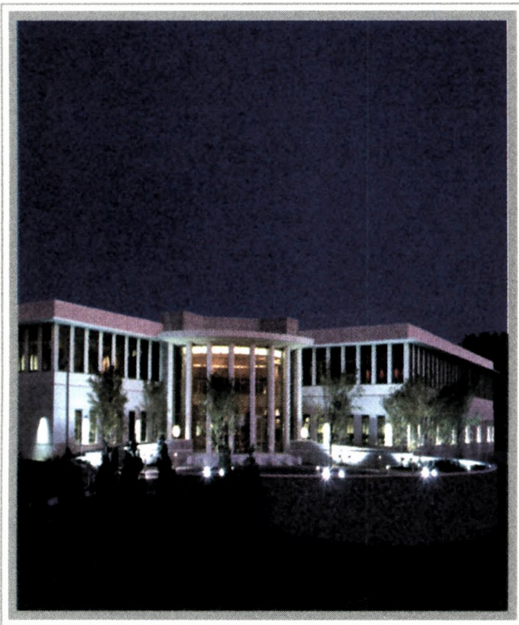

Partners
in community and economic development

Federal Reserve Bank of Atlanta
Volume 10, Number 3

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Solutions

We know that large-scale community development programs can make a tremendous impact on the lives of low- and moderate-income families and communities. But we also believe the axiom that "community development occurs one deal at a time." After all, most large-scale programs are really a collection of smaller solutions designed to meet local needs.

This issue of *Partners* is dedicated to solutions. We are proud to feature examples of organizations striving to address local concerns. From banking regulators, to nonprofit organizations, to for-profit businesses, we all have a role to play. We recognize that no program is perfect and we reserve the right to criticize even the best programs (including our own). But as we begin the new millenium, we think now is a good time to take stock of some fine programs run by good people working to develop sound solutions for everybody's benefit.

In our last newsletter, we focused on problems with predatory lending practices. We stay focused on this important topic and present three articles on the regulatory response to predatory lenders. By strengthening the regulations that implement the Home Mortgage Disclosure Act (HMDA) and the Home Ownership Equity Protection Act (HOEPA), we hope to curb predatory lending while maintaining complete access to affordable credit. We won't pretend that these proposed regulations will be the ultimate solution to predatory lending, but we hope they make a significant difference.

In addition to featuring these proposed regulations, Partners presents two sound programs designed to address the needs of low- and moderate-income populations. The Gwinnett Housing Resource Partnership is a nonprofit organization that provides an array of services, from affordable rental units to bilingual housing seminars, that provide solutions to diverse populations' housing needs. The nonprofit implements many "best practices" and was recently chartered by the Neighborhood Reinvestment Corporation as a NeighborWorks Network® member.

A second article features new solutions developed from the for-profit sector. Directo, a company headquartered in Atlanta, provides easy to use, high-tech alternatives to banking unbanked populations or to wiring money to family members living outside the U.S.A. Bringing new and innovative products to compete with traditional money transfer operations and check cashing programs is an exceptional approach to serving low- and moderate-income populations.

Finally, we feature some exciting news from our associates in Alabama. First, you might notice our masthead featuring a photograph of the Federal Reserve Bank of Atlanta's new branch facility in Birmingham. The new building not only provides additional space that was sorely needed; it brings modern services to financial institutions through improved automated check, cash, and coin processing. We are proud to have

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Community Affairs staff housed at the new location.

In addition to the new branch facility, we present two interesting articles from our associates in Alabama that offer exciting investment opportunities: small business incubators and work opportunity tax credits.

We designed this issue to present a range of opportunities and ideas for your consideration. Together, by sharing the best we have to offer, we hope to contribute to your own local solutions - one deal at a time.

Editor

MeadowView Conference Resort & Convention Center
Kingsport, Tennessee
April 26,2001

This important conference is designed to provide practical models and tools that can be used to find and create jobs that are a "right-fit" for rural communities. Participants will be introduced to strategies for developing a ready workforce to fill these jobs. It is no secret that workforce development skills are fundamentally important in maintaining competitiveness in an increasingly technology-based world economy.

A survey completed by the National Commission on Entrepreneurship cited "access to top quality personnel as the single most important factor to start or expand a company in the region." Rural communities are often at a disadvantage when competing with the amenities of urban areas that attract a younger and more technologically skilled workforce. In addition, infrastructure concerns are frequently seen as obstacles to companies considering relocating.

Practitioners from universities, nonprofit organizations, and micro-enterprise and technology fields will present practical models and strategies for workforce development and sustainable community building during the day.

