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FEDERAL RESERVE BANK OF ATLANTA

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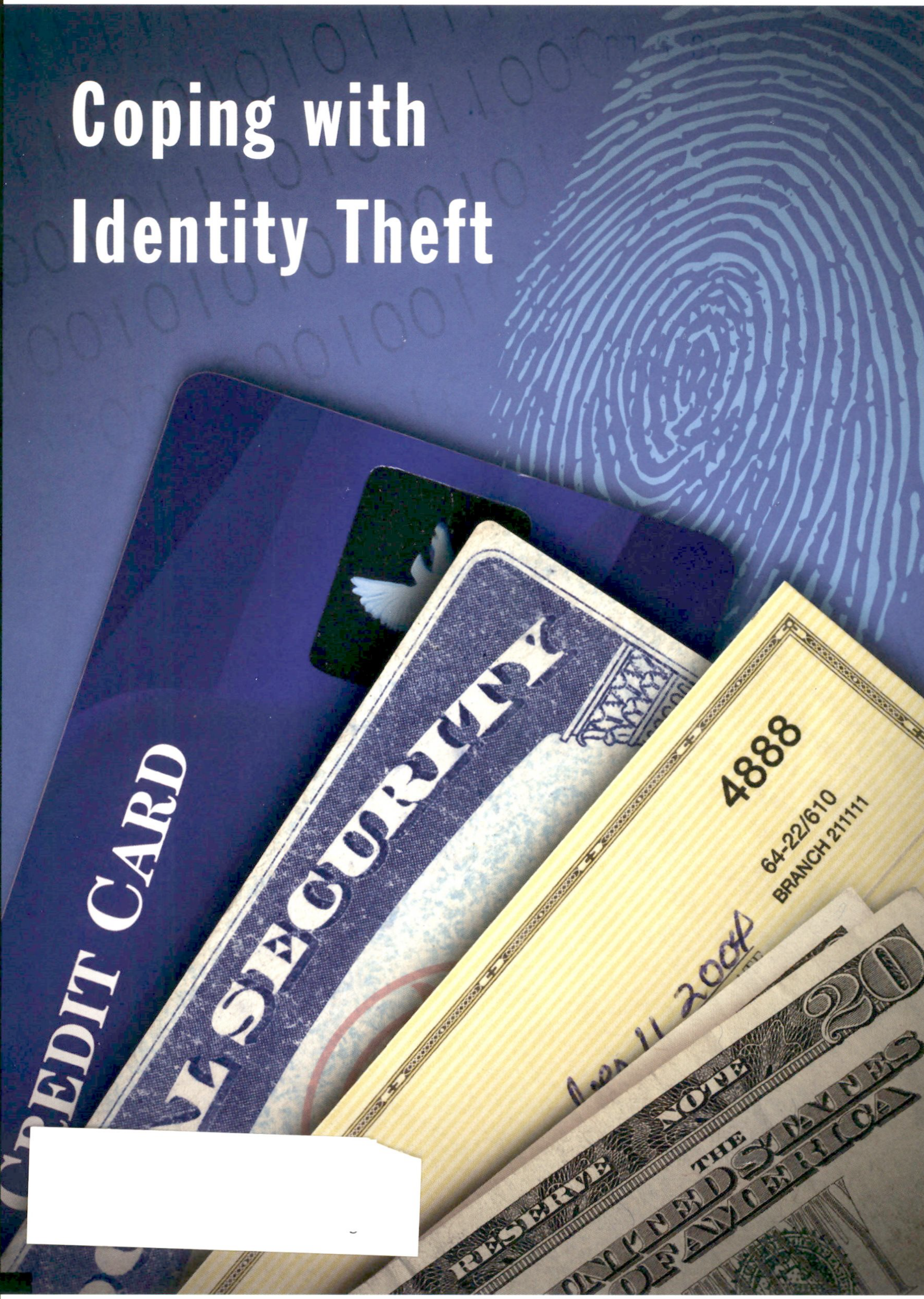
Coping with Identity Theft



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FEATURES

In Step with the Changing Marketplace

As the nation's central bank, the Fed is responsible for three main functions that help ensure economic stability: monetary policy, supervision and regulation, and payments system services. As I noted in the last issue of *Partners*, the nation's volume of paper checks continues to decline as electronic payments increase. This shift in payments practices has been reinforced by The Check Clearing for the 21st Century Act (Check 21). Recently passed by Congress, the new legislation allows an electronic image to serve as a substitute for the original paper instrument.

In response to this changing marketplace, the Federal Reserve System has streamlined its operations and consolidated its functions to enhance efficiency. As a result, many of our branch offices have reduced staff and overhead. Several Fed branches throughout the System have also relocated to smaller facilities and are considering selling or subleasing existing buildings.

Even though the Fed has downsized its physical operations to remain in step with the marketplace, branch offices will continue to play a vital role in their communities. Local boards of directors identify, interpret, and address regional economic issues, and thus are a crucial source of valuable information for the District's board and president.

Recognizing new opportunities to increase effectiveness, many Reserve Banks are now expanding the role of the branches in community outreach, financial literacy, and economic education training. Such initiatives not only improve consumer awareness and inform the public about the Fed, but they also present the Fed with additional insights into local economies.

In the Sixth District, we have already added positions devoted to the delivery of effective economic education programs in key branches. Although these positions do not report to Community Affairs, they provide a great complement to existing Community Affairs programs.

Since 2001, we have designated a Regional Community Development Manager in each of FRB Atlanta's six locations to meet local needs more effectively. While these positions focus mainly on financial and regulatory issues specific to low- and moderate-income families and markets, they also present many opportunities to collaborate with community leaders on a variety of projects.

No one can predict the future. However, I can say with confidence that even though the Fed remains committed to adaptive change in fulfilling its mission, strong local community involvement will always remain significant in ensuring a safe and sound banking system.

Juan

Juan C. Sanchez
Community Affairs Officer

Coping With Identity Theft

IMAGINE DISCOVERING THAT SOMEONE HAS OPENED CREDIT CARD ACCOUNTS OR SECURED A HOME EQUITY OR CAR LOAN UNDER AN ASSUMED NAME: YOURS. CONSIDER RECEIVING AN IRS W-2 FORM REPORTING WAGES EARNED BY SOMEONE ELSE WHO HAS USED YOUR NAME AND SOCIAL SECURITY NUMBER.

Unfortunately, incidents just like these happen to consumers—now identity theft victims—all over the country, every day. A 2003 study commissioned by the Federal Trade Commission (FTC) found that identity theft affected almost 10 million consumers in 2002.

ID theft can be devastating and recurring

The initial impact of identity theft can be devastating, in part because it's a crime that can revisit the victim again and again, taking the same or different forms. An identity thief may first use a consumer's personal information to open new credit card accounts. Even if the thief is apprehended and convicted, he or she may have sold the victim's information. Then another thief uses the victim's information, and the cycle of fraud begins again.

Victims often need help dealing with the recurring fallout of this crime each time they dispute a new fraudulent tradeline on a credit report or take a call from a debt collector for debts incurred by the identity thief. Fortunately they can turn to industry, law enforcement organizations, and regulatory agencies for meaningful assistance.

FTC's identity theft program

In 1998, when Congress passed the ID Theft Act, it criminalized identity theft and directed the FTC to establish a national program to centralize complaints and provide education for victims of ID Theft. In response to the mandate, the FTC established the Identity Theft Data Clearinghouse—the nation's centralized repository of consumer complaints involving identity theft—which today houses about 750,000 identity theft complaints.

