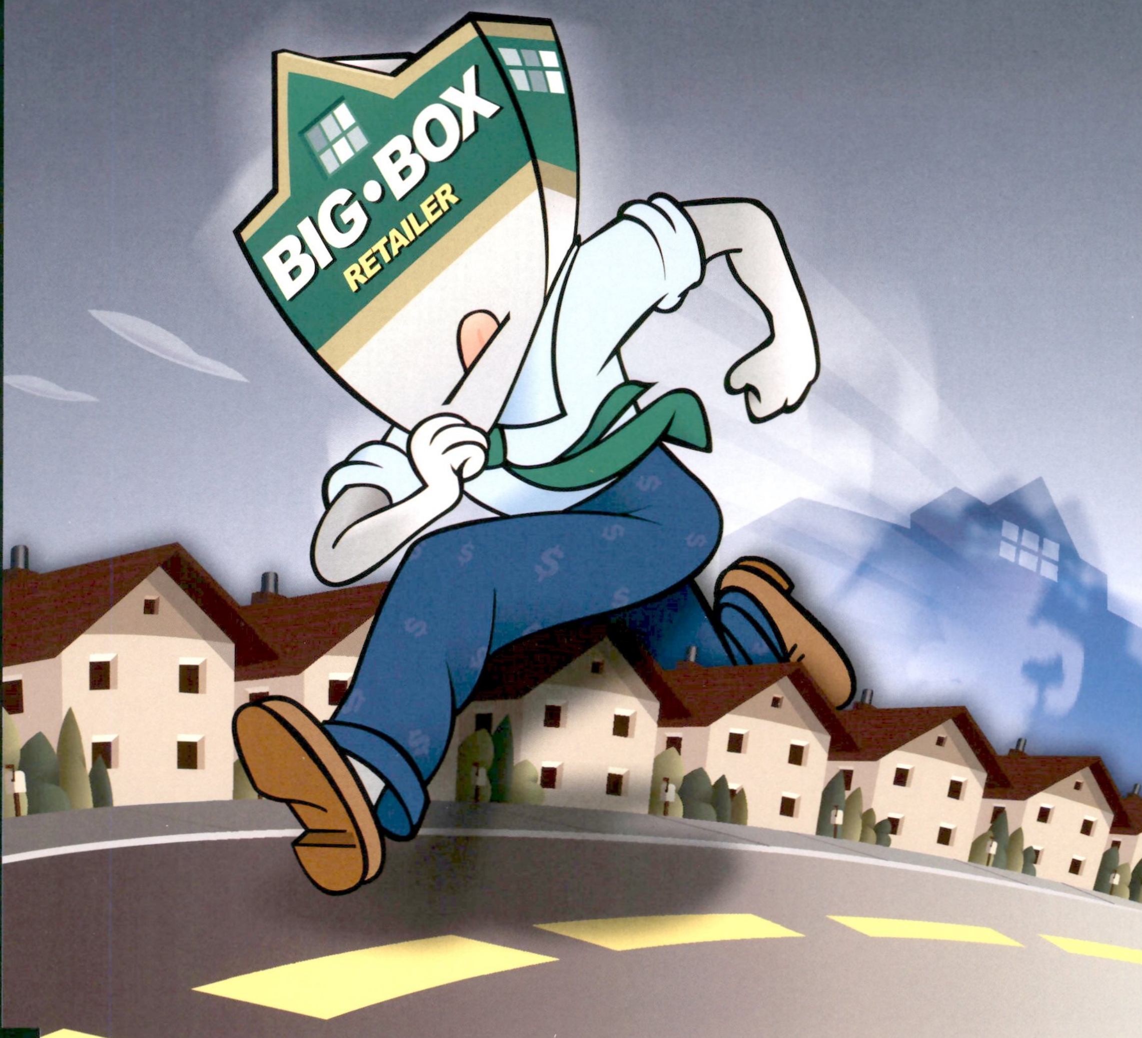
FEDERAL RESERVE BANK OF ATLANTA

partners

in community and economic development

VOLUME 15, NUMBER 2, 2005

The Ghost-Box Dilemma: Communities Cope with Vacant Retail Property



Banking on Remittances: Extending Financial Services to Immigrants

Bankruptcy Reform Legislation

Sustainability and Scale: New Buzzwords or Tools for Survival?

Protecting Our Military from Predatory Lenders

partners

in community and economic development

FEATURES

Is Affordable Housing Facing Extinction?

Lately it seems you can't open a newspaper without reading about rapid increases in real estate values all over the country. According to the Office of Federal Housing Enterprise Oversight, the housing price index (HPI) climbed 12.5 percent over the past 12 months, and housing appreciation during the last year and a half was the highest in 25 years.

While many states reported more modest growth in the HPI, several recorded increases over 20 percent in just one year. In the Sixth Federal Reserve District, Florida, where the overall housing price differential was 21.42 percent higher than the year before, ranked fifth behind Nevada, California, Hawaii, and the District of Columbia. Coastal areas such as Melbourne, Sarasota, West Palm Beach, and Miami registered some of the most dramatic spikes.

So who is benefiting from this phenomenon? Current homeowners who now show greater wealth on paper are the first group that comes to mind. However, they would have to sell their homes to reap the rewards of this double digit appreciation; and unless a homeowner relocates to a cheaper area, moving is not usually a viable option.

Landlords who opt to sell their single-family investment dwellings rather than keeping them as rental property also benefit. Sale of rental property doesn't stop at the detached single-family home: owners of multi-family apartment buildings are transforming units into condominiums for sale.

The rapid increase in property values has also attracted speculators who can purchase homes sight unseen and resell them for a profit, sometimes without even making the first loan payment. This type of activity further exacerbates the situation.

Yes, there are clear winners when property values climb; however, not everyone benefits. Condo conversions may force people out of their apartments, leaving them with limited housing alternatives. This displacement can accelerate negative gentrification and quickly change the fabric of a community.

Existing property owners are likely to face higher real estate taxes. Though some markets have set caps on tax increases or created incentives to protect existing homeowners, especially lower income households, these programs are the exception rather than the norm.

Those in the market for the first time are possibly most affected by escalating home prices. What's affordable one day may be out of reach the next. Potential homebuyers may have to start looking in less desirable areas to find affordable property.

There is no clear evidence that appreciation of home prices will slow down anytime soon. In some markets the damage is already done, and should interest rates become higher, housing may become that much less affordable. These are some new challenges community development practitioners face.

Juan C. Sanchez
Community Affairs Officer

The Ghost-Box Dilemma: Communities Cope with Vacant Retail Property

BIG-BOX STORES ARE A FAMILIAR PRESENCE IN COMMUNITIES NATIONWIDE. INCREASING NUMBERS OF CHAIN ESTABLISHMENTS, CHANGING CONSUMER PREFERENCES, AND GROWTH IN THE RETAIL INDUSTRY HAVE LED TO AN ABUNDANCE OF RETAIL SPACE. THIS RAPID EXPANSION HAS ALSO MULTIPLIED THE NUMBER OF VACANT BIG BOXES LITTERING THE LANDSCAPE.

Wal-Mart, Kmart, Home Depot, and Office Depot are a few of the big-box retailers that have become household names. While these retailers have different store prototypes, each occupies a concrete "big box" of 25,000 to 100,000 square feet which is usually surrounded by acres of surface parking lots. At the far extreme is the Wal-Mart Super Center, which is typically about 220,000 square feet.