Sponsored by the Community Affairs Offices of the Federal Reserve Banks of Atlanta, Cleveland, and Richmond, this conference has been rescheduled to better meet your needs.

For more information, call Sibyl Howell at (404) 589-7242

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Gwinnett Housing Resource Partnership

By Courtney Dufries

Every now and then, our Community Affairs team encounters a nonprofit organization that provides exceptional service to low- and moderate-income populations. On occasion, we are pleased to feature examples of these organizations in our Partners newsletter. The following article presents an example of one of the many nonprofit organizations whose staff and expertise provide best practices we can all appreciate.

Gwinnett County, Georgia, continues to experience an incredible population boom, with the Census Bureau estimating that well over half a million people had settled into the area by the middle of 1999. This 55% increase over the past 10 years has transformed the county from a bedroom community providing homes for Atlanta's metropolitan economy, to it's own vibrant community where over half the people who live there, work there. Of course, with growth this rapid, problems will arise.

Fortunately, since it's founding in 1993, the Gwinnett Housing Resource Partnership (GHRP) has grown with the community and now provides an array of housing services for Gwinnett's low- and moderate-income populations.

Beginning with an initial $25,000 grant in 1993, GHRP's annual budget now exceeds $2 million and reflects a wide range of programs and services. The numbers are staggering, as GHRP provided direct or indirect services to nearly 100,000 people last year. A review of just a few of the 1999 statistics reveals that 507 people received emergency shelter; 266 people were kept off the homeless rolls; 874 received housing counseling; 28,080 received affordable housing referrals and information; 8000 received community education; and 99 people attended Spanish homebuyer classes.

GHRP administers 12 unique programs. These programs cover a wide range of needs, including emergency shelter; homeless prevention; transitional housing; rental properties; downpayment assistance; Individual Development Accounts (IDAs); homeowner and homebuyer edcation programs; and housing counseling and referrals, to name but a few. GHRP also works hard to leverage resources with the private sector. For example, the emergency shelter program provides homeless families, seniors, and disabled persons safe rooms through partnerships with local hotels.

Marina Peed & Jim Beaty of GHRP

In 1995, the nonprofit completed an extensive renovation of Bradford Gwinnett Apartments, a 196-unit affordable housing complex it owns that provides affordable rental housing for families and seniors. GHRP also owns and manages 12 units for transitional housing to help homeless families transition to self-sufficiency. In 1998, the nonprofit developed the expertise to change from using a contracted property management company to creating an in-house asset management department. Seven staff manage and maintain GHRP's 214 housing units. The change helped improve conditions on the property and strengthen relationships with the residents and the surrounding community.

In 1996, the United Way of Metropolitan Atlanta sponsored an IDA program with the nonprofit, and two years later, the first IDA participant purchased a home. IDAs provide matching funds for low- and moderate-income homebuyers. In this case, working through the GHRP, United Way matches $4 for every $1 the homebuyer saves. GHRP provides 10 classes on money management, financial planning, homebuyer education, and homeownership. In addition, they offer credit counseling and support to about 50 IDA program participants each year.

Success such as this does not go unnoticed. Recently, the Neighborhood Reinvestment Corporation (NRC) chartered GHRP as a "NeighborWorks® Network" affiliate, a designation reserved for 202 nonprofits active in more than 1400 communities across the nation. The NRC designation strengthens organizations by providing access to additional training, technical assistance, and funding.

For more information on this quality program, call GHRP at (770)-448-0702.

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Alabama's Small Business Incubators

By Michael Milner

Small businesses have been one of the leading contributors to this country's economic success. According to the Small Business Administration, small businesses with fewer than 500 employees created 76% of new jobs between 1990 and 1995. Recognizing the value of small businesses, some communities have discovered that Small Business Incubators are becoming a more practical and fundamental approach to creating jobs and stimulating economic development.

Incubators take small young businesses and help them grow during their start-up period, the times when they are most likely to fail. They offer shared office space, access to equipment, flexible leases, technical assistance, and a number of business services under one roof. The goal is to stay in this environment 3 to 5 years and graduate to its own facility. Graduation is also achieved when the business is sold for a reasonable return.

According to the National Business Incubator Association (NBIA) the concept of the small business incubator has been around since 1959 when Charles Mancuso & Son Inc. of Batavia, New York, purchased an 850,000 square foot multi-story building for its real estate investment holdings. After failing to find a tenant that would agree to lease the entire building, he decided to lease small pieces, hoping to find enough tenants to get an acceptable return. Allowing tenants to share the expense of various office services is now a fundamental incubator concept.

The number of incubators has increased significantly since the early 1980s, when communities, colleges, and local governments throughout the country started taking an interest in them. The NBIA estimates that there were only 12 incubators in the country in 1980 compared to 800 today.

