FEDERAL RESERVE BANK OF ATLANTA

VOLUME 16, NUMBER 3, 2006

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CLTs [illegible] Housing Affordable

EITC Boosts Local Economies

Split Refunds Link Tax Time to Savings

Banking the Unbanked on Both Sides of the Border

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Soaring housing prices in many Sixth District states have made it difficult to recruit and retain essential personnel such as police, firefighters and teachers. One solution being explored is the community land trust (CLT), which acquires and holds land for the benefit of the community with the goal of sustaining housing affordability.

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Keeping Pace in a Changing Environment

This year marks the 25th anniversary of the Federal Reserve System's Community Affairs function. Established in 1981 by the Board of Governors to support the Community Reinvestment Act (CRA), this office also reflects the Board's recognition that markets don't always work well in low- and moderate-income communities without assistance.

Initially each Reserve Bank designated an individual to help develop safe, sound, profitable programs for low- and moderate-income communities. The Community Affairs Office provided technical training, developed community contacts, and channeled information for and about financial institutions. While we all shared the same mission and objectives as defined by the Board, each of our 12 Reserve Banks had wide latitude in structuring this function to address issues unique to its District. Now the Atlanta Fed maintains a community development professional in each of its six locations to provide fuller insight into local concerns and more direct involvement with communities.

While the overall mission of the Community Affairs Office has remained the same, our work has inevitably evolved to stay relevant in an ever-changing marketplace. During the 1980s, affordable housing programs began providing significant subsidies for both rental and owner-occupied units. The Federal Low-Income Housing Tax Credit, the HOME program, specific state programs and many other initiatives promoted the construction of decent housing for lower-income families.

Initially demand was low. The absence of historical data made these endeavors seem uncertain and risky. Financial institutions didn't understand the various programs fully, and the absence of a viable secondary market hindered generation of new liquidity. But financial institutions, developers, intermediaries and nonprofit organizations soon realized the utility of these products, quantified the risks and developed vibrant markets. These once under-utilized programs now contribute to the profits of financial institutions and other stakeholders.

During the last decade, new interest in economic development sparked the creation of New Markets Tax Credits and several innovative SBA products. While these products are not quite as much in demand as housing programs, their value is clear, and a mainstream industry is emerging. The Fed has provided training, helped to customize programs and informed our community partners about these initiatives.

Our Community Affairs function has also matured rapidly in response to economic, regulatory and marketplace issues such as rising housing costs, higher foreclosure rates, ever-more-complex mortgage products and recovery from natural disasters.

In the end, better functioning markets along with higher homeownership rates and increased employment lead to more stable neighborhoods and stronger local economies. Stronger local economies collectively translate into a stronger national economy, and that's clearly a goal of the Federal Reserve as the nation's central bank.

Juan C. Sanchez
Community Affairs Officer

CLTs Keep Housing Affordable

HOUSING PRICES ARE SOARING IN MANY SIXTH DISTRICT STATES, MAKING IT DIFFICULT TO RECRUIT AND RETAIN LOWER-WAGE WORKERS INCLUDING POLICE, PUBLIC SAFETY WORKERS AND TEACHERS.

One of the most dramatic examples is in Florida, where the average price of an existing single-family home has jumped 80 percent since 2002, greatly outpacing the 1.4 percent increase in median family income.

As local and state governments, the nonprofit sector, and private business interests look for solutions to this crisis, one of the newest tools under consideration is the community land trust (CLT).

A community land trust is a nonprofit that acquires and holds land for the benefit of its local community, with the particular goal of making land and housing more affordable for those who have been priced out of the market. CLTs will either buy vacant land for the development of housing or buy land and buildings together. When a CLT sells a home, it leases the underlying land to the homeowner through a 99-year renewable lease. The CLT continues to hold title to the land and manages the ground leases on the properties.

The most important component of a community land trust is its ability to maintain affordability of the unit for future low- and moderate-income homebuyers. Many affordable housing programs impose limited affordability restrictions, usually in the form of "soft second" mortgages with a term of five to ten years and no shared equity component. In contrast, the terms of the CLT's 99-year ground lease place limitations on the resale of the home. These restrictions are particularly important in regions where housing prices are appreciating rapidly.