Big-box retailers can anchor commercial centers or be freestanding. A commercial center consisting solely of big-box retailers is known as a "power center." Initially big-box retailers sought rural or suburban locations that offered large tracts of inexpensive land to accommodate their building and parking requirements. These locations also allowed the retailers to reach a larger, and often underserved, market area.

Recently, however, big-box retailers have started exploring urban markets. Wal-Mart and Home Depot, for example, have both begun developing a smaller neighborhood format in hope of gaining access to dense urban areas.

Assessing the impact of big-box retailers on local communities

Local communities initially recruited big-box retailers to increase property and sales tax revenues and to meet growing consumer needs. Some communities assisted the retailers or the developers with infrastructural improvements, while others used tax incentives to encourage development in their communities.

A 2004 study by Good Jobs First (www.goodjobsfirst.org) identified 244 Wal-Mart stores that received public subsidies totaling over $1.0 billion from communities where they opened stores or distribution centers. This range of subsidies included reduced prices for land, infrastructural assistance, property tax abatement, state corporate income tax credits, and tax-increment financing.

These policies are now being questioned as more communities re-evaluate the positive and negative impacts of big-box retail. One of the primary concerns is the rapid growth of vacant big-boxes as retailers that were once lured to communities depart or relocate to newer retail spaces.

The rise of ghost boxes

Vacant big boxes, or "ghost boxes" are on the rise for several reasons. First, developers created an abundance of retail space during the past two decades, and in some communities retail space now exceeds the capacity of local markets to support it. Second, poor economic performance has forced retailers to close a number of their stores.

Kmart has closed over 600 stores since it declared bankruptcy in 2002. Other large retailers including JC Penny, Montgomery Ward, Sears, and various grocery chains have also been forced to close some or all of their stores as a result of financial trouble.

Discount retailers are also changing their store formats and abandoning existing buildings for much larger megastores. Wal-Mart's new super centers are usually twice the size of their discount stores and have expanded to include a full-service grocery store.

Wal-Mart currently has 350 buildings available for sale or lease. According to its website, the company is planning to continue its aggressive growth and expects to open 530 new stores in the coming year. Of these new stores, 160 will involve expansion or relocation of

Communities have transformed abandoned big boxes for creative uses. This Kmart in Austin, Minnesota, was converted to a "Spam Musuem."

existing stores, thus ensuring continuous generation of Wal-Mart ghost boxes.

Wal-Mart's unique business strategy also contributes to the increase in empty stores. In growing areas the company has sometimes opened two stores in close proximity in order to capture the majority of sales in the market. Conflicting rationales have been cited for this strategy. Wal-Mart's annual report says this approach allows them to more than double their sales in the area.

Other studies indicate that close proximity of two stores creates internal competition because managers know that only the most profitable store will survive. The net effect of this strategy, however, is heightened potential for empty stores, often at the expense of the smaller and independent retailers that are unable to compete.

Ghost boxes weigh on communities

Vacant big boxes can have a negative impact on the community landscape as well as on neighboring businesses. Abandoned buildings and empty parking lots are not only unsightly, but they also become targets for vandals and attract other undesirable activities. The empty space also becomes a visible sign of economic decline and disinvestment.

In addition to the visual impacts, departure of a large retailer may strain other area businesses. Surrounding businesses often rely on traffic generated by larger retailers, so when the retailer departs or relocates, the dependent businesses may be in jeopardy as well. Smaller retailers in shopping centers may hold leases that allow them to vacate if the anchor tenant departs. Loss of a big-box retailer can thus trigger the decline of an entire shopping center.

Finally, the local economy may experience a loss of tax revenues when a retailer pulls out. Property taxes may decline if the space remains vacant, and significant loss of sales tax is likely if the departure of the retailer triggers loss of other businesses as well. The many communities that have used public subsidies to lure big-box retailers at the expense of local business are especially vulnerable.

Adaptive reuse of ghost boxes

Vacant big boxes present a new challenge for communities as they search for creative ways to reuse the space and try to limit the negative effects of existing and future vacancies.

Numerous communities across the country are managing to reuse big-box space. In some cases, other retailers have absorbed the space. For example, Wal-Mart has established a partnership with Hobby Lobby, Tractor Supply Company, and Burlington Coat Factory to reuse vacant Wal-Marts. Over the past ten years these retailers have purchased over 100 vacant Wal-Marts and converted the space to meet their store requirements.

Wal-Mart has created its own realty division (www.walmartrealty.com) to market their vacant properties. In addition to leasing and sales, this group provides market research and construction services to help new tenants make use of the space. Wal-Mart also works with local government to identify businesses that might be interested in the space when Wal-Mart vacates. Wal-Mart's website cites that it recycled over 15 million square feet of space last year and contends that in doing so it has developed another business opportunity.

When retail business isn't the most effective use for vacant big boxes, communities must explore other creative strategies for the space. For example, big boxes have been converted to government complexes, call centers, schools, churches, auto dealerships, storage facilities, medical facilities, museums, recreational facilities, and office space.

In Lee County, Florida, two former Kmart stores are being converted to schools. The stores fit the prototype for the school district's elementary schools, and the conversion is expected to take only half the time of new construction.

Challenges to adaptive reuse

Some communities have been very successful in reusing their vacant big boxes, while others have struggled. Smaller stores (under 30,000 square feet) are usually easier to adapt than those over 50,000 square feet. It is also easier to re-lease a store located in a prime location with good parking, infrastructure, and road access, and in close proximity to other successful retailers.

A number of problems arise in attempting to recycle vacant big boxes. First, most retailers have a store prototype that is unique. Therefore they reject existing vacant space because it does not meet their store format requirements. For example, since Wal-Mart has a larger format than Kmart, it is not a candidate to relocate in the 600 vacant Kmart stores. Retailers often prefer building on vacant land instead of incurring the cost to rehabilitate existing space.

Secondly, retailers may place restrictions on which tenants can occupy their space when it becomes vacant. Some may continue to pay rent to keep a competitor from moving into their space, thus reducing the landlord's incentive to re-lease or adequately maintain the property.

Finally, retail may not be the best use of the vacated space. For landlords, this poses an additional concern if they rely on income from national retailers to support their shopping centers. However, converting space to a different use presents a challenge. Only a few businesses need the amount and type of space left behind by these mega-stores, but it can be expensive to convert the space to a different format and use.

How else are communities coping?

Despite examples of innovative models for reuse of vacated big boxes, more communities are starting to consider the potential impact of large retail developments before they are built. Some communities have instituted size caps that limit big-box development or ban additional development once a pre-determined limit is reached.

A number of communities are now requiring retailers to complete comprehensive community and economic studies that consider the impact of the proposed development on jobs, tax revenue, infrastructure, or existing businesses prior to approving new development.

The City of Los Angeles recently passed an ordinance requiring big-box retailers with a grocery component to conduct a community impact study that includes a plan for re-leasing, reusing, or selling vacated properties. Some communities have passed ordinances requiring retailers to assist with the costs of building demolition if a store remains vacant for a long period of time.

In other examples, cities are requiring retailers to notify city officials in advance when they intend to vacate a property and to maintain it until it is re-occupied or sold. In Peachtree City, Georgia the city passed an ordinance that prohibits retailers from voluntarily vacating a building while preventing occupancy by another tenant.

In addition to regulatory restrictions on development of new big boxes, some communities are creating financial incentives for the reuse of existing buildings. In South Carolina, legislation was proposed recently that would offer tax credits to developers for reusing vacant stores larger than 100,000 square feet.