According to trade consultant, Frederick Burger, of the many kinds of incubators, mixed-use incubators are the most popular and are primarily created by local governments to spur economic growth and create jobs. Technology incubators focus on enhancing research and development in high-tech, rapid-growth industries that have a good chance of attracting capital and can have a long-term impact on spurring economic growth and creating jobs.

A third type, targeted incubators, focus on assisting start-up companies in a specific industry, such as food production, arts, fashion, biomedical, etc. Empowerment or micro-enterprise incubators target low- and moderate-income communities as a means of assisting in revitalizing efforts. And finally, manufacturing and service incubators house similar types of businesses in order to benefit from cost savings through shared equipment, services, and a tailored facility design.

Small business incubators typically don't become involved in retail, construction contracting, or with businesses involving commissioned sales. Nor are they involved in professional counselor fields such as accountants, attorneys, and financial planners.

Although most small business incubators come with much the same design and structure elements, such as low-cost office space and shared expenses, an incubator's success is measured by its own goals and objectives. For example, a mixed-use incubator that is established for job creation should not be compared to one established for technology or empowerment.

In recent years, Alabama has had an incubator boom: 14 incubators have created over 346 new companies and 4,232 jobs, according to Wilson Harrison, chairman of the Alabama Business Incubator Network, the state association for small business incubators.

Birmingham's Technology Incubator

Harrison is also the director of the Office for the Advancement for Developing Industries (OADI), a technology incubator sponsored by the University of Alabama in Birmingham. OADI, founded in 1986, has graduated 37 companies employing 1,400 people. Twelve firms have either been sold or merged with other firms, and only two firms have gone out of business.

"We have a 70-to-80% success rate rather than a 70-to-80% failure rate," according to Susan Matlock, president of the Entrepreneurial Center, a small business incubator located in downtown Birmingham, Alabama. Matlock describes the businesses in the center as a mixture of service, light manufacturing and software. "We want businesses that can bring new growth into the area, and new employment."

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The Entrepreneurial Center has been awarded the 2000 National Business Incubator of the Year by the NBIA. The incubator operates in a 48,000 square-foot facility, housing 30 small businesses, and generating revenue to support about 80% of its own expenses. Matlock's fundraising efforts from the community provide the other 20%.

Montgomery Area Incubabor

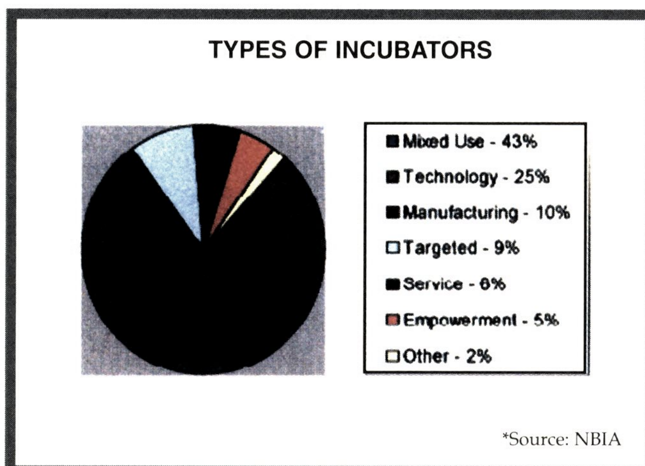
The Montgomery Alabama Small Business Incubator is unique because it has four major anchor tenants that are a resource for many of the small business tenants. The anchor tenants are the Auburn University Montgomery Center for Business & Economic Development, Alabama State University Disadvantaged Business Enterprises; Alabama State University Business and Technology Center; and Troy State University at Montgomery. Because of the strong partnership with these four organizations, the incubator is able to provide the most up-to-date information and advice to small businesses at all stages of development. The incubator currently holds 17 businesses and is completely self- sufficient, relying on no outside funding. In addition, there is an open-book monitoring program where the records of the businesses are reviewed on a regular basis.

Lessons Learned

Of course, not all incubators are successful. In the 1980s, many local governments and nonprofit organizations created small business incubators in hopes of stimulating jobs and economic development in their communities, identifying with the phase from the movie *Field of Dreams*, "If you build it, they will come." Many incubators were built and many business start-ups came, but many failed. Because local and state governments had funded many of those failures, public funding sources had become scarce. However, attitudes changed as community benefits proved to outweigh risks that can now be better mitigated.

Sources from NBIA say that there are no national statistics on how many incubators have failed, but many believe that most of the failures come from poor management and failure to match the type of incubator with the available resources and needs of the community. The academic community and the U.S. Department of Commerce are calling for more research to study the success rates and to analyze the failures.