Ground lease restrictions preserve affordability

Community land trusts typically impose two types of restrictions. First, limits can be placed on the resale of the home, preventing transfer to a household that is not eligible under the stipulations of the ground lease. This provision may restrict the sale to households with very low, low or moderate incomes, depending on the level of subsidy provided. The lease sets forth a "resale formula" that determines the maximum allowable price. CLTs usually maintain the right of first refusal to purchase the property and provide assistance finding qualified buyers.

Second, restrictions govern resale prices and shared appreciation on the homeowner's equity. Each CLT designs its own resale formula based upon various factors and goals. Two primary goals in designing a CLT resale formula are: (1) to ensure fair access to homeownership for subsequent lower-income residents by maintaining the affordability of the CLT home over time and (2) to give the present homeowner a fair return on their investment when the CLT home is sold.

Developing this formula is clearly a difficult undertaking and must balance the needs of the homeowner with the overall goals of the CLT to provide affordable housing for the community that it serves. An important secondary goal of CLTs is to encourage long-term occupancy by imposing disincentives for quick resale (flipping). Ultimately a CLT aims to maintain stable communities and long-term security for the families residing in the neighborhood.

CLTs provide another option

The community land trust concept is another important tool in creating and sustaining affordable housing. While it does not offer fee-simple ownership and may not afford the ability to create substantial wealth, it does provide low- and moderate-income individuals an alternative to rental housing in high-cost areas along with a somewhat modest return on their investment. Additionally, CLTs make it possible for government and private funding sources to underwrite permanent affordable housing units with a one-time subsidy. Through CLTs, communities with high housing costs gain another option for recruiting and retaining essential workers. ♦

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

A Few Common Issues for CLTs

Marketing and education: Buyers must be fully aware that in choosing a land trust home they must adhere to the resale formula established by the land trust. There are also other restrictions on alterations to the property, transfer to heirs, and membership in the land trust.

Maintenance and major modifications: The community land trust resale formula can impact whether and how the home is maintained. For example, if the resale formula provides the same resale price to the homeowner whether the home is in good repair or disrepair, there may be a disincentive to maintain the home.

Conversely, if the home has been too luxuriously renovated, the new buyer won't be able to afford the home. Consideration of the consequences of the resale provisions and reaching the proper balance for maintenance and major modifications is a thoughtful process.

Price points: Setting the purchase price for affordability and the target market are often debated by newly formed land trusts. Some communities have found that higher-income households who can manage a traditional home purchase would not choose to buy a community land trust home. For lower-income households the community land trust may be the only alternative to renting other than moving elsewhere. For those earning upwards of 140 percent of the area median income, there may still be traditional mortgage opportunities. ♦

Excerpt from "Community Land Trusts are Springing up in Florida" written by Gladys Schneider with Florida Housing Coalition.

Burlington Community Land Trust: A Case Study

Burlington Community Land Trust is the oldest and largest community land trust (CLT) in the U.S. Located in Burlington, Vt., this CLT has developed and sold over 250 single family houses and condominiums to first-time homebuyers since 1984. All of these owner-occupied properties have been subject to permanent resale restrictions.

In 2002, a study was conducted to determine the success of this affordable housing model. Based on the 97 houses and condominiums that had been resold, the research evaluated affordability, subsidy retention, wealth creation and residential mobility.

- ***Continued affordability:*** Affordability continued between successive generations of low-income homebuyers. The initial homebuyer's average household median income stood at 62 percent, while those purchasing units for resale earned on average 57 percent of the area's median income.

- ***Subsidy retention:*** Public subsidies invested in the initial cost of the land trust remained in the properties at resale and grew in value, eliminating the need for further public investment.

- ***Wealth creation:*** Most homeowners had more wealth at sale than at the time of purchase. Their net equity gains were modest compared with unrestricted market rate sales, but the annual rate of return averaged 30 percent on the 97 resales studied.

- ***Residential mobility:*** The majority of homeowners bought market rate homes after leaving the land trust.

Located on the shores of Lake Champlain in Burlington, the Waterfront Apartments has won numerous awards.