Looking ahead

Big-box retailing has changed consumer shopping and altered the landscape of communities. With no foreseeable end to the growth of mega-stores, ghost boxes will continue to multiply and present challenges for their host communities.

First, communities must identify creative uses for existing ghost boxes. Second, they must ensure that any additional development is managed in advance to minimize the number of future ghost-boxes and their negative impacts. Finally, communities must evaluate whether continued growth of the national big-box retail industry is desirable, or whether alternative strategies might exist to encourage more sustainable long-term economic growth for their businesses and residents. ♦

This article was written by Jessica LeVeen Farr, regional community development manager at the Atlanta Fed's Nashville branch.

Readers can learn about other examples of the adaptive reuse of big boxes at the following website: http://www.bigboxreuse.com

Banking on Remittances: Extending Financial Services to Immigrants

IMMIGRANTS IN THE UNITED STATES REPRESENT A LARGE AND GROWING MARKET FOR FINANCIAL INSTITUTIONS, NOT ONLY IN TRADITIONAL PORTS OF ENTRY SUCH AS LOS ANGELES, NEW YORK, CHICAGO, AND MIAMI, BUT ALSO IN NEWLY EMERGING GATEWAY CITIES ACROSS THE U.S., INCLUDING DALTON, GEORGIA, AND NASHVILLE, TENNESSEE.

Banks can tap into this market segment by offering new financial products that cater specifically to immigrants' needs as well as providing typical banking services.

Many immigrants regularly send money back to their families and communities in their home countries. In 2004, over $30 billion in remittances was sent from the U.S. to Latin American countries via formal channels such as wire transfer services, banks, and credit unions. Remittance services are an example of an important new product that banks have begun to offer as an avenue for developing relationships with the immigrant market.

Gaining a foothold in this market, however, will require more than just providing remittance services. Recent focus group research exploring Mexican immigrants' remittance practices in the Sixth District found that the choice of a remittance service provider is based on complex, multiple factors, including cost, exchange rate, speed of transmission, delivery mechanisms in the immigrants' home country, as well as their family's personal preferences.

While immigrants in this study expressed interest in using remittance products at financial institutions, potential obstacles emerged such as language and cultural barriers, identification requirements, and insufficient information or misinformation about financial institutions.

Barriers to using banks

To gain a better understanding of Mexican immigrants' perceptions about remittance products and services available at mainstream financial institutions, the Federal Reserve Board sponsored focus groups in three cities across the Sixth District (see sidebar on p. 9). The focus groups also explored immigrants' general perceptions and experiences regarding financial institutions. Although many participants viewed U.S. banks as reliable and secure places to keep their funds, many did not have a bank account. The focus groups revealed several factors that impeded immigrants' use of banks.

Language and cultural barriers

Spanish-speaking personnel who can explain financial products and services and relate to a client's cultural and personal situation were primary in determining where the Mexican immigrants in the focus group conduct their financial transactions. But in addition to Spanish-speaking staff, participants also wanted good customer service and convenient access to financial services.

Identification requirements

Many participants expressed concern over identification requirements. Immigrants cited problems related to state driver's license laws, as well as to federal and state laws governing banks' acceptance of the matrícula consular (an identification document issued by the Mexican government for Mexican nationals) for identification purposes. Even several participants with state licenses reported that they did not plan to open a bank account. Some incorrectly believed that, given their immigration status, they would lose access to funds in their account when the license expired. Others commented that when they tried to open an account using the matrícula, bank employees misinformed them that they were not permitted to use the document, even though the bank's policy recognized the matrícula as an acceptable form of identification.

Insufficient information or misinformation

Insufficient information or misinformation about financial products and services were common among the focus group participants. Among those who used banks, several felt they had not been clearly informed about services and fees associated with having a bank account. Most participants confused U.S. credit unions with the Mexican *cajas populares* and *cajas de ahorro* and, because of the reputation of these financial institutions and personal negative experiences, many were skeptical about credit unions.

Sending money home

When participants were queried on how they sent money home to their families in Mexico, most reported using wire transfer companies, postal money orders, and informal channels such as courier services. A few said they sent money with friends and family. Several variables influenced how remitters sent money home.

"I HAVE A BANK ACCOUNT RIGHT NOW BUT I DON'T LIKE TO KEEP A BIG AMOUNT OF MONEY IN IT BECAUSE THE LICENSE I HAVE IS ABOUT TO EXPIRE, AND I AM AFRAID THAT I WON'T HAVE ACCESS TO MY MONEY IF I DON'T HAVE ANY IDENTIFICATION."

Local mechanisms

Some remittance mechanisms were specific to a particular location. For example, some participants from Dalton, Georgia used "vans" or courier services that collect the remittance from the sender and deliver it (as well as additional packages such as letters or pictures) directly to the recipient.

Senders and receivers

Many participants indicated that *both* the remitter and the recipient decide upon the best remittance mechanism for both parties. Some, however, based their method of remittance *entirely* on their families in Mexico, who were accustomed to receiving funds in a particular manner and perceived one method to be better than another.

Market conditions

Whether or not a bank exists in the receiving family's town of residence was another consideration. In fact, about half of the participants in Dalton and Florida City reported that they sent their remittances to rural areas, which are less likely to have banking services to receive the remittance.

Choosing a remittance service

Participants consistently agreed on these key characteristics for choosing a remittance provider:

- Reputation of provider;
- Total cost;
- Exchange rate;
- Assurance that the recipient will receive the funds;
- Speed of service (same day or next day availability);
- Customer service.

Although the availability of Spanish-speaking staff was the most important condition for getting their business, focus group participants stated that service and cost, including front-end fees, exchange rate, and back-end fees were nearly as significant. Many reported that they shopped for the most favorable exchange rate. In addition they said they investigated charges by receiving institutions in Mexico, for example the money service business or bank, and used this information in deciding how to send their money.

Using banks for remittances

While few participants were aware of banks offering remittance services, they indicated that the availability of remittance products and services through financial institutions could motivate them to open an account in the U.S.

Participants were particularly interested in account-to-account remittance products in which money deposited in a U.S. bank account by the remitter could then be transferred to the recipient's bank account in Mexico. The general perception among participants was that using banks—at both ends of the transaction—would be a safer way to send money to their families.

When queried about remittance products with innovative features, some of which to our knowledge have not yet been developed or offered by banks, many participants

indicated that they would be interested, for example, in using a remittance product that included a "savings" feature to help accumulate funds to send back home. They also liked the idea of a product that offered the opportunity to pay their family's bills (say, for utilities) directly. Other participants approved of a remittance product that charged a flat fee irrespective of the value of the remittance, and a few indicated a strong preference for products with no back-end fees for their family members.

Conclusions

Banks in cities like Los Angeles, Chicago, New York, and Miami have had decades to adjust to immigrant customers, while banks in the new gateway cities have had limited experience working with immigrant communities, especially in providing products and services specifically tailored to this clientele. Banks trying to attract these potential customers will have to be innovative in responding to challenges.

Our focus group findings revealed that banks do have an advantage compared with alternative service providers, however. Despite conventional wisdom, which contends that immigrants distrust U.S. banks because they distrust banks in their home countries, our focus group participants indicated a high level of trust in U.S. banks. Furthermore they implied that they may trust banks in Mexico that partner with U.S. banks, so that trust is in essence transferred from the U.S. bank to the Mexican-partner bank.

Although banks cannot control the receiving country's financial services infrastructure, which is often a driving force in the choice of remittance provider, they do have options. For example, banks can now use the FedACH system to transfer money to Mexico.