Ms. Sonya Buckner, vice president of the Montgomery Area Incubator, noted that incubators are more than just four walls – it takes an experienced staff with an understanding of the specific needs of the community and the start-up businesses in order to succeed. Today, unlike the 1980s, there are hundreds of successful templates of small business incubators. The following list highlight common features of many successful small business incubators.



*Source: NBIA

- ◆ The type of incubator must meet the needs and match the resources of its community.
- ◆ The incubator's management should be experienced.
- ◆ The facility should require minimal overhead costs.
- ◆ The incubator should begin with at least one strong anchor tenant.
- ◆ The incubator's business plan should target self-sufficiency in order to limit dependency on external funding.
- ◆ Businesses should have an approved comprehensive business plan prior to moving in.
- ◆ Businesses should maintain sound financial recordkeeping that is accessible to regular managerial inspection.
- ◆ The incubator should have an emergency contingency plan, such as access to a revolving loan fund, to assist businesses with small emergency cash flow needs.
- ◆ The program should promote networking opportunities between the tenant businesses.
- ◆ The program should include strong internal small business education.

Soundly structured small business incubators have proven to play a meaningful role in economic development. Not only are many viable businesses generated, some go on to realize astounding growth and profitability. And in turn, incubators themselves can be profitable. According to the NBIA, 25% of all incubators are now for-profit. "Venture Capital Small Business Incubators," for example, give entrepreneurs a monetary return in exchange for an ownership interest in the business, and the incubator monitors operations until the company is large enough to go public or be sold to another company.

From all indication, it appears that the small business incubator concept is here to stay. As more published data becomes available on the success of these incubators, it is certain that more state and local governments and communities will take a closer look at small business incubation being a viable option to economic development.

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Tougher Regulations Proposed to Fight Predatory Lending

The Federal Reserve Board has proposed amending two of its regulations in an effort to crack down on predatory lending practices. Proposed Changes to Regulation Z (Truth in Lending), which implements the Home Ownership and Equity Protection Act (HOEPA) of 1994, and to Regulation C, which implements the Home Mortgage Disclosure Act (HMDA), have been published in the Federal Register. Both proposals solicit public comment.

HMDA

HMDA requires depository and certain for-profit, nondepository institutions to collect, report, and disclose data about originations and purchases of home mortgage and home improvement loans. Institutions must also report data about applications that do not result in originations. The proposed amendments are designed to strengthen efforts to combat predatory lending by requiring additional disclosures and reporting requirements. Institutions, examiners, and others can use the information to track the level, trend, and underwriting characteristics of high cost mortgage loans covered by HOEPA.

According to the federal register notice, "the HMDA amendments simplify the definition of a "refinancing," require lenders to report requests for preapproval, simplify the definition of a reportable home improvement loan, require lenders to report home-equity lines of credit, expand coverage of nondepository lenders, and require lenders to report the annual percentage rate of a loan, whether the loan is subject to the Home Ownership and Equity Protection Act, and whether the loan or application involves a manufactured home. The Board also proposes to reorganize the regulation and to make other changes."

HOEPA

In 1994, Congress enacted the Home Ownership and Equity Protection Act (HOEPA). HOEPA amended the Truth in Lending Act (TILA) to impose substantive limitations, such as restrictions on short-term balloon notes and prepayment penalties, and additional disclosure requirements for closed-end, home-equity loans bearing rates or fees above a certain percentage or amount. These limitations were designed to help reduce and perhaps eliminate predatory lending practices. The Board held hearings this summer in Charlotte, Boston, Chicago, and San Francisco on possible ways to curb predatory lending using its regulatory authority. In addition, the Board solicited public comments on possible changes to HOEPA to combat predatory lending practices. The proposed changes are result of the Board's analysis following these public hearings and written comments.

Under the rate-based test, a loan is covered by HOEPA if the annual percentage rate (APR) at the time of consummation exceeds by more than 10 percentage points the yield on Treasury securities having a comparable maturity. Under the fee-based test, a loan is covered if the total points and fees exceed 8% of the loan amount, or $400, whichever is greater. HOEPA authorizes the Board to adjust both triggers. The 10% APR trigger may be increased or decreased by two percentage points, but not more often than every two years. The fee-based trigger may be adjusted by including additional fees, not by adjusting the percentage. The act also authorizes the Board, for all mortgage loans, to prohibit specific acts or practices that are unfair, deceptive, or designed to evade HOEPA. For refinancings, the Board is authorized to prohibit acts or practices associated with abusive lending practices or that are otherwise not in the borrower's interest.

