "I have a class that ends late at New Amsterdam Community College. I feel unsafe walking to my car because my cell phone can't get a reliable signal."

¹ New Amsterdam is a fictional community. The events and organizations depicted in this case are fictional. Any similarity to any community or organization is merely coincidental.



Investing in Our Communities: A Case Study on Closing the Digital Divide

NY Fed Community Development
Finance

Focus Questions:

1. What is the common link among these citizens' problems?
2. What sort of information would you need to collect and analyze to make a determination about the scope of the problem?

B. Data Analysis- 10 minutes

Counties that make up the New Amsterdam region

County	% of Residents with Fixed Broadband (State Mean Is 80%.)	Internet Adoption Rates (State Mean Range Is 80–100%.)	Per Capita Income (State Per Capita Income Is \$35,200.)	Unemployment Rate (State Unemployment Rate Is 5.2%.)
Orange County	18.1%	60–80%	\$26,900	7.9%
Leiden County	92.0%	80–100%	\$30,300	6.1%
Iselmar County	53.1%	60–80%	\$23,800	8.0%
Bergkamp County	11.45%	40–60%	\$26,200	8.2%

Focus Questions:

1. What correlations do you notice among the variables?
2. What are the spillover costs to the community of this particular problem?
3. What products and services are needed to solve this problem?
4. What are some barriers to solving this problem?



STEP 2: Identify Your Role- 5 minutes

When identifying the role of organizations, the “three legs of the stool” of broadband adoption² should be considered:

1. Broadband access (infrastructure)
2. Computer access (affordability)
3. Training and technical assistance (education)

Focus Questions:

1. What types of organizations might already be working on this issue?
2. What incentives exist for a financial institution to help solve these problems?
3. What are some obstacles for a financial institution entering this field?

STEP 3: Identify Your Partners- 5 minutes

GNAP has developed relationships with many local financial institutions. One of those institutions is Guilder Bank.³ Guilder Bank began as an agricultural bank in the early 1800s. Over time it has grown, but it still functions primarily as a regional bank. Many of the areas serviced by Guilder are economically challenged areas, and it is in Guilder’s interest to make sure that its local community grows.

Guilder Bank is in the early stages of developing its strategic plan in order to be prepared for a future Community Reinvestment Act (CRA) exam. The new CRA Officer for Guilder Bank has been asked to think about new programs and initiatives for the bank to meet CRA compliance.

Guilder Bank has approximately \$700 million in total assets and will be examined as an Intermediate Small Bank under the Community Reinvestment Act. As an Intermediate Small Bank, it will be evaluated under the lending and community development test. Guilder’s assessment area includes the four counties that make up the New Amsterdam region.

² Federal Reserve Bank of Dallas. Closing the Digital Divide: A Framework for Meeting CRA Obligations, p. 10.

³ Guilder Bank and White Raven Telecommunications are fictional firms. The events and organizations depicted in this case are fictional. Any similarity to any community or organization is merely coincidental.



Guilder Bank Assessment Area

Census Tract	Census Tract Classification	Comments
<i>Orange County</i>		
1	Moderate	
2	Middle	Designated distressed census tract
3	Moderate	
4	Low	
<i>Leiden County</i>		
1	Low	
2	Low	Sunshine Retirement Center located here
3	Middle	
<i>Iselmar County</i>		
1	Moderate	New Amsterdam Community College located here
<i>Bergkamp County</i>		
1	Low	
2	Middle	Central Branch of Guilder Bank located here

GNAP has also engaged with multiple companies in New Amsterdam and neighboring communities. One of those companies is White Raven Telecommunications (WRTC). WRTC is a regional carrier providing residential and commercial telecommunication services to urban and rural areas. Over 80 years, WRTC has built and maintained its entire communications network. It became the first small independent carrier with a 100% fiber optic backbone in the Northeast region and has been a leader in implementing technical advances to increase capacity and expand services. WRTC’s most popular product is a “double play” package with telephone and internet.

GNAP learned about WRTC after an article in the local paper described how the company had installed fiber optic cable in Lake Vermeer, a popular waterfront community located a few miles from New Amsterdam. The community lacked high-speed internet, and the large carriers did not have plans to serve it. The municipality contracted with WRTC after receiving a grant from the state government to upgrade local infrastructure. The fiber optic was deployed via underground facilities, providing the network with protection from weather conditions without affecting the aesthetics of the community’s main streets. This investment gave Lake Vermeer residents access to high-speed internet, while also attracting businesses and boosting tourism.

In order to compete with the large carriers, WRTC has focused on serving local mid-sized businesses. The company recently received an award from the state government for its philanthropic work.



Investing in Our Communities: A Case Study on Closing the Digital Divide

NY Fed Community Development

Finance

Focus Questions:

1. What are the characteristics of a good partner?
2. How can financial institutions complement the strengths of the community partner in this space?
3. How can telecommunications firms complement the strengths of financial institutions and community partners?
4. What are some potential ways they may “talk past each other”? What are some barriers/obstacles for financial institutions, carriers, and community groups to making a partnership work?
5. Look back at the original scenario. Using what you have discussed so far, how might GNAP, Guilder Bank, and WRTC make good partners?