The FTC's ID Theft Program is designed to help consumers on three fronts by: 1) coordinating ID theft victim assistance and education efforts, 2) facilitating information sharing and outreach training for law enforcement, and 3) promoting prevention efforts and best practices through industry outreach. Through the ID Theft Program,

- Victims can file ID theft complaints with the FTC online at www.consumer.gov/idtheft or by contacting the toll-free hotline 1-877-IDTHEFT. Whether filing online or by phone, victims are introduced to resources that explain what steps to take to recover from identity theft and how to minimize the risk of its occurrence.
- Law enforcement officers can use the complaints filed with the FTC to investigate cases. Each complaint entered into the FTC's database can be retrieved by any of the 1,100 law enforcement agencies authorized to access the ID theft data through the FTC's Consumer Sentinel Network.
- Financial institutions can help consumers by promoting policies and business practices designed to thwart this crime, and by providing assistance to victims once it happens. Businesses should consider five key steps:
  1. Minimize risk of fraud through responsible information-handling practices;
  2. Train front-line staff regarding security goals and techniques for keeping information safe;
  3. Utilize proper methods to dispose of customer information;
  4. Institute measures to respond to security breaches and have personnel in place; and
  5. Provide personnel trained to assist victims as they work to clear their financial records.

Financial institution and business resources to help combat identity theft

Financial institutions can also direct victims to the FTC's educational resources and self-help materials, including the FTC's *ID Theft Affidavit*. Victims can use this document to dispute multiple fraudulent accounts opened in their names by the ID thief rather than filling out a separate form for each creditor. The *Affidavit* is available at the ID theft website and is also included at the back of both the English and Spanish editions of the ID theft book, *Take Charge: Fighting Back Against Identity Theft*.

The FTC has also prepared a guide for businesses to use in the wake of an information security breach. The FTC's *Information Compromise and the Risk of Identity Theft: Guidance for Your Business*, available at the website, provides advice on contacting consumers, law enforcement agencies, and credit bureaus. It also includes information about how to contact the FTC for assistance and explains what individuals need to know to protect themselves.

VICTIMS FILING IDENTITY THEFT COMPLAINTS WITH THE FTC MOST COMMONLY REPORT CREDIT CARD FRAUD, UTILITIES OR TELEPHONE FRAUD, AND BANK FRAUD.

ID theft: many forms, many faces

Victims filing identity theft complaints with the FTC most commonly report credit card fraud, utilities or telephone fraud (especially involving cell phone accounts), and bank fraud, which involves deposit and savings accounts as well as electronic fund transfers (see graphs on page 4).

ID theft can be perpetrated through low-tech or high-tech means. Low-tech methods include stealing mail or rifling through garbage for bank statements and other information that enables the thief to obtain credit in someone else's name.

One high-tech way of stealing personal data is online "phishing." A fraudster uses spam e-mail or an Internet pop-up message to trick consumers into disclosing a credit card account number, Social Security number, password, or other sensitive personal information.

Fraudulent Use of Personal Information

Credit card, loan, and bank fraud as a percent of identity theft complaints, 2002-2004[1]

[1]Percentages are based on the total number of complaints in the Identity Theft Data Clearinghouse for each calendar year: CY 2002 = 161,896; CY 2003 = 215,093; CY 2004 = 246,570.

[2]Includes fraud involving checking and savings accounts and electronic fund transfers.

IDENTITY THEFT *Data Clearinghouse*

Source: Federal Trade Commission

Here's how it works. You receive an e-mail that claims to be from your bank, Internet service provider (ISP) or some other organization. The message typically tells you that you need to update your account information and may include a warning that something undesirable will happen if you don't respond. The message directs you to a website that looks like the legitimate site. However, the site is bogus, designed to "phish" your information so that the perpetrators can steal your identity and run up bills in your name.

For more information about how phishing works, see *How Not To Get Hooked by a 'Phishing' Scam*, at www.ftc.gov.

Legislative changes: the FACT Act

Important new rights and remedies are available to ID theft victims through the Fair Credit Reporting Act (FCRA), which was recently amended by the Fair and Accurate Credit Transactions (FACT) Act.

New laws took effect in 2004 to help victims remedy the effects of identity theft. Now, when ID theft victims contact any one of the three nationwide credit reporting agencies (Equifax, Experian, TransUnion), the agencies must provide them with a summary of their new identity theft rights. These new rights include the victim's ability to block fraudulent tradelines on credit reports and to obtain transaction records related to ID theft (such as the thief's fraudulent credit application) from the business that extended credit to the impostor.

Other rights include the ability to stop those furnishing information to consumer reporting agencies from providing inaccurate information resulting from ID theft to the credit bureaus, along with the right to obtain fraud alerts and several free credit reports.

The new law makes police reports more important than ever as a tool to help victims recover. Many of the new FCRA ID theft rights and remedies are available only if the victim provides appropriate documentation, including a law enforcement report. For more information on these new rights and remedies, read the two-page summary entitled *Remedying the Effects of Identity Theft* at www.consumer.gov/idtheft.

FTC consumer resources

FTC resources can help consumers learn how to minimize their risk of becoming an identity theft victim and explain what steps to take to undo the effects of this crime. Two FTC publications are key resources for consumers: *Take Charge: Fighting Back Against Identity Theft*, and *ID Theft: What's It All About*, along with the *ID Theft Affidavit*.

Victims can use the *Affidavit* when disputing fraudulent accounts with nationwide credit reporting agencies or with businesses that extended credit to a suspect who used the victim's name. These materials—available in both English and Spanish—are free at www.consumer.gov/idtheft. Victims without web access can obtain these materials by calling the FTC's ID Theft Hotline at 1-877-IDTHEFT, Monday-Friday, between 9am and 8pm, Eastern Time. ♦

This article was written by Monique F. Einhorn, attorney with the Identity Theft Program at the Federal Trade Commission. The views expressed in this article are my own and do not necessarily reflect those of the Commission or any individual Commissioner.

Phishing – Consumers Beware!

"Phishing" is a growing Internet scam in which criminals use fraudulent e-mails and websites to retrieve personal financial information such as account numbers, passwords, or social security numbers. This confidential information is then used to steal money from your checking account or to run up charges on your credit cards.

E-mails that appear to be from banks or other financial institutions requesting personal information are likely to be fraudulent. Financial institutions typically do not contact customers via e-mail to verify personal information or request it online. The best protection is not to respond to these e-mails.

What if you receive a phishing e-mail?

A brochure released by federal bank, thrift, and credit union agencies offers the following information to help consumers identify and combat phishing schemes.

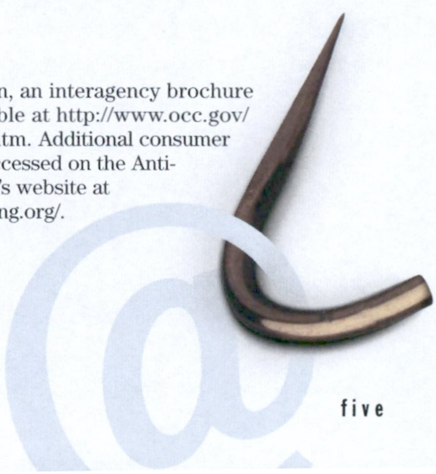
If you receive a phishing e-mail:

- Do not respond to the e-mail.
- Do not open the link located in the e-mail. The link connects to a false website or form, and it may install a virus or "eavesdropping" software program on your computer to capture personal information.
- Alert the bank or business being used as a front for the scam about the phishing e-mail. Make the contact yourself using an established phone number or Internet address for the business.

If you are an identity theft victim as the result of a phishing scam, contact the following groups:

- Bank or business of the account;
- Local police department;
- Federal Trade Commission's Identity Theft Clearinghouse (www.consumer.gov/idtheft), which contains instructions to help report identity theft;
- Credit bureaus, to place a fraud alert on your credit report and obtain a copy of your credit report for review. ♦

For more information, an interagency brochure on phishing is available at http://www.occ.gov/consumer/phishing.htm. Additional consumer information can be accessed on the Anti-Phishing Work Group's website at http://www.antiphishing.org/.