The proposed amendments would broaden the scope of loans subject to HOEPA's protections by adjusting the price triggers that determine coverage under the act. Interest rate triggers would be lowered by two percentage points and the fee-based triggers would now include optional insurance premiums and similar credit protection products paid at closing.

Certain acts and practices in connection with home-secured loans would be prohibited, including a rule to restrict creditors from engaging in repeated refinancing of their own HOEPA loans over a short time period when the transactions are not in the borrower's interest. HOEPA's prohibition against extending credit without regard to a consumer's repayment ability would be strengthened by requiring creditors generally to document and verify income for HOEPA-covered loans. HOEPA disclosures would include the total amount of money borrowed.

The term "predatory lending" encompasses a variety of practices. Often homeowners in certain communities—particularly, the elderly and minorities—are targeted with offers of high-cost, home-secured credit. The loans carry high up-front fees and may be based on the homeowners' equity in their homes, not their ability to make the scheduled payments. When homeowners have problems repaying the debt, they are often encouraged to refinance the loan. Frequently this leads to another high-fee loan that provides little or no economic benefit to the borrower.

A copy of the proposed regulations is available by calling the Reserve Bank's Community Affairs section at (404)-589-7242. The HMDA and the HOEPA comment periods expire March 9, 2001.

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Highlights of Proposed HOEPA Changes

Congress enacted HOEPA in 1994 as a means to address predatory lending practices. HOEPA requires certain disclosures of high cost loans secured by home mortgages. Because these loans carry substantial costs (typically higher interest rates and fees), additional consumer protections and disclosures are required. In addition, given the potential for abusive lending practices and the possible loan performance volatility, HOEPA loans have increasingly limited liquidity. The proposal to increase disclosures, combined with additional regulatory and market pressures is designed to combat predatory lending practices.

Expanding Coverage of Loans Subject to HOEPA

◆Adjust the APR trigger from 10 percentage points to 8 percentage points above the rate for Treasury securities having a comparable maturity, the maximum amount that the trigger may be lowered by the Board. Adjust the fee-based trigger to include amounts paid at closing for optional credit life, accident, health, or loss-of-income insurance, and other credit protection products such as debt-cancellation coverage.

Increased Prohibitions against "Flipping"

◆Address some "loan flipping" within the first 12 months of a HOEPA loan by prohibiting the creditor or assignee (or an affiliate) that is holding the loan from refinancing it unless the refinancing is in the borrower's interest.
◆Prohibit refinancing in the first five years of a zero interest rate or other low-cost loan (carrying a rate two percentage points or more below the yield on Treasury securities with a comparable maturity) by creditors seeking to replace that loan with a higher-rate loan, unless the refinancing is in the interest of the borrower. This rule is designed primarily to protect zero interest and other low-cost home loans offered through mortgage assistance programs that provide home loans to low- and moderate-income borrowers.
◆ Prohibit creditors from including "payable on demand" or "call provisions" in HOEPA loans, unless the clause is exercised in connection with a consumer's default.
◆ Prevent evasions of HOEPA, by prohibiting creditors from documenting a mortgage loan as open-end credit if it does not meet Regulation Z's definition for open-end credit. (HOEPA covers only closed-end credit transactions.) For example, a high-cost mortgage could not be structured as a home-secured line of credit to evade HOEPA if there is no reasonable expectation that repeat transactions will occur under a reusable line of credit.

Tougher Stance Against "Equity Stripping"

◆ Create a rebuttable presumption that a creditor has engaged in a pattern or practice of making HOEPA loans based on homeowners' equity without regard to repayment ability, if the creditor generally does not document and verify consumers' repayment ability.

Improved Disclosures

◆ Revise the HOEPA disclosures to alert consumers in advance of loan closing that the total amount borrowed may be substantially higher than the amount requested due to the financing of insurance, points, and fees.

Highlights of Proposed HMDA Changes

HMDA requires certain lending institutions to collect, report, and disclose data about loan originations and purchases of home mortgage and home improvement loans. It also requires reporting of loans that do not result in originations, such as loan denials or withdrawn applications. HMDA can be used to help determine whether institutions are serving the housing needs of their communities; it helps public officials target investments; and it assists in identifying possible discriminatory lending patterns. The proposed changes are designed to help combat predatory lending practices.

Identifying Subprime Lenders

Additional data items will be collected to help identify institutions engaged in subprime lending. These additional fields include annual percentage interest rates (APR), and manufactured home loans or applications. Further, lenders must identify and report all loans subject to HOEPA.

Expanding Coverage to include more Nondepository Lenders

Banks, thrifts, credit unions and other depository institutions are widely covered by HMDA. Under the proposal, nondepository lenders, particularly those that are active in the subprime market, will be subject to HMDA reporting because the regulation adds a dollar volume threshold whereby lenders whose loan activities exceed $50 million must file HMDA reports.