Banks can also reach out to immigrant communities by working with community organizations and mentors to help bridge the language and cultural gaps and ensure access to financial education resources and materials. If possible banks can also partner with appropriate financial institutions in Mexico to offer complementary products and services for both U.S.-based immigrants and their family members in their home country.

With a little effort banks have the opportunity to attract the growing, prospering immigrant market. But banks may need to adjust their products, services, policies, and culture to compete with alternative service providers—not just on price, but also on the quality of service and accessibility—if they want to pursue the immigrant market successfully. ♦

This article was written by Marianne A. Hilgert and Jeanne M. Hogarth, Federal Reserve Board, Consumer & Community Affairs; Edwin J. Lucio, Federal Reserve Board, Reserve Bank Operations & Payment Systems; Sibyl Howell, Juan Sanchez, and Wayne Smith, Federal Reserve Bank of Atlanta, Supervision & Regulation, Community Affairs; Elizabeth McQuerry, Federal Reserve Bank of Atlanta, Retail Payments Office; Ana Cruz-Taura, Federal Reserve Bank of Atlanta, Miami Branch, Community Affairs; and Jessica LeVeen Farr, Federal Reserve Bank of Atlanta, Nashville Branch, Community Affairs.

RESEARCH DESIGN

These findings are based on a qualitative research study "Banking on Immigrants: Increasing Market Efficiencies for Consumers and Financial Institutions" co-authored by employees of the Federal Reserve Board and the Federal Reserve Bank of Atlanta. The study, which was presented at the Federal Reserve's 2005 Community Affairs Research Conference, is available at: http://www.chicagofed.org/cedric/files/2005_conf_paper_session3_hogarth.pdf

To analyze immigrants' remittance behaviors, the Federal Reserve Board contracted with the Metro Chicago Information Center to conduct focus groups during the month of December 2004. Providing assistance were three community development organizations working with Mexican immigrants and based in the Federal Reserve System's Sixth District. Two focus groups were held in collaboration with each of the following community based organizations:

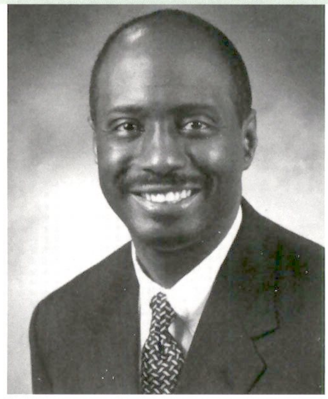
- The Georgia Project in Dalton, Georgia
- Conexión Américas in Nashville, Tennessee and
- The Everglades Community Association in Florida City, Florida.

We chose to conduct focus groups in these cities based on the recent influx of immigrants within the Sixth District and the corresponding volume of remittances sent by these immigrants. For example, between 1990 and 2000 the foreign-born population in Georgia and Tennessee grew by 233 and 169 percent, respectively (U.S. Census). Moreover, a recent study estimated that immigrants residing in Florida and Georgia, who remitted $2,450 million and $947 million respectively in 2003, make these states the fourth and seventh largest sending remittances to Latin America (Bendixen & Associates, 2004). Thus the Federal Reserve's Sixth District provides an opportunity to develop new learning and information about immigrants' use of banks as well as remittance products.

We focused our research on immigrants from Mexico (both documented and undocumented) who send money back to Mexico at least once per year. We chose this particular group for a number of reasons. First, Mexico is the largest recipient of remittances in Latin America and the Caribbean, receiving $16.6 billion in 2004, with 95 percent of remittances originating from the U.S. in 2003.[1] Concentrating on this target group also allowed us to analyze the recent growth in financial products and services that target Mexican immigrants in the U.S. as well as their families in Mexico. Finally, the Federal Reserve System's strategic alliance with the Central Bank of Mexico, which provides international ACH services to Mexico, expanded U.S. banks' ability to serve Mexican immigrants by offering an alternative mechanism to send remittances at a low cost.

[1] "Banking on Remittances" (2005) (www.chicagofed.org/cedric/files/2005_conf_paper_session3_hogarth.pdf); IADB (Inter-American Development Bank) (2004) "Remittances: Key Source of Capital for Latin America and the Caribbean," Issue Briefs (www.iadb.org/exr/am/2004/index.cfm?op=press&pg=69); Bendixen & Associates (2004) "Sending Money Home: Remittances to Latin America from the U.S., 2004," (www.iadb.org/exr/remittances/images/Map2004SurveyAnalysisMay_17.pdf)

Louisiana SBA Chief Stages Turnaround



An Interview with Eugene Cornelius Jr., District Director, U.S. Small Business Administration, Louisiana District Office

Louisiana recently claimed the highest ranking in the country among middle-size offices in the Small Business Administration (SBA), and the number-two ranking overall. A little over a year ago Louisiana came in dead last. Enter Eugene Cornelius, Jr. who took over the Louisiana District office in April 2004. With energy, enthusiasm, and vision Cornelius led the Louisiana team from worst to first in one short year. We spoke with Mr. Cornelius to discuss the turnaround.

Partners: *How are the offices evaluated? Is the ranking based on loan volume alone?*

Cornelius: No, actually it's not based on just one or two characteristics. The offices are evaluated on the number of loans, the number of loans to targeted communities, and the number of loans to women, minorities, veterans, international, and rural communities. Not only do they look at whether the volume has a high percentage of loans in a targeted community, but at whether we've succeeded in the number of loans being made to African-Americans and Hispanics within that targeted community.

Partners: *Did you do anything different to target the minority community for small business lending?*

Cornelius: Well, I targeted the business community at large as part of an effort to increase Louisiana's economic development across the state. It just so happens that in casting the net across the state and the business community in general we caught the largest group of small businesses—minority-owned businesses.

Partners: *What was your initial overall assessment of the Louisiana district as it relates to small business development and expansion?*

Cornelius: I found a staff that was ready to assist me in whatever way I needed. The staff here has a wealth of knowledge and expertise. I found that the issue was how to manage our resources. Management needed to step out of the way and let the staff do their jobs.

I also found that the banking community was very conservative. I felt that I had walked backwards in time! But then I got to know them and discovered that the SBA was not being a genuine partner and was making it difficult to do business. I listened to them and tried to understand what their needs were, what could I do within SBA's rules and regulations to meet their needs and make it easier to do business.

Partners: *So after meeting with the bankers and uncovering their needs, what changed?*

Cornelius: Educating new bankers about the new ways of doing business. I assessed the business community that was involved in trade and found that most of them were not ready for traditional banking. They didn't have the documentation necessary for traditional lending. I discovered a special niche for loans that were less than \$50,000, and that these loans were not cost-effective for the traditional banks to pursue because of the amount of documentation required. We had a real gap. That's when I began offering the "Community Express" low documentation loans that are not conventional and are under \$50,000. Since the local banks found the loans too expensive, I brought in outside banks to do the $50,000 and under loans. They've figured out how to do these loans in a cost-effective manner.

Were the local banks mad? No! They saw this as a way to develop excellent candidates for traditional banking in the future. They also understood my long-range plans of lending small amounts to build the business community for conventional banking. They were comfortable leaving this lending to the experts. For example, an innovative bank has figured out how to do the business loan express product in a cost-efficient way. By bringing them in, the overall [small business] market is higher. We've made 700 loans with them in one year.

Partners: *What were your strategies for increasing the small business lending volume?*

Cornelius: I realized that small businesses know what they do well, and they do it well! But they don't have the business acumen to be able to get capital. So rather than concentrating on teaching the banks how to do small-business lending, I focused on educating businesses about how to get more capital, how to be prepared to go to the bank for a loan.