Identity Theft: A Case History

On July 15, 2004, I received a call from a frantic county resident. She had just learned, to her surprise, that she had recently secured a personal loan for $7,999 from CitiFinancial Services. A woman using her name and Social Security number had picked up the check the week before and deposited it at the local Teachers Credit Union. When credit union security personnel pulled all the paperwork for the account, sure enough—the photo on the driver's license used by the suspect was not the victim's, though the address listed by the impostor was just down the street from the victim's residence.

On a hunch I drove to the victim's street. I found the suspect standing in a doorway three houses away from the victim, placed her under arrest for identity theft, and conducted a routine search of her residence. Little did I know I would soon find the "jackpot."

Inside the residence a team of ten agents located personal information, names, social security numbers, credit card numbers, and home addresses for approximately 150 different individuals. The suspect had worked for a limousine service that catered to business travelers, and she had combed the contracts for personal information. We found multiple additional accounts opened in the victim's name, along with the victim's stolen mail. The suspect appeared to be breaking into her neighbor's mailbox and stealing her bank and credit card statements, many of which contained personal information. I also recovered several credit reports issued to a nearby mortgage company on different victims, including one for the original victim.

The suspect was charged with multiple offenses but released from custody, innocent until proven guilty. Over the next several weeks, I tracked down multiple victims, fraudulent credit cards, orders, and stolen property totaling more than $150,000 in fraud generated by this single suspect. I also uncovered apparent accomplices, including a girlfriend who worked at the mortgage company. Another of the suspect's girlfriends worked in the personnel department of a YMCA branch where several of the victims also worked. This information resulted in new arrest and search warrants for the suspect.

Investigations over the next several months traced more than $50,000 in additional credit card fraud to multiple victims' accounts. The suspect was purchasing airline tickets with stolen credit card numbers, traveling, and selling tickets. She was indicted on 12 felony charges and another arrest warrant was issued.

On November 23, 2004, I located a rental car being operated by the suspect, and I arrested her once more during a stakeout of the auto. A search of the car identified another 25 victims. In the back seat were packets from a local tax preparation service and mortgage documents from several refinance packages. Investigation into these documents led to another apparent accomplice, one of the suspect's girlfriends who had recently worked at both businesses. The suspect was again taken into custody and in front of the court, but once more released—innocent until proven guilty.

As I prepare for the upcoming trial, the suspect is out and roaming, who knows where. I have worked with many other identity theft cases that fit the same pattern during this time period. Investigating these cases takes an enormous amount of time and effort. I don't expect the work to slow down any time soon. ♦

Detective Scott G. Wyne
Montgomery County Police/ Fraud Section
Rockville, Maryland

Identity Violations Spur Changes to Fair Credit Reporting Act

LARGE-SCALE THEFTS OF SOCIAL SECURITY NUMBERS AND CREDIT REPORT DATA HAVE BEEN MAKING THE NATIONAL NEWS LATELY AS IDENTITY CROOKS BECOME MORE SOPHISTICATED AND EXPANSIVE IN THEIR TARGETS.

Why steal one identity at a time when you can steal thousands by posing as a legitimate small business?

Recent changes to the Fair Credit Reporting Act (FCRA) in response to increasing incidents of identity theft will provide lenders, consumers, and law enforcement agencies with a new arsenal to combat fraud. Enacted in 2003, the Fair and Accurate Credit Transactions Act (FACT Act) affords consumers more protections than ever before.

Identity theft case affects thousands

Large-scale identity theft can have widespread consequences. In February 2005, ChoicePoint Inc., a data aggregation company, announced it was the victim of a detailed fraud, perpetrated through organized crime. As a result, personal information was released for nearly 145,000 people.

According to ChoicePoint's web site, the exposed files included individuals' names, addresses, social security numbers, credit information, and other matters of public record, such as bankruptcies, liens, professional licenses, and real property data. An article in the Los Angeles Times on March 2, 2005 reported that, according to California court records, ChoicePoint suffered a similar incident of fraud in February 2002. Consumers are clearly becoming more vulnerable to identity theft as criminals become more resourceful.

How can the Fair and Accurate Credit Transactions Act help?

The Federal Trade Commission (FTC) estimates that approximately 10 million individuals were victims of identity theft in 2002. The increasing number of cases was one of the catalysts for the Fair and Accurate Credit Transactions (FACT) Act amendments to the FCRA. The legislation not only aims to prevent identity theft but also provides recourse for identity theft victims and addresses privacy concerns.

The FACT Act adds new protections to the FCRA through the following measures:

- Allows consumers to obtain one free credit report annually from each of the three main credit reporting agencies.
- Allows consumers to place fraud alerts and military active duty alerts on their credit reports.
- Mandates the truncation of card information, account numbers, and social security numbers on receipts.
- Allows identity theft victims to obtain copies of the impostor's account application and transactions.
- Requires collection agencies to inform creditors if a debt is the result of identity theft and restricts creditors from selling or placing such debt for collection.
- Requires financial institutions to adopt procedures designed to spot and "red flag" events usually associated with identity theft.
- Requires consumer reporting agencies and any businesses that use consumer reports to adopt procedures for their proper disposal.
- Requires that identity theft victims receive a notice of rights from credit reporting agencies.
- Allows consumers to request their credit scores along with the factors that went into computing the scores.
- Requires lenders to reveal a customer's credit score and provide four reasons for the score when the customer applies for credit.
- Requires lenders who receive notice of a dispute to investigate the claim and provide notice to credit reporting agencies that the negative information is being disputed.
- Requires creditors to send customers a notice before or no later than 30 days after negative information is furnished to a credit bureau (for example, late payments, missed payments, partial payments, or any other form of default on the account).
- Prohibits consumer reporting agencies from reporting the name, address, and telephone number of any medical creditor unless the information is provided in codes that do not identify or infer the provider of care or the individual's medical condition.
- Allows consumers to obtain one free annual report from "nationwide specialty consumer reporting agencies" that issue non-credit reports, if the report relates to the following information: medical records or payments; residential or tenant history; check writing history; employment history; or insurance claims.

Credit counseling agency gives high marks for greater access to credit reports

According to Suzanne Boas, president of Consumer Credit Counseling Service (CCCS) of Atlanta Inc., unsecured debt has become much more widely available during the 12 years she has directed the nonprofit agency. She states that since credit scores are the principal determining factor in approving credit cards, it is "timely that changes be made to give consumers better access to the information they need."

CCCS has been educating consumers for years to request their credit reports. Ms. Boas sees the changes to the FCRA as especially significant for residents outside the seven states that already require free credit reports--Colorado, Georgia, Maine, Maryland, Massachusetts, New Jersey, and Vermont.

Reactions from credit reporting agencies and lenders

Credit reporting agencies have made adjustments to comply with new stipulations that mandate free credit reports for all consumers. In states like Georgia, however, residents are already entitled to two free credit reports annually. To offset the additional costs of issuing free yearly credit reports to consumers who apply for them, the credit bureaus have recently increased the price of reports for financial institutions, thus shifting part of the FACT Act compliance costs onto lenders, the primary purchasers of credit reports.

Lenders too have their fair share of worries and compliance burdens. For example, through the FACT Act consumers have the right to dispute credit reporting errors directly with the lender in question. A senior attorney at the American Bankers Association states that "everyone in the banking community is anticipating that there will be more [credit-reporting] disputes."

The impact of these disputes will not be fully felt until the fall of 2005 when free credit reports become available nationwide. Eligibility for free reports will be phased in, depending on the consumer's state of residence (see chart below).

SunTrust Bank's corporate privacy officer, Cliff Bussard, is generally upbeat with respect to the FACT Act amendments to the FCRA. He states that SunTrust has already implemented many of the FACT Act provisions, such as truncating account numbers on receipts. Furthermore, he is pleased that more consumers will be tracking their credit reports. His primary concern at this stage is the uncertainty of some of the rules that have yet to be finalized and implemented.