Reporting "Preapprovals" and "Home-Equity Lines of Credit"

Lenders are currently not required to report preapprovals, and reporting home-equity lines of credit was optional. Under the proposed regulation, both would be mandatory.

Defining "Refinance" and "Home Improvement Loan"

The current definitions offer lenders several reporting options. The proposed simplifications would apply to all lenders, and ensure more complete and consistent data.

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Free Market Solutions to Banking the Unbanked

By Jennifer Grier

This article represents the Community Affairs section's continued effort to present innovative products that seek to address the deposit and credit needs of low- and moderate-income individuals. This article is for informational purposes only and is not an implied or direct endoresement of the company or its products.

Banking the nearly 12 million unbanked households in the U.S. has been elusive or even avoided by most financial institutions. Although representing a significant market potential, this population often opts not to use traditional banks or is declined banking services because of a previous history of mishandling accounts. However, an innovative product developed by Directo, Inc. (Directo), a for-profit company in Atlanta, may serve as an inexpensive alternative to turning these potential customers away.

Demand Deposit Accounts for Unbanked

Directo offers two distinct demand deposit account products for the unbanked customer – Direct2Cash and Acce$o cards.

Direct2Cash is a debit card account that provides an inexpensive way for individuals to access cash who may be accustomed to paying the often exorbitant fees charged by check cashing outlets. The only requirements are that the customer be employed and that the employer offers direct deposit for payroll checks. A significant benefit to the employer is that the accounts help to decrease payroll costs by increasing its workforce participation in direct deposit.

Bank Advantages

Directo markets the Direct2Cash product to banks as an alternative to declining a potential customer who does not qualify to open a checking account because of a record on Chex Systems or derogatory credit history.

There is nominal risk to the bank since Directo actually owns the relationship and the funds are held at its correspondent bank, Cardinal Bank in Fairfax, VA. Also, the potential for fraud is significantly mitigated because the account is only accessible by ATM or point-of-sale terminals, and the account can not be overdrawn.

Essentially, the participating bank acts as a referral service for Directo in providing the Direct2Cash accounts. However, the bank receives monthly fee income and retains the option to cross-sell other banking services to the customer. Another benefit to the bank is being able to reduce its lobby congestion by the number of individuals who previously cashed their payroll checks who will now be paid electronically.

In addition, the bank may graduate Direct2Cash account holders to conventional products once the account has been handled satisfactorily for a period of time. Although on the surface this may appear to be counterproductive for Directo, the company's ultimate objective is to train the unbanked to become bankable customers.

Significant Savings on Wire Transfers

The Acce$o card is considered a companion card to the Direct2Cash account. The card can be given to a spouse or family member and is treated as a sub-account to the "master" Direct2Cash card. The primary account holder predetermines the amount that will be made available on each Acce$o card (up to 10 sub-accounts) tied to the account.

This product was initially developed in response to a rapidly growing Hispanic population working in the United States who were experiencing difficulty opening checking accounts and were paying significant fees to wire money to family members in Latin America.

With the Acce$o card, the worker can designate the amount of the paycheck that can be withdrawn at an ATM by the companion cardholder. Family members outside of the country can access cash using ATMs at a nominal fee versus incurring high money transfer and currency conversion fees.

(See Directo, continued on page 10)

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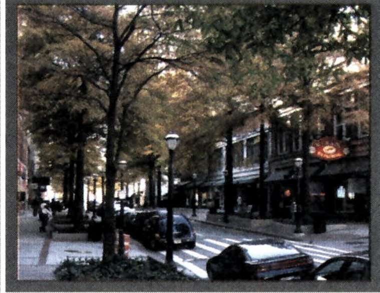
Work Opportunity Tax Credit Program

By J. Paul Compton, Jr.



Banks searching for innovative ways to meet their Community Reinvestment Act (CRA) obligations, particularly under the investment test, may have a new alternative to the tried and true approaches of affordable housing supported by low income housing tax credits, municipal bonds, and micro-enterprise equity.

The staff of the Board of Governors of the Federal Reserve System has determined that an investment in a limited liability company that would engage in the business of hiring, training, and leasing out the services of persons who are members of "targeted groups" under the provisions of the Internal Revenue Code for work opportunity tax credits is a "listed permissible activity" under Regulation Y. Opinion letter to J. Paul Compton, Jr., dated January 29,1999 (reproduced in CCH Banking L Rep. ¶ 80-284).