The Burlington Community Land Trust merged with Lake Champlain Housing Development Corporation on October 1, 2006 to create the Champlain Housing Trust. The Champlain Housing Trust is a membership-based organization with resident leadership and has a portfolio of over 2,000 homes in northwestern Vermont. ♦

EITC Boosts Local Economies

FOR 31 YEARS, THE FEDERAL EARNED INCOME TAX CREDIT (EITC) HAS BEEN A FIXTURE IN THE NATION'S ARSENAL OF ANTI-POVERTY PROGRAMS. IN ADDITION TO BRINGING MORE CHILDREN ABOVE THE POVERTY LINE THAN ANY OTHER FEDERAL PROGRAM, THE EITC HAS BECOME A FORMIDABLE AND EFFICIENT GENERATOR OF ECONOMIC STIMULUS FOR U.S. CITIES.

A newly-released study funded by the Nashville Wealth Building Alliance documents the EITC's growing fiscal influence in metropolitan areas, focusing research on Nashville, Tenn. In addition to examining the economic impact of the EITC, the study also performed a geographic analysis to assess the EITC's role in individual neighborhoods, providing useful market data on low-income households for use by anti-poverty program administrators.

Defining the local impact of federal programs

The EITC has become one of the top three federal assistance programs, adding millions of freely-expendable dollars to any given region's low-income labor force. The tax credit has boosted labor productivity among its recipients and increasingly replaced their dependence on less efficient state and local welfare administrations. This is good news for everyone, rich or poor. However, most federal studies of the policy's impact fail to quantify these local or regional benefits.

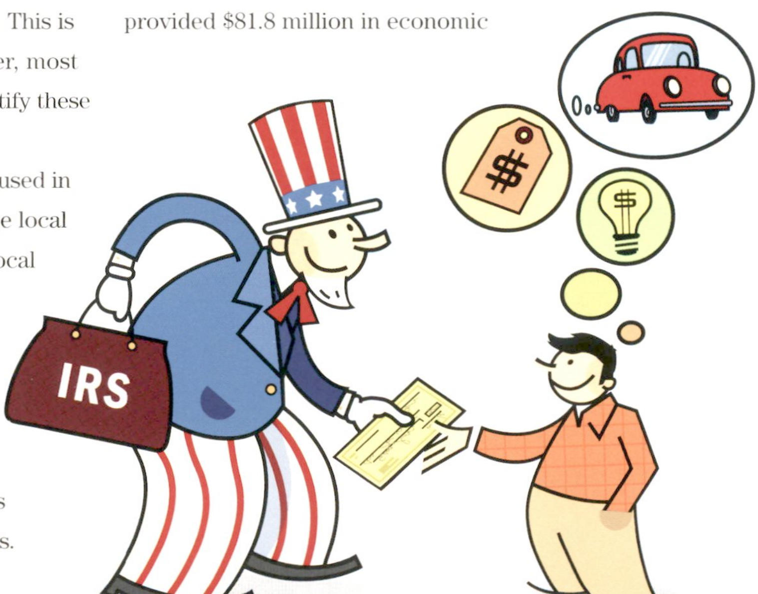
A regional "input-output" model, like the one used in this study, details some significant benefits to the local economy when federal money is recycled into local consumer spending. For example, we found that nearly 20 percent of every EITC check ends up with health care providers; the credit's addition of $34 million in annual revenue from low-income clients to local providers is critical knowledge at a time when the industry struggles to recover the cost of treating higher-risk patients.

Economic impacts of the federal EITC in Nashville

"The State of the Earned-Income Tax Credit in Nashville" is one of only a handful of studies nationwide that takes a detailed look at the impact of these large, efficient monetary transfers on a metropolitan economy. Using taxpayer data from years 1997-2004, the study found a robust economic output response that added to business revenue as well as significant increases in job creation as a result of EITC-supported household expenditures.

The EITC also contributed to expenditures on health care, electric bills, big-ticket retail purchases and family outings to local restaurants, thus generating "multiplier" effects that reverberate through the local economy and become income for other local businesses, employees and governments.