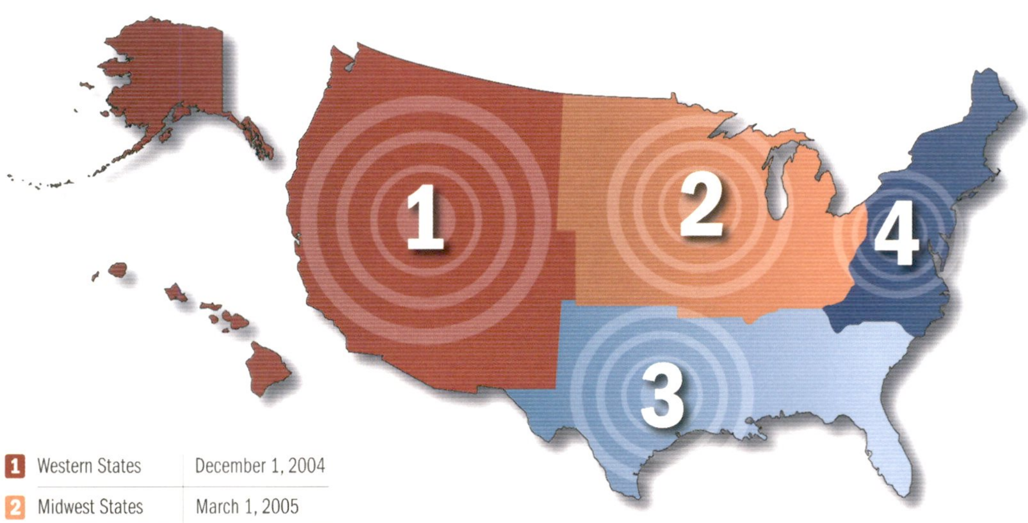
Be proactive about identity theft

Recent data losses by ChoicePoint, Bank of America, and other major companies highlight the reasons why the FCRA, legislation that addresses a convergence of concerns about privacy and identity theft, was recently amended. It is safe to say that all organizations retaining sensitive consumer information will be held to a higher standard in the years to come. Privacy advocates are already pushing for a national security notification law to alert affected customers when a company experiences a theft of paper files and/or electronic security breach.

But don't wait for a notice in your mailbox informing you that your identity has been stolen. For more information on how to obtain your free credit report, see the website at www.annualcreditreport.com or call 877-322-8228. ♦

This article was written by Joe Cassar, senior consumer affairs examiner at the Atlanta Fed.

When are free credit reports available in my state?



1	Western States	December 1, 2004
2	Midwest States	March 1, 2005
3	Southern States	June 1, 2005
4	Eastern States & all U.S. Territories	September 1, 2005

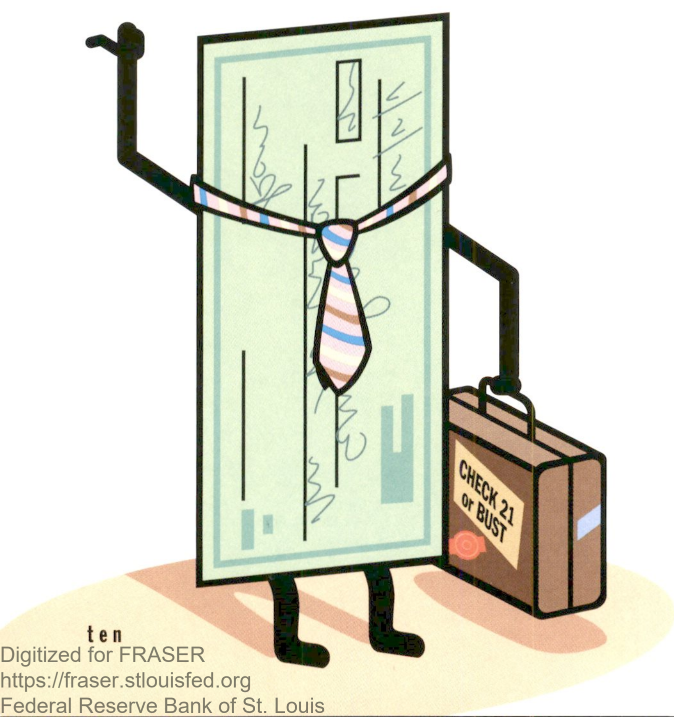
Check 21: A Step On the Path to Electronic Banking

THE FED ENVISIONS A U.S. PAYMENTS SYSTEM THAT IS MORE RELIABLE, FASTER, AND LESS EXPENSIVE AS CHECK PROCESSING BECOMES PRIMARILY ELECTRONIC, DISPLACING TODAY'S METHODS OF PROCESSING PAPER CHECKS. "CHECK 21" IS HELPING TO PAVE THE WAY.

Check 21 takes effect

The Check Clearing for the 21st Century Act, known as Check 21, became effective October 28, 2004, concluding a year of intense preparation by everyone in the check business. Check 21 permits banks to create and exchange a new kind of paper document, the substitute check.

Through the new law, a properly created substitute check becomes the legal equivalent of an original check. In simple terms, a substitute check is a digital image of an original check reprinted using a specific format that can be processed the same way as the original on the backroom systems of banks.



The purpose of Check 21

Check 21 makes it possible for banks to collect checks by exchanging electronic images of checks instead of the original paper documents, if they choose to do so. The new law not only permits a bank to print and use a substitute check in place of the original, but it also requires other parties to accept a properly created substitute check as if it were an original.

Prior to Check 21, a bank could insist on receiving paper checks and thus force other banks to demand original paper checks from its depositors. Now that Check 21 has taken effect, a bank that takes in "electronic checks" by agreement will be able to present substitute checks, even to institutions that do not agree to accept "electronic checks."

The Federal Reserve's role in Check 21

For Federal Reserve Banks, the year between the enactment of Check 21 and its effective date was one of intense activity.

To inform the public, Reserve Banks distributed information, conducted seminars, and developed tools to help banks prepare for Check 21. Behind the scenes, hundreds of Fed employees across the System retooled virtually every aspect of our check processing operations with new hardware and software. They developed new procedures, conducted staff training, programmed and tested new systems, and rewrote our Operating Circular No. 3, "Collection of Cash Items and Returned Checks."

On October 28, Reserve Banks declared "all systems go" and brought to market the new services enabled by Check 21. It was the beginning of a new era in payments.

A smooth transition

No one was sure exactly how the transition to Check 21 would play out. After all the publicity and hard work surrounding implementation of the new legislation, perhaps the most striking thing, now that several months have passed, is how smooth the transition has been.

Prior to the transition, approximately 60 percent of consumers already had accounts that didn't return canceled checks. For them, the change has not been noticeable. Among the remaining 40 percent who are used to getting canceled checks, a number have begun to receive a mix of canceled checks and canceled substitute checks. Contrary to some predictions, there has been no firestorm thus far.

In actuality, most checks are being collected today the same way they were before Check 21 became effective. Reserve Banks estimate they will be producing approximately 2 million substitute checks per day by the second half of 2005. But this figure still represents only 5 or 6 percent of total check processing each day.

Although Check 21 makes it possible for banks to collect checks using electronic exchanges instead of traditional paper processing, the new law does not force them to make this switch.

Payment trends

Since the introduction of computers, people have been predicting that the U.S. would abandon paper payments and turn to electronic commerce. In October 1975, *Changing Times* magazine advised Americans to "get ready for cashless, checkless living." In 1983, the Federal Reserve Bank of Atlanta predicted that the use of checks would plateau between 1987 and 1989 and then begin to decline.

Though Americans are much fonder of cash and checks than the pundits understood, in the past few years, the long-anticipated shift from paper payments to electronics has finally begun. According to a Federal Reserve study in 2004, 36.7 billion checks were processed in 2003, down from 41.9 billion in 2000. Increasingly, consumers are paying for goods and services by credit card, debit card, and automated clearinghouse (or ACH) transactions.