Partners: *We have had 12 small business development centers statewide. [Cornelius interrupts here to count 13, if you include the international trade development center.] So what's different now?*

Cornelius: The SBDC's are funded by the SBA, so I set forth expectations for a certain quality of service. I changed the evaluation process---instead of looking at what the market is, how many businesses do we have to reach, say 500 or so, I took a look at what the overall small business market was and set a goal of serving 10 percent of that market, and of the 10 percent, one-third of those businesses will be minority businesses. I put a special emphasis on increasing our numbers in rural communities. We've increased our impact on rural communities by 200 percent.

Partners: *So I've heard about many of the approaches you've taken to get your team where you are. Let me summarize a few: you've stepped out of the way so that your staff can do their jobs, you've increased outreach into the business and banking community, you've put emphasis on teaching people how to access capital, you've brought in lenders who can make the small loans, and you hold people accountable for goals. What other factors can you say have contributed to the increase in lending?*

Cornelius: I think that the biggest contributor is outreach to the business community. I listened to what they had to say. I didn't go in there telling them that this is the government, and this is what we have to offer, and we're here to solve your problems. If I found a problem that the SBA couldn't fix, I'd find someone who could, even if it was my "so-called" competitors—the USDA, the Louisiana Department of Economic Development. The SBA is not for everyone; it's about solving problems and everyone working together to get the business what it needs. I don't care who does it, let's just make it happen!

Partners: *Where can traditional financial institutions have the most impact on increasing small business lending?*

Cornelius: If this community can recognize that the largest number of growing businesses across the country are women- and minority-owned businesses, that's where the money is and they need to get to it! It's that simple. They're missing opportunities to make money. We need to roll up our sleeves, get over it and get into it—make some money!

Partners: *What future trends do you foresee?*

Cornelius: I believe it's an exciting time for us. People ask me where I get my energy from and it's because of this excitement. There's a migration of people to the South, and perhaps for the first time in Louisiana history I see the governor, the mayors and senators all working together on economic development. Seeing senators of different parties working together, this is where I get my excitement, my adrenaline! I don't think that we'll recognize Louisiana two or three years from now. ♦

Eugene Cornelius became the District Director for the Louisiana Office of the U.S. Small Business Administration (SBA) in April 2004. As district director, Cornelius is responsible for the administration and implementation of the Agency's various lending, contracting, and technical assistance programs in support of small business throughout the state of Louisiana.

Interview was conducted by Nancy Montoya, regional community development manager in the Atlanta Fed's New Orleans branch.

Bankruptcy Reform Legislation

DESIGNED TO CURB ABUSES OF THE CURRENT U.S. BANKRUPTCY CODE, THE BANKRUPTCY ABUSE PREVENTION AND CONSUMER PROTECTION ACT OF 2005 (THE ACT) ESTABLISHES A NEEDS-BASED SYSTEM OF QUALIFYING FOR PROTECTION UNDER THE LAW.

The Act was signed by President Bush in April 2005, and most of its provisions become effective in October of this year.

Currently individuals file for either Chapter 7 liquidation or Chapter 13 reorganization bankruptcy relief. Chapter 7, the most common bankruptcy filing, allows debtors a fresh start by requiring them to relinquish all of their nonexempt assets, which are liquidated to pay creditors. Any debt in excess of the amount collected from asset liquidation is then forgiven. Chapter 13 filings allow debtors to repay specified debts over a three-year period, and forgive any debts not included in the repayment plan.

Under current standards most individuals opt to file under Chapter 7. According to U.S. Bankruptcy Statistics 1.1 million filed for Chapter 7 relief in 2004, while nearly 450,000 filed for relief under Chapter 13.

Qualifying for bankruptcy protection

The new guidelines include a "means test" to determine if debtors with annual income above the state median income level qualify for protection under Chapter 7. Debtors who can pay unsecured creditors, such as credit card companies, at least $6,000 ($100 per month) over a five-year period, provided that amount is sufficient to pay 25 percent of the outstanding debt, will be redirected to a Chapter 13 repayment plan.

Debtors capable of paying creditors more than $10,000 ($166.66 per month) over a five-year period are assumed to be abusing the system and will automatically be denied Chapter 7 relief.

Debtors whose income is below the state median income level are exempt from the "means test" and will automatically qualify for Chapter 7 protection. These debtors, however, can still be redirected to a Chapter 13 repayment plan if they are able to pay a minimum of 25 percent of their outstanding unsecured debt over a three-year period, as opposed to the five-year period specified for other filers.

The Act continues to provide protection for individuals who face extenuating circumstances such as a serious medical condition or other hardships. These cases, however, must be supported by documentation detailing expenses or deductions from income.

Income and expense calculation

The new law includes an interesting twist: calculations of income, expenses, and disposable income used to determine a debtor's ability to repay and the rate of repayment for bankruptcy filings will no longer be based on actual income and expenses, but rather on specified calculations and Internal Revenue Service (IRS) guidelines for reasonable living expenses. When calculating a debtor's income to determine his or her ability to repay, the court will use the average income for the six months preceding the filing of the case instead of following the former guidelines, which were based on current monthly income. The new method of calculation could pose problems for recently unemployed debtors or those whose expenses are higher than the IRS norm.

Dischargeable debts

The Act will significantly reduce the dollar amount of pre-filing accumulated "goods or services not reasonably necessary for the support or maintenance of the debtor or the debtor's dependents" that can be discharged. In addition it will increase the time period over which these luxury debts can be accumulated, thus allowing creditors to recover larger amounts of outstanding debt.

Credit card debt in excess of $500 accumulated within 90 days of filing will not be discharged. Currently the law states that amounts in excess of $1,225 accumulated 60 days prior to the filing cannot be discharged. The dischargeable limit for cash advances accumulated within 70 days (currently 60 days) of filing will be reduced from $1,225 to $750. Furthermore the cash advance limitations apply to any items purchased, not just luxury goods.

Counseling

The new law requires that debtors receive credit counseling prior to filing for bankruptcy, and it mandates financial management training prior to discharges for bankruptcy. This credit counseling can be provided by a nonprofit budget and credit counseling agency approved by the U.S. trustee or bankruptcy administrator as published by the clerk of the court. Approved agencies are required to provide these services without regard to the debtor's ability to pay enrollment fees. The court makes exceptions when it determines that adequate counseling services are not available, as well as for debtors who are incapacitated, disabled, or on active military duty in a combat zone.

Homestead Exemptions

The Act significantly curbs abuses that occur when debtors attempt to shelter equity in real estate assets from creditors by establishing residency in a state with generous or unlimited homestead exemptions. While Congress did not explicitly pre-empt state law with regard to homestead and other state exemptions, it did impose restrictions on a debtor's ability to relocate assets to states such as Florida, Iowa, Kansas, South Dakota, and Texas that have unlimited homestead protections.

Currently, unlimited state homestead exemptions are available to the debtor 180 days after establishing residency in a state. Under the new guidelines, if the debtor files for bankruptcy within two years of moving to another state, he will have to claim the homestead exemption of his previous state of residency. Once residency has been established for a minimum of two years, he can claim only $125,000 of the state's maximum homestead allowance. After three years of residency the debtor is eligible for the state's full exemption.