Including these multiplier effects, the EITC provided $81.8 million in economic

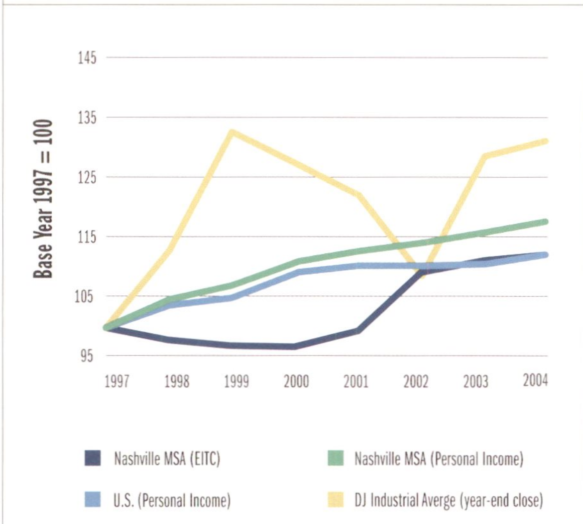


output to Davidson County-Nashville during 2005. Over the 8-year period analyzed by the study, these output impacts totaled $642 million. When the study area was expanded to the Nashville Metropolitan Statistical Area (MSA), the EITC brought in over $1.25 billion in economic stimulus.

The multiplier for EITC-recipient expenditures was 1.07: each EITC dollar spent in the Nashville economy produced that dollar plus an additional seven cents in economic output. Even though some EITC dollars are spent on goods and services produced outside the region, local employers and employees benefit nonetheless.

Over a third of the local EITC money received is converted to salary and wage earnings for Nashville-area residents, many of whom are low-income and likely eligible for the EITC themselves. Of the 708 jobs (full-time equivalent) in Davidson County that were created by EITC expenditures in 2005, 150 were in retail, earning an average of $31,348; 81 were in accommodations/food services, earning an average of $20,769; and 80 were in other service-oriented business, earning an average of $19,881. EITC benefits also support high-income employment as well; the health/social services industry benefited from $15.9 million in additional industry output and a total of 132 jobs within an average salary of $69,301.

EITC vs. Economic Indicators: Real Growth Index



Source: Bureau of Economic Statistics, Dow Jones & Company, Internal Revenue Service.

In fact, the health care industry was the largest beneficiary from Davidson County with $16 million in additional revenue; in the 8-county metropolitan area, these EITC-dependent revenues rose to $34 million. Retailers in Davidson County and the Nashville MSA brought in an additional $10.5 and $22.5 million, respectively. The local financial, wholesale and real estate/rental industries registered $5 to $7 million for Davidson County and $11 to $14 million for the MSA.

The broader picture suggests EITC has helped smooth consumer spending in Nashville through the economic downturn of 2000-2002. The size and amount of disbursements from year to year proved sensitive to general macroeconomic conditions, tending to expand and contract in opposition to annual changes in economic growth.

As illustrated in the graph, Nashville's EITC disbursements declined in the three years following 1997, tracking across-the-board economic gains until 2000 when the Dow Jones Industrial average started its three-year fall. Strong growth in the Nashville EITC from 2000-2002 continued to track heavy losses in the market and flattening U.S. personal incomes. However, personal incomes in Nashville defied expectation and continued to rise (albeit at a slightly slower pace) as if little had happened. Despite mismatches between the EITC and personal income over the eight-year snapshot, in general the credit's countercyclical growth has cushioned the softening economy's blow to the region, its low-skilled labor force and businesses that depend on a healthy middle class.

Conclusion

Though the positive economic impacts to cities like Nashville are robust, the EITC remains underutilized. The number of eligible persons who fail to claim the EITC is estimated at 25 percent of those currently receiving the credit. Failure to collect the EITC has cost Nashville an estimated $19.9 million in total economic output. Thus work remains to ensure that no low-income household leaves this credit "on the table." ♦

This article was written by John N. Haskell, author of "The State of the Earned-Income Tax Credit in Nashville."

Geographic Distribution of Nashville's Working Poor

To reach those who fail to claim the EITC credit, it is important to direct programs and outreach to the communities where the working poor live and work. Geographical data of the sort collected in the recent Nashville Wealth Building Alliance (NWBA) study can inform organizations developing strategies to meet the needs of the working poor.

Income-explicit, zip code-level IRS data can serve any nonprofit or government administration seeking efficient, highly targeted service-delivery solutions for their low-income clients. For example, the NWBA intends to use the analysis as the basis for decisions on additional VITA (Voluntary Income Tax Assistance) site placements. When seeking additional capitalization, the NWBA can approach stakeholders with an expansion plan and the detailed market analysis to back it up.