Debit card transactions increased from 8.3 billion in 2000 to 15.6 billion in 2003. In addition, payments that start out as checks are being converted into electronics for collection. Check-to-ACH transactions, in which a consumer writes a check and the payee collects the payment electronically through an automated clearinghouse, were introduced before Check 21 and have been growing rapidly. In the second quarter of 2002, 5.3 million checks were sent to lockboxes and converted into ACH items. By the fourth quarter of 2004, this number grew to 266.2 million items.

THE NEW LAW IS A BRIDGE BETWEEN THE OLD-FASHIONED PAPER CHECK THAT WE USE TO PAY A MERCHANT AND THE WIDESPREAD ADOPTION OF ELECTRONIC TECHNOLOGIES TO COLLECT THAT CHECK.

Check-to-ACH conversion does not work for every kind of check, unlike Check 21, which applies to all kinds of checks.

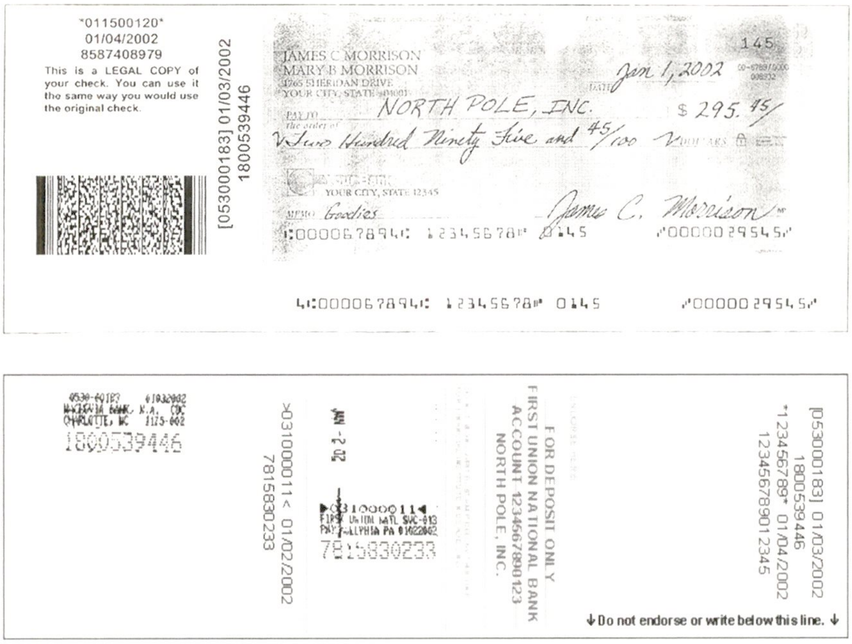
The 36.7 billion checks that Americans wrote in 2003 make it clear that we are far from becoming a "checkless" society. As long as we cling to the deeply-rooted American habit of paying for many things by writing checks, Check 21 does important work. The new law is a bridge between the old-fashioned paper check that we use to pay a merchant and the widespread adoption of electronic technologies to collect that check.

Technology drives changes

A pleasant surprise in the new era of Check 21 has been the introduction of new services for depositors.

Within the coming year, some banks will begin to roll out image-enabled ATMs. These ATMs will be able to provide the depositor with a receipt that includes a photocopy of each deposited item. This process will provide much more useful records than those most depositors receive today.

Banks are also beginning to introduce retail businesses to the ability to deposit checks at the business site by imaging them and then transmitting the images to the retailer's bank.



Example of the front and back of a substitute check.

Looking ahead

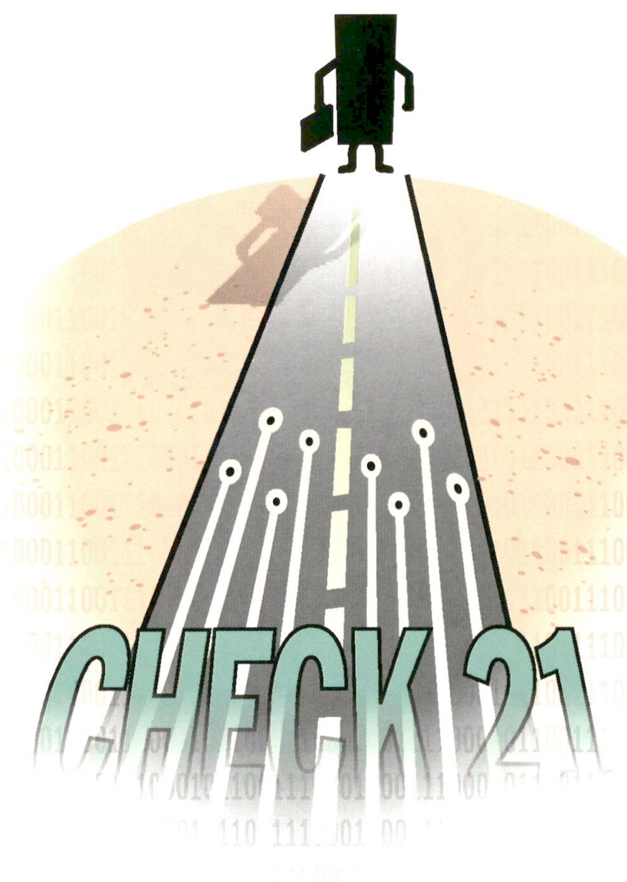
Federal Reserve Banks will use Check 21-enabled backroom processing to encourage more and more banks to shift to electronic-based check collection. Today, while we continue to operate our traditional paper-based check processing systems, Check 21 makes it possible for Reserve Banks to send and accept checks in electronic form to and from banks that have adopted the new technology, to transport the data electronically, and to print and present substitute checks.

Over time, as more banks adopt the technology to process checks electronically, they will deposit an increasing proportion of their checks in electronic form. Simultaneously, Reserve Banks will be able to present an increasing proportion of checks to paying banks electronically rather than printing substitute checks.

Despite the publicity that surrounded Check 21, the new law has not caused a revolution. Nonetheless, Check 21 represents a significant step in evolution toward electronically processed payments in the U.S.

For more information, please access the *Consumer Guide on Check 21 and Substitute Checks* at http://www.federalreserve.gov/pubs/check21/consumer_guide.htm

This article was written by Richard Fraher, assistant general counsel at the Atlanta Fed.



Condo Conversions: Gauging the Impact on Affordable Housing

Condominium conversions have emerged as a hot, new trend in high-priced, high-growth real estate markets.

Fueled by strong residential demand and relatively low interest rates, developers and investors across the country are in a frenzied search for rental properties they can purchase and transform into profitable condominiums. The downside is that speculative condo purchases are on the rise and renters are being displaced.

Deals attract both developers and property owners

For developers, condo conversions represent a low-cost, quick alternative to new construction. The developer makes an offer to the property owner based on an estimate of the market price of the finished units, minus the cost of necessary upgrades. Buildings with solid rental revenue can offer ongoing income as unit remodeling is phased in. Because conversion may take only half the time of new construction, units are on the market more quickly, before demand or absorption rates drop.

The prospect of conversion to condominiums is enticing to many multifamily property owners as well. They are able to sell when the market will support the highest price possible. For some, the sale is much more attractive than the continued flow of rental income.

Increasing land and construction costs drive conversions

In markets like Miami, where speculative land purchases have peaked, existing multifamily properties can be less expensive than vacant land. When the rising cost of construction is added to the equation—up 10 to 15 percent in the past two years—the argument for conversions becomes quite convincing.

Peter McDougal, with Citigroup's Center for Community Development Enterprise, says conversions have caught on with developers who apply for Low Income Housing Tax Credits as well. Although he has not yet financed a low-income conversion project, he says they make sense for developers on tight budgets faced with increasing land and construction costs.