For example, suppose John Doe relocates from Georgia to Florida and purchases a $300,000 home. Within a year of moving, John falls upon hard times and must file for bankruptcy protection. Because John has lived in Florida for less than two years, he must use Georgia's homestead exemption allowance of $5,000. John would have been eligible for a $125,000 exemption if he had filed for protection two years or more after moving to Florida. Further, if John had filed for protection after more than three years, he would have been able to claim the unlimited exemption allowed in Florida or the full value of his home.

While some states offer unlimited homestead exemptions, others offer limited exemptions or none at all. Homestead exemption limitations for Sixth District States are as follows: $5,000 for Georgia, Alabama, and Tennessee; $15,000 for Louisiana; $75,000 for Mississippi; and unlimited exemption for Florida. Alabama, Georgia, and Mississippi allow exemptions to be doubled for couples filing jointly. Tennessee allows a $7,500 exemption for joint filers. Louisiana does not increase homestead exemption for joint filers.

In lieu of state exemptions, debtors may have the option of claiming the federal homestead exemption of $18,450, but state law must authorize their right to do so.

An additional limitation placed on homestead exemptions is an absolute $125,000 maximum imposed on debtors who have been convicted of certain fraudulent crimes or criminal acts that caused serious injury or death.

Unlike other provisions of the law that go into effect in October, the homestead exemption limitation rules were declared effective upon enactment of the law on April 20, 2005.

Bankruptcy discharges

To cut down on the number of serial filings, the Act lengthens the amount of time stipulated between Chapter 7 filings from six years to eight years. Chapter 13 discharges are not allowed within two years of a previous Chapter 13 filing or within four years of a Chapter 7, 11, or 12 filing.

Small business provisions

The new law has specific requirements and reporting guidelines for small business debtors who apply for Chapter 11 reorganization. A small business debtor is defined as a business (other than owning or operating real estate) having less than $2 million in debt. Some estimates indicate that this definition covers over 80 percent of all Chapter 11 filings. Filing status as a small business, which was previously optional, now appears mandatory to meet eligibility guidelines.

Another new requirement states that within seven days of filing for the order of relief, the small business debtor must submit a recent balance sheet, statement of operations, records of cash-flow, and federal income tax information. On a periodic basis small business debtors must also file reports on profitability, projections of future cash receipts and disbursements, comparisons of actual receipts and disbursements to earlier projections, payment of taxes, and a statement of compliance with bankruptcy rules, tax, and other governmental filing obligations. Reporting requirements will not be mandatory until official forms for such information have been developed.

Under the new law the small business debtor has 180 days to file a reorganization plan. After that time any individual that has a stake in the bankruptcy case may file a plan up to the 300-day deadline. The previous time frames for these events were 100 and 160 days, respectively. Currently Chapter 11 plans can drag on for years because of repeated filings for extensions. Extensions are significantly restricted under the new law.

The new regulatory and reporting requirements for small businesses are more onerous than in the past to ensure that reorganization plans are filed in a timely manner and that the businesses are performing according to the plans. If, upon inspection of the business and review of reports, the U.S. Trustee assigned to a particular case determines that the reorganization will not work, the business can be directed more quickly into liquidation to allow more timely repayment of creditors.

Other significant provisions

The law will also require changes to Regulation Z, Truth in Lending Act, to be implemented by the Board of Governors. The amendments will focus on minimum payment disclosures and information; requirements for high loan-to-value credit extensions using the home as collateral; and disclosures for special rates, Internet-based credit card solicitations, and late payment deadlines and penalties.

Conclusion

Revisions to the U.S. Bankruptcy Code by the 2005 Act accomplish the goal of curbing abuses by limiting the possibilities for manipulating the system to protect large amounts of amassed wealth while charging off carelessly accrued debt. The Act also protects individuals who, based on financial or other hardships, truly qualify for and need bankruptcy protection.

However, while the new legislation provides creditors with increased ability to collect on debt obligations owed by consumers, it does nothing to constrain abuses by creditors who use mass marketing and lax credit underwriting to lure consumers further and further into debt without consideration for the likely negative consequences. ♦

This article was written by Lisa Easterwood, financial analyst in the Supervision and Regulation division at the Atlanta Fed.

Sustainability and Scale: New Buzzwords or Tools for Survival?

CURRENT ECONOMIC AND POLITICAL CONDITIONS CALL FOR NEW WAYS OF THINKING ABOUT COMMUNITY DEVELOPMENT. "SUSTAINABILITY" AND "SCALE" ARE CRUCIAL CONCEPTS IN TODAY'S TIGHT FUNDING ENVIRONMENT.

As needs outstrip available resources, market forces drive stakeholders to cut costs through structural or functional combinations and greater standardization in order to grow—or merely to survive. The community development industry stands at an important crossroads, and new approaches are essential for its continuing viability. "Sustainability" and "scale" are indeed more than just new buzzwords.

Funding pressures call for greater efficiency

In a world of limited resources, all industries experience pressures to increase productivity through gains in efficiency to remain competitive. Community development is no different, and service providers have always grappled to make the most of their budgets.

But now more than ever, organizations are being forced to look at additional ways to cut expenses, increase productivity, or both in response to funders' expectations. Funding is becoming so scarce and difficult to obtain that many community organizations may face demise unless they implement major changes.

Some might argue that increased government spending is the solution to sustaining community development. But it's unrealistic to expect government funding to serve as a cure-all, given current policies and competing priorities. Nor can the collective resources of financial institutions or philanthropy keep pace with growing demands.

The bottom line is that many community development organizations will need to rethink long-range plans as they evaluate program costs and assess their effectiveness. Maximum internal efficiency will become increasingly the starting point in seeking and justifying resources.

Leveraging resources through alliances

Besides striving to maximize efficiency internally, organizations can increase efficiency through leveraging externally. For example, two organizations providing different yet complementary services can combine forces in serving the same community through an alliance or merger. Combining two smaller organizations with the same mission is another form of external leverage. Leveraging can also be achieved through joint ventures or various contract arrangements.

Granted, recommending leverage through alliances is easier said than done. Issues often arise concerning leadership, control, and inevitable staffing cuts in a merged organization. A successful alliance requires that both groups understand and recognize the quantifiable value of a combination—without ever losing sight of clearly defined goals about what's best for everyone, especially the community being served.

Clear communication that builds trust among all parties is vital, especially among the boards of directors. In addition to evaluating the structural aspects of a merger, risks should be explored thoroughly, including legal matters. Third party professionals can be engaged to provide guidance any step along the way.

Improving marketplace sustainability

In addition to looking at the sustainability of individual organizations, community development must also strive for sustainability through efficient markets. For example, community development efforts that attract market-rate investment stand a greater chance of creating momentum to benefit the entire community over a shorter period of time. This success reduces the need for additional subsidies, allowing funds to flow into other projects. Serving more people with fewer resources further enhances efficiency.

In considering sustainability at the level of individuals and families, it has become apparent that creating affordable homeownership must be complemented by access to mainstream banking products and services. Continuing reliance on expensive, fringe service providers drains precious wealth-building opportunity and threatens personal financial sustainability. At all levels of community building, best practices maximize use of limited resources.

Encouraging more standardization

What do we mean by the term "attaining greater scale" in community development? Although this broad concept can be defined in many ways depending on the context, economies of scale basically result in lower costs per unit, whether one is considering loan transactions, investments, or numbers of customers served. Efficiencies of scale are possible when fixed costs can be contained through standardization, so that an increase in production volume reduces the cost of each item produced.

The push for greater scale comes largely from the marketplace, which seeks consistent and predictable standards to mitigate risk. Standardization creates larger markets by increasing participation through greater understanding, which in turn fosters higher confidence.