Geographical data pertaining to EITC distributions in the Nashville MSA for 2003 (the most recent year for which zip-code level data was available) considered EITC dollar amounts and the density of EITC returns compared to all tax returns relative to the income level of the zip-code area. The research indicates an unusually high concentration of EITC recipients along the I-65 and 1-24 interstate corridor, which received 40.9 percent of total EITC dollars in TY 2003 despite having only 30.5 percent of the metropolitan area's taxpayer population. Corridor zip codes have EITC-recipient rates as high as 40 percent in some areas.

The map shown here closely represents what you would "see" walking through the city, indicating where the greatest concentrations of poor households are located. The darker zip codes reflect areas where outreach efforts might generate the highest returns on the dollar, given that densely populated households are less expensive to serve than more sparsely populated households. Areas with a particularly high density of EITC recipients correspond to the same zip codes identified in the 65-24 corridor.

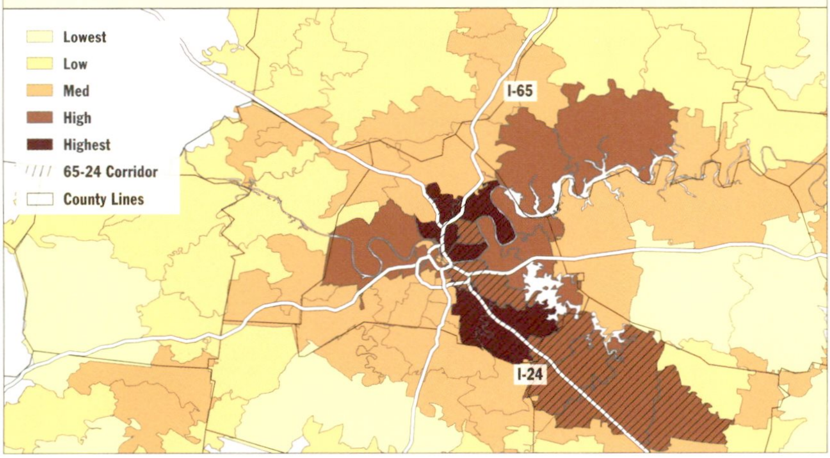
Geographical analysis also revealed some interesting trends in the city's low-income neighborhoods. Zip codes that straddle I-24 experienced the greatest growth in EITC dependency (from 1997 to 2003) compared to other sections of the city, while many of the zip codes more traditionally associated with poverty saw no growth or declining use of the EITC. Many of the traditionally poor West Nashville zip codes stood out from the entire sample, showing tax credit amounts that consistently declined over the time of the study. One of the largest city-center zip codes, 37206, displayed signs of urban gentrification, as EITC populations declined and non-EITC, taxpaying populations (low versus middle-to-high income) increased. Anecdotal evidence on real-estate developments supports this finding.

Taken together, these findings imply the work of aiding low-income households in Nashville must increasingly consider both the urban core and suburban locations as more of the working poor are moving outward to the city's industrial ring and periphery.

Additional maps showing the distribution of the EITC in relative dollar amounts in Nashville and the growth of the EITC/Taxpayer ratio between 1997 and 2003 can be viewed on the Atlanta Fed's website at www.frbatlanta.org. ♦

Spatial Concentration of the Working Poor in Nashville, Tenn.

According to density of EITC recipients



Source: "The State of the Earned-Income Tax Credit in Nashville."

Split Refunds Link Tax Time to Savings

MANY AMERICAN HOUSEHOLDS ARE FACED WITH A FINANCIAL DECISION AT TAX TIME—WHAT TO DO WITH THEIR INCOME TAX REFUNDS?

While many taxpayers rely on their refunds to help cover basic living expenses, these disbursements also represent the only opportunity for many low- and moderate-income households to consider savings. The average income tax refund is approximately $2,000, and for many families, this is the single largest payment they will receive each year. Research shows that individuals tend to view large, lump-sum payments differently from normal income, so tax time provides a logical opportunity to promote savings.

In 2005, spending by U.S. households exceeded disposable income. For the first time since the Great Depression, the national savings rate was negative. Lack of savings is a concern for households at all income levels, but particularly for the lowest income families who often live from paycheck to paycheck. While these families may need their tax refunds to cover basic expenses, encouraging them to save even a small portion of it could be an important step toward financial stability.