The program initiated by Financial Investors of the South, Inc., Birmingham, Alabama, and its wholly-owned subsidiary, Bank of Alabama, a State member bank, melds together potentially attractive after-tax investment returns, reinforces partnerships with local nonprofit institutions, and provides job training for disadvantaged persons.

Recognizing that businesses employ resources for the purpose of earning a profit and that the attainment of some public goals are inherently unprofitable, the government subsidizes these activities with tax credits. Work opportunity tax credits (WOTCs) under Section 51 of the Internal Revenue Code are intended to provide an incentive to companies for hiring disadvantaged workers such as recipients of food stamps. Credits are based on a graduated scale. After 400 hours are worked, the credit is equal to 40% of total wages paid. The maximum credit is equal to $2,400 per worker.

The WOTC incentive works like other business tax credits, such as low income housing tax credits under Section 42 of the Internal Revenue Code, in that a dollar of tax credits offsets a dollar of federal income tax liability. The Section 51 credit, which previously had a one-year sunset, was extended by Congress in 1999 until 2004.
Banks historically have not been permitted to be equity investors in real estate developments. At the same time, government saw a need for affordable housing managed and financed through the private sector. Recognizing the opportunity for banks to fulfill some of their obligations under the CRA, regulators have permitted banks to become equity investors in projects supported by low income housing tax credits. In the early 1990s, many banks overcame the cultural gulf of being a real estate investor in affordable housing and now actively make equity investments in low- and moderate-income housing supported by the low income housing tax credit.

The key innovation of Bank of Alabama's WOTC program is the combination of employee training and nonprofit organizations. This is similar to the case of the low income housing tax credit, which establishes a preference for nonprofits serving as the general partner of the partnership owning the low-income housing development. The limited partner of the same partnership is a for-profit entity with a substantial tax burden that can use the credits. Thus, the establishment of public-private partnerships is encouraged. The parallel continues in that a third party may provide administrative services for the WOTC in much the same way that a property manager provides management for a low income housing tax credit development.

Here's how the program would work in a typical situation. The bank agrees to pay the wages <u>and</u> training costs in a qualifying employee situation arranged by a nonprofit. In turn, the bank receives a tax credit. The employer, nonprofit, or an outside party provides the actual employee training for a fee paid by the bank. The dollar outlay of the final wage itself is reimbursed to the bank by the employer. The incentive to the bank is that the value of the tax credit exceeds its net unreimbursed costs, including any fees paid to the nonprofit beyond training costs. Thus, the bank is able to combine an existing business practice in a way that creates an innovative, profitable, and community service oriented program. This program is not without risks, but there appear to be viable routes to mitigate these risks. Key advantages are that the pro-

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gram is portable – meaning that a bank's investment in WOTC programs can be targeted to almost any urban market – and scalable – meaning that the amount of investment may be as small or as large as desired by the bank. It is limited only by transaction costs and the number of qualifying workers available in the targeted locale (which number in the millions nationally). WOTCs are not restricted on a per capita basis or subject to allocation, unlike the low income housing tax credit.

Although the Federal Reserve generally doesn't address whether specific investments will qualify under the lending, investment, or service tests under the CRA, the Federal Reserve's authorization letter cited the community development activities section of Regulation Y. The program, as structured by Bank of Alabama, involves an investment in training and, depending on the training, might qualify under the CRA service test by providing financial skills training to the employee as well.

This multi-faceted program offers the possibility of a win-win-win situation for banks, nonprofit organizations and employers, and especially, disadvantaged workers.◆

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Directo

Continued from page 8

Benefits to Banks and Unbanked

Directo initially recruited employer participation in the program and currently has 19 major corporate accounts, including Georgia Pacific and OneSource Corporation. These companies represent thousands of employees who instead of receiving payroll checks are having their funds deposited in a Directo account. Each employee is issued a debit or Direct2Cash card that can be used to access their funds at ATMs and retail point-of-sale outlets. The cards can also be used to make recurring, preauthorized bill payments.

Citizens Trust Bank of Atlanta was the first bank to distribute Direct2Cash cards, and four additional banks have signed on subsequently. Directo provides extensive training and support to bank personnel on how to guide the customer through the process. In addition, Directo offers a toll-free customer service number to its cardholders as well as a monthly statement of their accounts.

Most financial institutions have struggled to accommodate the growing number of unbanked households who typically represent high-volume accounts with low balances and low profitability. Consequently, many of these individuals are disconnected from the traditional banking system and are relegated to check cashing outlets with far more expensive fee structures. The Direct2Cash and Acce$o cards represent a win-win situation for the bank and the customer by providing a less expensive, risk-free account that will help to transition many households into mainstream banking.◆

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In the News

SBA

On December 22, 2000, the federal government appropriated $901.5 million for SBA agency programs, and provided funds for $10.4 billion in Section 7(a) guaranteed loans, $3.75 billion in Certified Development Company loans, and nearly $2.7 billion in venture capital assistance, including $152 million for the New Markets Venture Capital companies.