Individual organizations can achieve greater efficiencies of scale in small ways such as taking advantage of external service providers. For example, a small or midsized nonprofit probably can't process its own payroll as efficiently as an external payroll firm that has achieved economies of scale through volume.

Achieving greater scale will take significant time, especially since so many nonprofits are small shops. Some organizations still lack Internet access and even computers. But the wheels have been set in motion by market forces that crave efficiency.

Reality check

The inherent issue with the concepts of sustainability and scale is that one size does not fit all. Nonprofits by definition are not designed to make money providing services that the for-profit sector cannot offer. Nor will certain organizations ever be able to merge if geographic constraints or their specialty services do not lend themselves to linkage with other groups. In these cases, the cost of providing services may be deemed preferable to incurring societal cost if the services are not provided. So discussions must remain realistic and keep sight of an organization's context.

Another reality touchstone is recognizing that changes often take significant time. While an ideal merger could occur in a matter of weeks or months, some processes can take many years or even decades. Again, continued viability should be stressed as the rationale for advancing these concepts.

The role of the Federal Reserve

The Fed's Community Affairs function promotes effective programs and fair lending to achieve greater economic stability in low- and moderate-income communities, largely through facilitating partnerships, providing information, and offering technical assistance. It is not the role of the Fed to advocate mergers or establish industry standards.

Nevertheless the Federal Reserve Bank of Atlanta's regional managers stand ready to discuss opportunities for enhancing programs and organizational efficiency to promote stronger communities. ♦

This article was written by Wayne Smith, Community Affairs Director at the Atlanta Fed.

An Informed Discussion: Achieving Sustainability, Scale, and Impact in Community Development Finance

In April 2005, the Federal Reserve System and the Aspen Institute's Economic Opportunities Program co-sponsored the first of seven conferences to be held at various Reserve Banks and the Federal Reserve Board of Governors over the next two years.

The conference series is based on a paper by the Aspen Institute's Economic Opportunities Program. Published by the Chicago Fed's Consumer and Community Affairs division in December 2004 in its periodical, *Profitwise News and Views*,[1] "New Pathways to Scale for Community Development Finance"[2] summarizes 10 case studies, primarily private sector examples, of successful attempts to broaden the impact and market reach of an assortment of products, services, and organizations.

The conference's goals included the following:

- Introduction of a new framework for scale and sustainability for the community development finance field;
- Exploration of new business models and practices with potential for promoting scale and sustainability in the field;
- Providing a forum in which bankers, community economic development professionals, foundation representatives and other funders, as well as those involved in related public policy areas can share ideas about the future of the CDFI/community development industry;
- Encouraging future dialogue and action on the industry and industry practices, and developing techniques to measure the impact of new or modified organizational and industry practices.

The record of the conference can be found as a link from the Federal Reserve Bank of Chicago's public website[3] or directly from http://innovationlabs.com/aspen/ Please refer to this resource as well as "New Pathways to Scale for Community Development Finance" for comprehensive information on the subject of sustainability and scale. ♦

[1] http://www.chicagofed.org/community_development/2004_profitwise_news_and_views.cfm

[2] By Gregory A. Ratliff and Kirsten S. Moy, with Laura Casoni, Steve Davidson, Cathie Mahon, and Fred Mendez. Funded by The F.B. Heron Foundation, The Fannie Mae Foundation, and the John D. and Catherine T. MacArthur Foundation.

[3] http://www.chicagofed.org/community_development/index.cfm

Protecting Our Military from Predatory Lenders

THE MEN AND WOMEN WHO VOLUNTEER TO SERVE IN THE MILITARY, MANY OF WHOM ENLIST STRAIGHT OUT OF HIGH SCHOOL, OFTEN HAVE LIMITED EXPERIENCE IN FINANCIAL MATTERS.

As they embark on a tour in the military, they may incur a number of expenses they have not had to budget for in the past. The average private or seaman already lives on a relatively low income, and he or she typically cannot afford the burden of unreasonably high interest rates.

Jim, who just graduated from high school, is excited about his new career in the military. He can't believe he has a job that provides room, board, food, and work clothes in addition to a paycheck. The first thing he does is purchase his dream car. Within a few months he acquires three credit cards and uses them to buy a stereo and an assortment of other electronic luxuries.

When Jim realizes he has other expenses he didn't anticipate, he goes to the local bank for a loan, but he soon learns he has too much debt to qualify. As a last resort he goes to a payday lender that has been sending him solicitations in the mail. He borrows just enough to get by, but he finds he doesn't have money to pay off the debt at the end of the month. So he refinances this debt over and over again to keep current.

Jim is a fictional character, but his story is typical for a large number of our service members throughout the world.

According to the Fleet Reserve Association (FRA), a congressionally chartered nonprofit organization representing the interests of U.S. Navy, Marine Corps, and Coast Guard personnel with regard to compensation, health care, benefits, and quality-of-life programs, the problem of indebtedness can affect service members' ability to function effectively.

"This problem is not just a personnel issue, but it's viewed as a readiness challenge. If service members fall into debt, they run the risk of being unable to deploy. They can lose security clearances and, more importantly, will not be able to effectively focus on accomplishing their mission if consumed with concerns about indebtedness," says an FRA representative.

Protective legislation

A bill has been proposed in Congress to protect our service members and their dependents against the unethical practices of predatory lending. The Servicemembers Anti-Predatory Lending Protection Act would prohibit creditors from imposing an annual percentage rate (APR) greater than 36 percent on consumer credit extended to a service member or service member's dependent. (The average APR for a payday loan is 300 percent.)

The proposed law mandates loan disclosures, including a statement of the APR for extension of credit, and a clear description of the payment obligations.

The legislation would also protect service members who are forced to continue taking out loans with higher and higher APRs that make it impossible to repay the original loan. Stipulations prohibit a creditor from automatically renewing, refinancing, or consolidating credit with the proceeds of other credit extended by the same creditor without making a new loan document including the required loan disclosures, to be signed by the service member.

The Servicemembers Anti-Predatory Lending Protection Act would preempt any state law, rule, or regulation, including any state usury law, inconsistent with the legislation, unless state regulations provided additional protection. Criminal penalties are prescribed for violations.

The Honorable Sam Graves of Missouri, who introduced the bill (HR 97) in the U.S. House of Representatives, pointed to recent credit industry studies which found that 26 percent of military households have done business with high-interest instant lenders.

"We can do better for our troops. These businesses are geared toward and are targeting our soldiers. Our men and women in uniform should not be treated like a niche market; we depend on them for our freedom and owe them our gratitude," Graves says.

The bill, which was introduced in January of 2005, has been referred to the Committee on Veterans Affairs, and, as of July 2005, it remained in committee.

Financial education is necessary but not sufficient

A number of banks and credit unions have partnered with military bases to provide financial education for new recruits and other service members who find themselves in financial trouble. The Department of Defense also collaborated with the FDIC to offer financial education workshops at more than 3,000 military installations around the world. The FDIC's Money Smart financial education program curriculum consists of 10 easy-to-teach modules on basic financial topics such as choosing and maintaining a checking account, budgeting basics, the importance of saving, and how to build and maintain good credit.

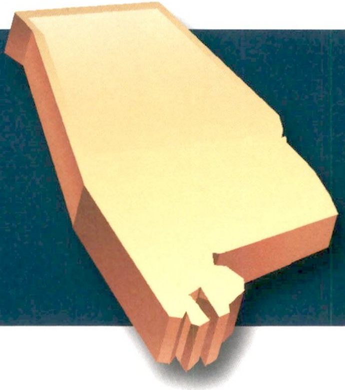
While these financial education seminars are helping many of our service members make wise financial decisions, additional measures are clearly needed to deal with the unethical business of predatory lending.