Conversions most common near pricier homes

Conversions are most common in neighborhoods where they offer an affordable alternative to higher-priced homes and luxury condos. Investors mostly seek Class A properties—buildings with higher-end units and amenities in neighborhoods with strong demand.

However, as more developers converge on these profitable markets, even Class B and Class C buildings are being targeted. In neighborhoods targeted for revitalization, a Class B conversion can enhance its marketability through the improved infrastructure and higher property values that accompany new construction projects.

Market indicators reveal a slow down in conversions

Some signs indicate that the conversion gold rush may be losing a bit of steam. According to Robert Von with Realvest Appraisal Services, developers that got in early on conversions made lots of money. But he says property owners are catching on now and setting higher selling prices, thus eating into the profits projected for the conversion. For the affordable housing developer, higher acquisition costs will increase funding needs and lessen conversion benefits.

New construction projects have become more competitive with conversions by improving amenities and adding upgrades, thereby forcing converters to invest more in each unit to maintain the project's marketability.

Ultimately, better (and costlier) amenities are driving median home prices higher thus pushing the prices of condominiums beyond the reach of median income families.

Impact of conversions on housing affordability

The National Association of Realtors' study on housing affordability for 2004 showed the lowest affordability rate in four years. Despite low mortgage rates, the average household needed 132.6 percent of its income to purchase a home. In high-priced markets the pressure on moderate-income families is even stronger.

While statistics show that 10 to 20 percent of existing renters will purchase converted units in their building, the remaining 80 percent will be displaced.

Tracy Peters, managing director with the Red Capital Group in Ohio, says that conversions do not seem to be directly affecting the affordable housing market yet, but he believes the impact will become more apparent as market dynamics change. Dan Hogan, also with Red Capital, says creating incentives and increasing subsidies that support the development of affordable housing stock, along with assisting low-income families to become homebuyers, can protect communities where housing prices continue to rise.

Affordable housing advocates propose strategies

Affordable housing advocates, already aware of the potential impact of conversions on housing stock, recommend strategies that would allow more rental tenants to become condo buyers. This approach would both increase homeownership and forestall the inconvenience and difficulties of displacement.

With regard to those not eligible for ownership, advocates underline the importance of protecting low-income families, seniors, and the disabled by ensuring that adequate housing alternatives are readily available.

Speculative investors drive housing prices higher

The high proportion of speculative investment now driving property sales in competitive markets is a cause for concern. Many are buying condominiums and homes with the intention of selling them immediately for a profit in energized markets. New construction contracts are often sold two or more times before the units are actually completed.

"Flipping" is highly speculative and leaves purchasers exposed to shifts in market demand. When these investment purchases stop trading hands, industry experts predict many of the units will end up as rental properties. The resulting flood of unplanned rental vacancies could affect municipal planning and market pricing in a community.

Balancing benefits and costs of conversion activity

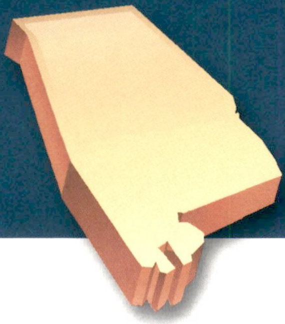
Conversion activity is predicted to remain strong in 2005. The benefits of conversions, which will certainly attract more developers, can be used to persuade developers to consider more challenging properties in moderate-income communities. They also provide nonprofit developers with an alternative to high land and construction costs.

Questions remain about how well municipalities will manage the impact of rental property conversions. Industry experts seem to agree that helping more renters realize homeownership and protecting affordable rental stock must be considered as seriously as increasing the tax base and attracting private investment.

Careful consideration of both opportunities and concerns can help conversion projects become part of the solution to the affordability gap in competitive housing markets. ♦

This article was written by Ana Cruz-Taura, regional community development director in the Atlanta Fed's Miami Branch.

2004
HIGHLIGHTS FOR COMMUNITY AFFAIRS



ALABAMA

DIRECTOR FOCUSES ON FAITH-BASED COMMUNITY DEVELOPMENT

Synonymous with the Deep South, cradle of the Civil Rights movement, and home to 14 Historically Black Colleges and Universities (HBCUs), Alabama's history and identity is traversed by a common thread: the richness of its faith community across all racial and economic strata.

Long before the Community Reinvestment Act of 1977, community development organizations existed in the state. Lending and investment programs have become familiar to bankers, government, intermediaries, investors, benefactors, and other practitioners. But only in recent years have churches seen opportunities to build affordable housing that both serves the needy and helps uplift entire communities.

While this movement has gained momentum and impressive financial capacity, professional guidance has been lacking. As the Fed's Regional Community Development Director for Alabama, Michael Milner devoted significant attention in 2004 to nurturing faith-based community and economic development.

In December 2003, Milner organized an exploratory summit at the Birmingham Branch for faith-based organizations and financial institutions. The group met to discuss the potential role of faith-based organizations in stimulating economic development activities in their surrounding communities.

Participants agreed that community development activities were consistent with—and even vital to—the mission of their organizations, particularly for those churches in economically distressed communities. The group recognized that many faith-based organizations were already involved in daycare and basic literacy programs. But to have a greater economic impact on their communities, they saw the need for more affordable housing and decent jobs.

To help these organizations obtain the tools to engage in effective community development, Milner gathered 20 financial institutions, government agencies, nonprofits, and for-profit organizations for a two-day conference on Faith and Community Based Development. Nearly 300 people from Alabama attended the event, which took place at the Montgomery Civic Center in October 2004.

The conference featured keynote remarks by Alabama's governor, the Honorable Bob Riley. Nationally known speakers included Dr. Tony Evans of Oak Cliff Bible Fellowship Church, Dallas, Texas; Rev. Mark Whitlock II, executive director of FAME Renaissance, Los Angeles, California; Robert Woodson, president and founder of the National Center for Neighborhood Enterprise, Washington, DC; and Cheryl Appline, national program director for HUD's faith-based initiatives.

Empahsizing "how-to" workshops, the conference offered sessions for beginners, those with modest experience, and those well-seasoned in community development work. On the second day, Alabama community development practitioners from around the state shared success stories.

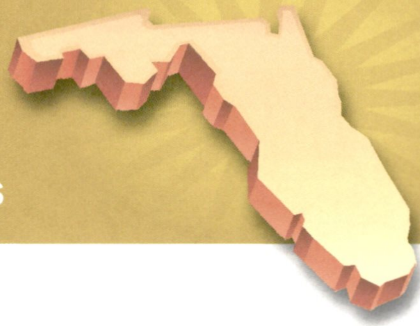
Participant evaluations showed that this event, with its emphasis on hands-on guidance, truly made a difference. Strong support from high-profile leaders demonstrated both commitment and hope. A critical mass of participants facilitated significant networking, especially between bankers and church leaders interested in funding sources.

In light of the conference's success, the planning committee is developing a follow-up event. Relatively few faith-based organizations in Alabama have experience in managing community development ministries, so there's great opportunity to provide additional training.

An initiative like this doesn't happen automatically: It takes personal commitment from employees like Mike Milner to build the bridges. ♦

NORTH FLORIDA

JACKSONVILLE MANAGER PROMOTES EDUCATION, DEVELOPMENT, AND COALITIONS



The Jacksonville Branch's Regional Community Development Manager, Janet Hamer, was busy in 2004 working with financial education initiatives, regional prosperity campaigns in north and central Florida, and several statewide coalitions.

One of Hamer's projects has been continuing to partner with the FDIC's Community Affairs staff, providing "train-the-trainer" one-day workshops to various community groups in Florida. The workshops certified a total of 133 Money Smart teachers in Tampa Bay, Jacksonville, Manatee County, Lakeland, Orlando and Daytona Beach. As a result of this training, ongoing Money Smart classes are now available in all of these areas.