The popular SBA 7(a) General Business Loan Guaranty program will increase the guaranty percentage to 85% for loans up to $150,000, and simplify the guaranty fee structure. According to the SBA, "the New Markets Venture Capital (NMVC) program will combine venture capital investments with expert technical assistance to small businesses in low-income urban and rural areas. This will be the first time SBA has been able to provide funding for technical assistance in connection with a venture capital program."

"Under the new program, SBA will license 10-to-20 new NMVCs to invest in these small businesses, combining $152 million in SBA funding with $100 million in private sector funding to create an investment pool of more than $250 million. The bill also provides $30 million in matching funds to pay for technical assistance for small businesses."

The appropriation increased to $1 million the maximum loans under SBA 504 programs, and increased from $25,000 to $35,000 the maximum for loans under the SBA Microloan programs. It also authorized federal savings associations to invest in small business investment companies (SBICs), and increased the maximum size of surety bonds to $2 million.

For more information, visit the Small Business Administration web site at www.sba.gov.

First USA

First USA, Wilmington, Delaware, announced a proposed $40 million settlement to a class-action lawsuit that alleged it overcharged customers late fees and finance charges on credit card payments. The suit alleged that payments were made on time but the third party vendor used by First USA posted the payments to the accounts late, including those posted after a 6 a.m. arrival time on the due date. The settlement includes reimbursements for late fees (reportedly $29), for allegedly unwarranted finance charges, for duplicate payments made on accounts, and for other related problems.

First USA denies any wrongdoing, but offered a settlement to the U.S. District Court in East St. Louis, Illinois. The court will hold a hearing January 24, 2001, to determine whether to approve the settlement.

First USA is a subsidiary of Bank One Corporation, Chicago, Illinois and is the largest Visa credit card issuer in the world. In addition to the First USA card, the company offers Visa and MasterCard for consumers and businesses under Bank One and the First Card names, and on behalf of other marketing partners (such as universities, affinity organizations, and financial institutions). First USA reports serving approximately 55 million cardmembers, with total loans as of June 30, 2000, of $66.3 billion.

CRA Sunshine

On December 21, 2000, the federal regulators published final rules implementing the CRA sunshine provisions that were part of the Gramm-Leach-Bliley Act approved last year. These provisions require nonprofit organizations, advocacy groups, and other organizations known as "nongovernmental entities or persons" along with insured depository institutions and their affiliates to publicly disclose certain agreements that are made pursuant to, or in connection with, the fulfillment of the Community Reinvestment Act of 1977 (CRA). The regulations go into effect April 1, 2001.

Generally, the rules cover agreements that involve funds or other resources of an insured depository institution or affiliate with an aggregate value of more than $10,000 in a year, or loans with an aggregate principal value of more than $50,000 in a year.

On May 19, 2000, the federal regulatory agencies published a proposed regulation and solicited public comments. The agencies collectively received more than 800 comments from the public on the proposed rule, which they considered before adopting the final regulation.

For a complete copy of the regulation, visit the Federal Reserve Board web site at www.federalreserve.gov and click on Press Releases, Board Actions, and December 21, 2000.

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FRB Sixth District States
Population Snapshots
Source: U.S. Census Bureau

Alabama

Year	Population	% +/-
2000	4,447,100	10.1
1990	4,040,587	3.8
1980	3,894,025	13.1
1970	3,444,354	5.4
1960	3,266,740	

Louisiana

Year	Population	% +/-
2000	4,468,976	5.9
1990	4,219,973	.3
1980	4,206,116	15.4
1970	3,644,637	11.9
1960	3,257,022	

Florida

Year	Population	% +/-
2000	15,982,378	23.5
1990	12,937,926	32.7
1980	9,746,961	43.5
1970	6,791,418	37.2
1960	4,951,560	

Mississippi

Year	Population	% +/-
2000	2,844,658	10.5
1990	2,573,216	2.1
1980	2,520,770	13.7
1970	2,216,994	1.8
1960	2,178,141	

Georgia

Year	Population	% +/-
2000	8,186,453	26.4
1990	6,478,216	18.6
1980	5,462,982	19.1
1970	4,587,930	16.4
1960	3,943,116	

Tennessee

Year	Population	% +/-
2000	5,689,283	16.7
1990	4,877,185	6.2
1980	4,591,023	16.9
1970	3,926,018	10.1
1960	3,567,089	

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