An important debate

Recognition of this problem by the Department of Defense is a positive step, as is the effort to enact legislation to address many of these issues. However, questions have arisen concerning the implementation of a law that requires separate interest rates, disclosures, and terms for the military. If we view our military personnel as a microcosm of the general public, perhaps we really need broader legislation that protects the average citizen as well as military service members. Ongoing debate about this issue ultimately helps build national momentum against predatory lending practices. ♦

This article was written by Michael Milner, regional community development director at the Atlanta Fed's Birmingham Branch.

Spotlight on the District



ALABAMA

SUMMIT MARKS ROAD TO SUCCESS FOR RURAL COMMUNITIES

How do rural southern communities achieve greater prosperity? This question set the agenda at the Southern Growth Policies Board's annual "Summit on the Rural South" held in Point Clear, Alabama, in June 2005.

This year's meeting featured presentations of rural success stories, innovative approaches to rural development, and academic studies. It was chaired by the Honorable Bob Riley, governor of Alabama.

The Board's annual report, "The New Architecture of Rural Prosperity," synthesized input from over 2,200 southerners through focus groups, community forums, and surveys. Five basic prerequisites emerged as crucial for the success of southern rural communities: 1) strong, forward-thinking leadership; 2) strategies to make rural areas attractive to young people; 3) quality education; 4) preservation of a distinctly rural character; and 5) strategic investments in infrastructure.

Recommendations to promote economic growth

The annual report states that economic development must be approached as a set of interrelated activities that create, expand, and recruit businesses. Continuing prosperity depends on managing communities as integrated enterprises. "The work of industrial recruiters and the activities of capacity builders must be brought together to operate in harmony. Otherwise, the recruiters may be pursuing call centers while others try to build capacity for biotechnology firms," the report says.

The report further recommends designing and managing economic development along the lines of economic regions, without regard to traditional political boundaries. The study advises combining resources regionally to serve the aggregate community more effectively. In most cases, regions include at least one metropolitan area to serve as a central hub. Experts argue that rural communities must band together to achieve the critical mass essential for competitiveness in recruiting industry and other potential economic investments.

Entrepreneurship is vital to a stable community

Though most rural communities make business recruitment the first priority, keynote speaker Mark Drabenstott, vice president and director of the Federal Reserve Bank of Kansas City's Center for the Study of Rural America, believes that "rural communities should put more emphasis on entrepreneurship and less on recruiting industry."

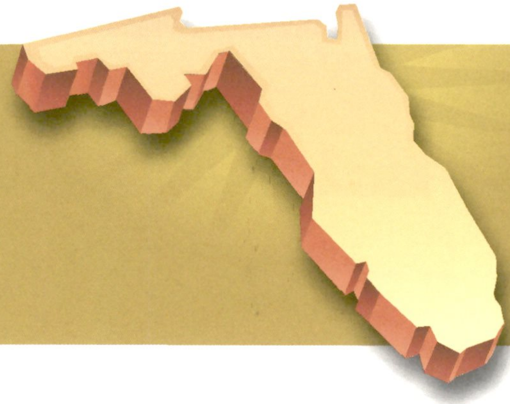
In fact, he believes rural communities need to set entrepreneurship as their first priority and recruitment as their last. Large businesses can put rural communities at risk through plant closings and extensive layoffs. According to Drabenstott, building a community with a strong base of entrepreneurial talent provides a more stable environment and hope for a better future. ♦

This article was written by Michael Milner, regional community development director at the Atlanta Fed's Birmingham Branch.

The Southern Growth Policies Board is a public-private partnership dedicated to strengthening the South's economy and maximizing its quality of life. For more information visit their website at http://www.southern.org/

NORTH FLORIDA

PARTNERSHIP BUILDS WEALTH FOR WORKING POOR



A unique partnership that includes federal and local government, the private sector, faith-based organizations, and social service programs is helping the working poor in Jacksonville, Florida, move into the economic mainstream.

Combining funding from a variety of sources, Fresh Ministries Individual Development Account (IDA) Partner Group enables families to build wealth and strive for economic independence. The group received a $1 million grant from the federal government along with matching funds from the City of Jacksonville's Community Development Block Grant Program, Bank of America, Community Partnership for Protection of Children, and a private foundation.

Fresh Ministries is a faith-based organization that serves the urban core neighborhoods of Jacksonville. Its IDA Partner Group collaborates with neighborhood-based nonprofit organizations, private sector affordable housing providers, and local government agencies, including the Jacksonville Housing Authority, Vestcor, Families First, Jacksonville Urban League, Community Partnership for the Protection of Children, Family Counseling Services, Habijax (Habitat for Humanity of Jacksonville), Operation New Hope, and Community Connections.

Financial education a key component of program

Central to a successful IDA program is a foundation of personal financial education. Participants complete a financial education course and establish bank accounts provided by SunTrust Bank and Wachovia. They are required to make monthly deposits. Over a two-year period clients can save up to $2,000, which will be matched by a maximum of $4,000 in federal and local funds for a total possible savings of $6,000.

IDA savings accounts target low-income individuals and families and may be used to purchase a first home, pursue post-secondary education or job training, or capitalize the start-up or expansion of a small business.

The IDA program also coordinates with the Northeast Florida Prosperity Campaign and other community organizations as well as the Atlanta Fed's Jacksonville branch. The Campaign encourages participants to use the Earned Income Tax Credit (EITC) as a tool to accumulate savings toward the IDA goal.

Biggest challenge for programs is marketing

Marketing their services to eligible families has been the biggest challenge for both the IDA and EITC programs. For many the program represents their first opportunity to budget for and maintain regular savings, and it sounds "too good to be true."

While none of the participants have completed the program thus far, several are nearing their goals. Seventy percent are saving for the downpayment on their first homes. One participant, Sheila Jenkins, a formerly homeless mother of five, used a portion of her Earned Income Tax Credit to start her IDA savings account, and she is now saving to buy a home. ♦

This article was written by Janet Hamer, regional community development manager at the Atlanta Fed's Jacksonville branch.

FEDERAL RESERVE BANK OF ATLANTA
COMMUNITY AFFAIRS DEPARTMENT
1000 PEACHTREE STREET, N.E.
ATLANTA, GEORGIA 30309-4470

CHANGE SERVICE REQUESTED

PRESORTED
STANDARD
U.S. POSTAGE
PAID
Atlanta, GA
Permit No. 292

STAFF

VICE PRESIDENT
Steve Foley

COMMUNITY AFFAIRS OFFICER
Juan C. Sanchez

COMMUNITY AFFAIRS DIRECTOR
Wayne Smith

EDITOR
Jennifer Grier

PRODUCTION MANAGER
Harriette Grissom

STAFF WRITERS
Jessica LeVeen Farr
Janet Hamer
Mike Milner
Nancy Montoya

CONTRIBUTING WRITER
Lisa Easterwood

DESIGNERS
Peter Hamilton
Odie Swanegan

Free subscription and additional copies are available upon request by mail at the Community Affairs Department address above, or e-mail us at *Partners@atl.frb.org*, or call 404/498-7287; FAX 404/498-7342. The views expressed are not necessarily those of the Federal Reserve Bank of Atlanta or the Federal Reserve System. Material may be reprinted or abstracted provided that Partners is credited and provided with a copy of the publication.

www.frbatlanta.org