In addition, she continues to serve on the board of directors of the Florida Jump$tart Coalition. Hamer is a founding member of this statewide coalition, which provides teacher training and other financial education opportunities for children and young adults.

Promoting financial education and wealth-building initiatives

During 2004, Hamer worked closely with prosperity campaigns in Northeast Florida (serving the Jacksonville metropolitan area), Hillsborough/Pinellas County, and Polk County, using the Money Smart curriculum to continue providing financial education classes for low- and moderate-income individuals.

The three areas have experienced an increase in the number of eligible families and individuals filing for the Earned Income Tax Credit (EITC), a federal income tax credit refunded to eligible low-income working individuals and families who apply and qualify for the benefit. Use of free income tax preparation services increased at neighborhood VITA (Volunteer Income Tax Assistance) sites as well.

The Jacksonville campaign saw a particularly significant increase in the number of tax returns prepared at VITA sites. In the Jacksonville metropolitan area, the volume of returns filed in 2004 rose by 58 percent over the 2003 tax season, and returns qualifying for EITC were up by 176 percent.

Facilitating forums with local bankers

Hamer also sponsored meetings of two regional Bankers Roundtables. The Bay Area Bankers Roundtable (serving the Tampa Bay area) and the Northeast Florida Bankers Roundtable convened quarterly last year to provide local bankers with information on community development opportunities in their markets. The Roundtables also introduce various community partners and resources to assist banks in their community development efforts.

Boosting community and economic development through coalitions

Facilitating new statewide partnerships of community and economic development organizations is another goal supported by Hamer's work with the Jacksonville Branch's Community Affairs program. Last year she organized three quarterly meetings of the newly formed Florida Association of Nonprofit Developers. Formation of this organization is an important step for the many nonprofit developers in Florida. The organization will provide technical assistance to various housing nonprofits as well as facilitate partnerships of organizations to produce affordable housing units in Florida.

In addition, Hamer stays involved with other statewide community development organizations, including the recently formed Florida Association of Community Development Corporations, the Florida Community Development Association, and the Florida Supportive Housing Coalition. ♦

SOUTH FLORIDA

COMPREHENSIVE APPROACHES TO COMMUNITY DEVELOPMENT KEY AT MIAMI BRANCH IN 2004

The Miami Branch's Regional Community Development Director, Ana Cruz-Taura, partnered on two major projects in 2004 to improve financial education and services to low- and moderate-income and immigrant populations: the Greater Miami Prosperity Campaign and a research project on immigrants' use of remittance services.

Greater Miami Prosperity Campaign

Miami's diverse social and economic issues pose challenges for community development initiatives. The 2000 Census revealed that Miami is the poorest of Florida's 100 largest cities, with poverty rates for children and the elderly ranking among the highest in the state.

The city's community development challenges are not limited to depressed income levels, however. As a "gateway" to thousands of migrants and immigrants each year, the city faces complex issues related to workforce training, cultural diversity, affordable housing, transportation, economic development, and education.

Recognizing the need for a comprehensive approach to economic well-being, the Human Services Coalition (HSC), a social service intermediary serving Miami-Dade County, launched the Greater Miami Prosperity Campaign in 2002 to coordinate outreach to low-income communities.

The Prosperity Campaign helps low-wage workers access economic benefits programs such as the Earned Income Tax Credit (EITC) and Childcare Tax Credit. Since its inception, Cruz-Taura has worked with HSC by providing research, resources, and best practices information about reaching minority and low-income communities through EITC outreach, financial education, credit counseling, and homeownership counseling programs.

In 2004, the campaign was expanded beyond the City of Miami to include all of Miami-Dade County, bringing additional public and private support for the program.

Research on immigrants and remittances

The Atlanta Fed's Community Affairs program collaborated with the Research Department of the Federal Reserve Board to study the remittance market among immigrants in the Sixth District.

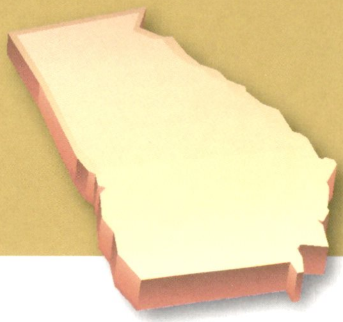
The research shows that financial institutions have captured only a small percentage of the remittance market, which represented over $100 billion sent by immigrants back to their home countries in 2004. Early last year, the Federal Reserve introduced its FedACH International℠ Services product which allows member financial institutions to send funds at lower costs to Canada, Mexico, and throughout the Transatlantic region.

Focusing on Mexican immigrants, who send the largest numbers of remittances, the research explored how decisions about remittance services affect use of either mainstream or alternative financial service providers. Researchers conducted surveys and focus group meetings in Dalton, Ga., Miami, Fla., and Nashville, Tenn.

Community-based organizations in each market—The Georgia Project, Everglades Community Association, and Conexión Américas—assisted with the research by providing access to individuals and offering insight on the financial services environment in their respective communities.

Financial education, access to mainstream financial services, and consumer protection were cited as priorities among the immigrant participants in the focus groups. Research results, which were presented at the 2005 Federal Reserve System Research Conference in April, will be addressed later in the year at workshops and symposiums throughout the Sixth District to consider the implications for southeastern communities with high immigrant populations. ♦

GEORGIA



GEORGIA MANAGER ON THE ROAD FOR AFFORDABLE HOUSING, FINANCIAL EDUCATION

Regional Community Development Manager Sibyl Howell logged in many miles in 2004 traveling across Georgia to support financial education projects, wealth-building initiatives, and state alliances. She made nearly 100 technical assistance and outreach calls to consult with community development partnerships, financial institutions, and nonprofit organizations. The Mayors Forum, First Accounts, and Georgia Project are typical of the programs that Howell fosters.

Mayors Forum addresses affordable housing policies in Georgia

The entire state of Georgia, much like Atlanta, is experiencing rapid population growth that has outpaced the production of sufficient affordable housing, particularly in areas convenient to jobs. The Mayors Forum engaged mayors from across the state in discussion about these issues and facilitated collaboration about possible solutions.

Hosted by the Federal Reserve Bank of Atlanta in conjunction with Atlanta Neighborhood Development Partnership, Inc. (ANDP) and the Georgia Municipal Association, the forum presented "Making The Case for Mixed Income and Mixed Use Communities: An Executive Summary" by David Goldberg of SmartGrowthAmerica. Commissioned by ANDP's Mixed Income Communities Initiative (MICI), the report examines the growing challenge to housing affordability and quality of life in metro Atlanta.

DeKalb County program expands access to financial education and services

Furthering an important goal of the Sixth District's Community Affairs program—improving access to banking—Howell has been an integral part of the DeKalb First Accounts Program, which connects unbanked low- and moderate-income individuals throughout metro Atlanta and South DeKalb County to traditional financial institutions.

Since its inception in 2002, the program has held 488 financial education workshops serving 4,000 students, 1,667 of whom were low- and moderate-income. A total of 567 bank accounts were opened as a result of the workshops.

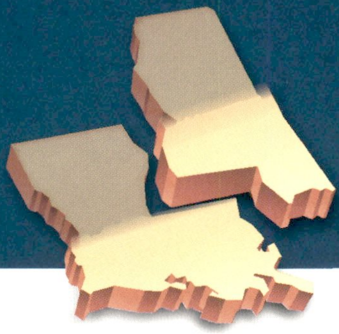
The DeKalb First Accounts initiative was cited in testimony before the Senate Banking and Finance Committee as a unique wealth-building collaborative that involved banking regulatory agencies, the IRS, the cooperative extension service, local government, financial institutions, and other community partners.

Partnering with Georgia Project

Many areas throughout the country—both urban and rural—have experienced demographic shifts due to growing Hispanic and immigrant populations. The rural community of Dalton, Georgia has responded to this change with an innovative program to meet the needs of its diverse population.