STEP 4: Is It CRA Eligible? - 10 minutes

The Community Reinvestment Act (CRA) was enacted to encourage banks to meet the credit needs of the neighborhoods in which they operate, including low- and moderate-income (LMI) communities. The CRA was enacted by Congress in 1977 (12 U.S.C. 2901) and is implemented by Regulation BB (12 CFR 228). The Federal Reserve System (FRS), the Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC) evaluate how banks are fulfilling the objectives of the CRA.

In July 2016, the Federal Reserve, the OCC, and the FDIC published updated CRA guidance: the 2016 Interagency Questions and Answers. In this new guidance, broadband is included as a form of infrastructure investment. The agencies identify communication infrastructure as an essential community service and describe how investing in new or rehabilitating communications is consistent with the CRA regulatory definition of community development.

Under the CRA, infrastructure investment includes the construction, expansion, improvement, maintenance, or operation of essential infrastructure or facilities for health services, education, public safety, public services, industrial parks, or affordable housing. An investment or loan applied to broadband infrastructure would need to be for the purpose of serving LMI individuals and/or geographies or revitalizing an LMI geography or non-metro middle-income geography.



Investing in Our Communities: A Case Study on Closing the Digital Divide

NY Fed Community Development
Finance

Task

Review the activities below and answer the questions.

Activity	Which Leg of the Stool Are We Meeting? (broadband access, computer access, training & technical assistance)	Community Development Activity Type (loan, investment, or service)	Can the Activity Be Considered for CRA Credit? (Provide a brief explanation of your reasoning.) ⁴
Provide classes on online banking for senior citizens at the Sunshine Retirement Center			
Sponsor a high school robotics competition in Leiden County census tract 3			
Provide a loan to the local municipality to provide ISP services to residents and businesses			
Buy computers for a local elementary school located in census tract 1 of Leiden County			
Provide “last mile” funding to bring in the fiber optic line to Bergkamp County			
Pay for students to take an Advanced Placement Statistics exam			
Subsidize the deployment of fiber optic to a housing development in Iselmar County in partnership with White Raven Telecommunications			
Pay for commercial Facebook “brand awareness” workshops for local businesses			

⁴ The activities described in this table are provided for informational purposes. CRA eligibility is examined case by case. The answers do not represent the regulatory standards of the New York Fed or any other part of the Federal Reserve System for assessing compliance with regulations, nor advice on how to fulfill the requirements of the CRA.



Investing in Our Communities: A Case Study on Closing the Digital Divide

NY Fed Community Development

Finance

Provide a loan to White Raven Telecommunications to deploy fiber optic to a high-end resort in Lake Vermeer where residents of New Amsterdam vacation			
Launch a new mobile banking application for smartphones			
Sponsor an online resume skills workshops at New Amsterdam Community College			



Investing in Our Communities: A Case Study on Closing the Digital Divide

NY Fed Community Development
Finance

Authors

Adrian Franco, Ph.D.

Officer & Director of Community Development Finance

adrian.franco@ny.frb.org

Chelsea Amelia Cruz

Senior Program Manager, Community Development Finance

chelsea.cruz@ny.frb.org

Graham Long

Associate Director, Economic Education

graham.c.long@ny.frb.org

About Us

About the Federal Reserve Bank of New York

www.nyfed.org

The Federal Reserve Bank of New York works within the Federal Reserve System and with other public and private sector institutions to foster the safety, soundness, and vitality of our economic and financial systems. The Federal Reserve Bank of New York is one of 12 regional Reserve Banks that, together with the Board of Governors in Washington, D.C., make up the Federal Reserve System. The Fed, as the system is commonly called, is an independent governmental entity created by Congress in 1913 to serve as the central bank of the United States.

The New York Fed oversees the Second Federal Reserve District, which includes New York State, the 12 northern counties of New Jersey, Fairfield County in Connecticut, Puerto Rico, and the U.S. Virgin Islands.

About Outreach & Education

www.newyorkfed.org/outreach-and-education

The Outreach & Education function engages, empowers, and educates the public in the Second District. Our outreach mission furthers the Bank's commitment to the region by listening to the communities we serve and leveraging our unique attributes to positively impact the same through regular programs, targeted projects, meetings with stakeholders, and sponsored conferences and clinics. Our education mission aims to advance public knowledge about the Federal Reserve System and its role in the economy. Recent areas of focus include community development finance, workforce development, small businesses, and economic education.

About the Community Development Finance Initiative

www.nyfed.org/cra

The Community Development Finance Initiative aims to increase the impact of community development finance projects in the Second District and to help ensure that qualified CRA activities are meeting the current needs of low- and moderate-income communities by offering analysis, developing educational resources, and conducting relevant programming to connect community organizations, financial institutions, and relevant stakeholders.