The Georgia Project, a nonprofit organization formed in response to a significant increase in Spanish-speaking students in Dalton schools and throughout northwest Georgia, assists with the academic and social needs of Latino students. Working in collaboration with the University of Monterrey in Mexico, the project provides professional development for bilingual teachers and scholarships for bilingual high school graduates who plan to matriculate at Dalton State College as teachers.

To support their efforts, the Atlanta Fed partnered with the Federal Deposit Insurance Corporation to host a Money Smart "train-the-trainer" workshop in Spanish for Georgia Project teachers and other Dalton employees. Participants were certified to teach the Money Smart curriculum to Latino families in Dalton-Whitfield County. The event was sponsored by AmSouth Bank and Dalton-Whitfield County Government. ♦



LOUISIANA AND MISSISSIPPI

MANAGER FOSTERS CAPACITY FOR COMMUNITY DEVELOPMENT PARTNERS IN SOUTHERN LOUISIANA AND MISSISSIPPI

Supporting the Sixth District's Community Affairs program in meeting its goals, Regional Community Development Manager Nancy Montoya at the New Orleans Branch assumed a key collaborative role on several projects in 2004 that increase the capacity and efficiency of community and economic development (CED) stakeholders. Through her work with a variety of organizations, Montoya helped develop substantive training and networking opportunities for local CED partners, including bankers and nonprofits.

CED training for bankers

In response to bankers' continuing demand for community development finance training programs created by Community Affairs, Montoya worked with the Birmingham Branch to provide training for 20 bankers in the Gulf Coast area of Alabama and Mississippi.

She also conducted a training session for 55 nonprofit organizations, developers, real estate agents, and bankers as part of Mississippi Home Corporation's Annual Housing Conference.

Post-purchase homebuyer education curriculum

Several organizations collaborated to launch "Homewise," a comprehensive post-purchase homebuyer education curriculum that alerts new homeowners about tasks and expenses that come with owning a home—both predictable and unexpected.

When the new program was unveiled to housing counselors at Mississippi Home Corporation's (MHC's) Annual Housing Conference in January 2004, Montoya presented information on predatory lending and related consumer concerns.

Working together on "Homewise" are MHC, the Mississippi Housing Initiative (MHI), Consumer Credit Counseling Service (CCCS) of Greater New Orleans, the U.S. Department of Housing and Urban Development (HUD), and Fannie Mae. Since its inception, the program has trained 165 participants representing 60 organizations throughout Mississippi and some neighboring markets in Louisiana.

Jump$tart coalitions in Louisiana and Mississippi

Montoya continued to work with Louisiana and Mississippi Jump$tart coalitions to improve the personal financial literacy of young adults. Last year, the Mississippi Secretary of State's Office and Mississippi Jump$tart sponsored "Money Matters" seminars that reached over 2,000 students and 100 teachers.

Louisiana Jump$tart, in partnership with the LSU AgCenter, completed two years of "train-the-teacher" workshops to prepare free enterprise teachers to meet new curricular requirements that include personal finance instruction. By the end of the year, 407 teachers from 191 schools had attended the training. They will reach 35,000 students throughout 61 Louisiana parishes.

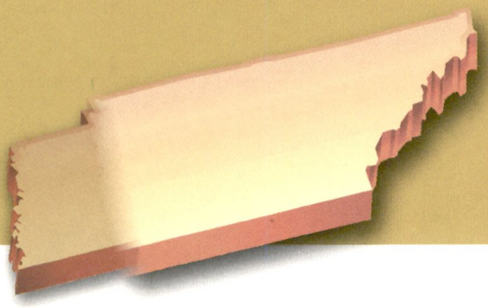
Roundtables for New Orleans area bankers

The New Orleans branch hosted four Interagency Quarterly Bankers Roundtables during 2004 to disperse information on community development topics.

The 2004 forums included presentations on Home Mortgage Disclosure Act (HMDA) reporting changes, a community development industry outlook, and information about banking and financial services for women.

Wealth-building conference

A widely recognized speaker on wealth-building strategies, Montoya participated significantly in a major conference on individual development accounts (IDAs) sponsored by CFED in New Orleans. She served on the host committee as well as contributed to an IDA field strategy paper presented at the conference. In addition, she took part in a panel that discussed capacity challenges faced by both financial institutions and nonprofit partners in delivering IDAs. ♦



TENNESSEE

A YEAR OF PARTNERSHIPS FOR TENNESSEE

2004 marked a year of new partnerships in Tennessee. Working with traditional and non-traditional partners, Jessica LeVeen Farr at the Nashville Branch formed local, regional, and statewide coalitions to advance affordable housing, wealth-building, and related community development initiatives.

New housing association creates unified voice

A statewide conference in April 2004 organized by the Tennessee Housing Development Agency (THDA) set the stage for boosting the capacity of the state's nonprofit housing organizations. The event not only provided training but also an opportunity for nonprofits to network with their peers from across the state.

Conference participants created a LISTSERV® to facilitate regular communication among nonprofits, funders, and other resource providers. They also formed a committee to explore the development of a statewide nonprofit housing association.

Community Housing Developers Association of Tennessee (CHDAT) will offer training and networking opportunities. It will also create a unified voice for nonprofits in housing and community development.

CHDAT's mission is to build better communities in Tennessee by strengthening its members' capacity to develop and provide access to safe, good quality, affordable housing.

Nashville forms wealth-building alliance

Over 100 partners representing business, community, government, and faith-based organizations joined last year to form the Nashville Wealth-Building Alliance (NWBA). The NWBA links partner organizations that provide services to help Nashville residents achieve self-sustaining financial independence.

Focusing initially on the "Earn It, Keep It, Save It" campaign, the NWBA will work through community organizations, social service providers, and employers to promote free tax assistance and inform eligible taxpayers about the Earned Income Tax Credit (EITC).

The NWBA foresees a comprehensive wealth-building initiative that builds on free tax assistance and extends to include credit counseling, financial planning, individual development accounts, and homeownership counseling.

Some of NWBA's lead partners in addition to the Fed are Congressman Jim Cooper, United Way of Metropolitan Nashville, St. Thomas Health Services, Community Impact, and the Metropolitan Development Housing Agency.

Middle Tennessee Hispanic Consortium moves forward

Tennessee has been home to one of the past decade's fastest growing Hispanic populations in the country, and many of the new immigrants are settling in the Middle Tennessee region. The Middle Tennessee Hispanic Consortium connects community-based organizations, banks, real estate agents, and governmental agencies that promote access to financial services and homeownership for the Hispanic community.

Formed after a statewide conference in April 2003, "New Neighbors—Opening Your Doors to the Hispanic Community," the consortium has continued meeting to discuss new programs for the Hispanic community. The group is focusing on promoting "ITIN" mortgages that use individual taxpayer identification numbers for undocumented immigrants as well as increasing the number of Hispanic homeowners and improving Hispanic access to financial services.

A Money Smart "train-the-trainer" workshop in Spanish for Georgia Project teachers and other Dalton employees certified participants to teach the Money Smart curriculum to Latino families in Dalton-Whitfield County. The event was sponsored by AmSouth Bank and Dalton-Whitfield County Government. ♦

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COMMUNITY AFFAIRS DEPARTMENT
1000 PEACHTREE STREET, N.E.
ATLANTA, GEORGIA 30309-4470

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VICE PRESIDENT
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COMMUNITY AFFAIRS OFFICER
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Wayne Smith

EDITOR
Jennifer Grier

PRODUCTION MANAGER
Harriette Grissom

STAFF WRITERS
Ana Cruz-Taura
Jessica LeVeen Farr
Janet Hamer
Sibyl Howell
Mike Milner
Nancy Montoya

CONTRIBUTING WRITERS
Joe Cassar
Monique Einhorn
Richard Fraher
Scott G. Wyne

DESIGNERS
Peter Hamilton
Odie Swanegan

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