The potential for using tax time to increase household savings is widely recognized. However, many taxpayers have been discouraged from doing so because it has not been convenient. Though many taxpayers now receive their refunds through direct deposit into a bank account, they have only had the option of depositing the refund into one account, and the majority of taxpayers use a checking account. However, surveys indicate that, given a choice, even the lowest-income taxpayers would be interested in directing a portion of their tax refund to a savings account.

IRS creates split refund program

Consumer advocates have been pushing the Internal Revenue Service (IRS) for several years to allow taxpayers to deposit their tax refunds directly into multiple accounts. Studies have shown that individuals are more likely to save if it is easy and automatic. The IRS recently responded with the announcement that taxpayers will be able to split their refunds into as many as three accounts in 2007.

The "split refund" option is a great opportunity to increase savings. Taxpayers will attach a new Form 8888 to their returns indicating how their refund should be allocated among up to three financial accounts. If even a small percentage of all U.S. taxpayers take advantage of this new tool, a significant amount of new savings will be generated each year.

However, the lowest income taxpayers who need the savings the most may face an additional obstacle in taking advantage of this new option: many of them do not have the bank accounts necessary for direct deposit. These taxpayers are also the ones most likely to rely on high cost tax preparers and refund anticipation loans which strip them of the opportunity to take advantage of this new tool.

Financial education a must

Increased access to banking services and financial education are essential to maximize the impact of the split refund option. Taxpayers must be informed about the potential benefits of saving part of their tax refunds and encouraged to open savings accounts prior to tax time.

Volunteer tax assistance programs and nonprofit organizations providing financial education should start encouraging their clients to view their tax refunds in terms of the money they will save as opposed to money they will spend. Financial institutions also have a role to play by providing low-cost saving accounts to eligible taxpayers.

Finally, while tax time presents an opportunity to reinvigorate the savings discussion, a comprehensive national campaign is needed to encourage families at all income levels to increase their savings, thus strengthening their own financial security and helping to reverse the decline in the nation's saving rate. ♦

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

Q&A

Commonly Asked Questions about Splitting 2006 Federal Income Tax Refunds

What is a split refund? A split refund lets you divide your refund, in any proportion you choose and direct deposit the funds in up to three different accounts with U.S. financial institutions.

What are the benefits of splitting my refund? Instead of choosing between depositing your refund into a checking or savings account and later moving part of your refund to another account, you can allocate your refund among up to three different accounts and send your money where you want it the first time.

By splitting your refund, you get the convenience of directing some of your refund to your checking account for immediate needs and sending some to savings for future use. Plus, you get the safety and speed of direct deposit, allowing you access to your refund faster than if you opt to receive a paper check.

Can I still send my refund to just one account? The choice is yours. You can ask IRS to direct deposit your 2006 refund into one, two or three different accounts.

How do I split my refund? Simply complete and attach Form 8888, Direct Deposit of Refund, to your federal income tax return to tell IRS how much and to which of your accounts you want your refund deposited.

Does my refund have to exceed a certain amount to split it into different accounts? Your deposit to each account must be at least $1.00.

If I want to split my refund among different accounts, can those accounts be with different financial institutions? You can split your refund among up to three different U.S. financial institutions as long as they will accept a direct deposit to your account.

Must I file electronically to split my refund? You can split your refund whether you file electronically or on paper. However, IRS recommends using *e-file* to avoid simple mistakes that could change the amount of your refund, and therefore the amount available for deposit.

Will splitting my refund cause a delay in depositing my refund? Splitting your refund will not cause a delay. In fact, because it uses direct deposit technology, your funds will be in your account(s) faster than if you opt to receive your refund in a paper check.

For more information, please see the *Commonly Asked Questions about Splitting 2006 Federal Income Tax Refunds* at http://www.irs.gov/pub/irs-utl/split_refunds_q&as_090606.pdf.

Banking the Unbanked on Both Sides of the Border

THE FEDERAL RESERVE BANKS AND THEIR CENTRAL BANK COUNTERPART IN MEXICO, BANCO DE MÉXICO, CONTINUE TO INNOVATE AS THEY REFINE THEIR CROSS-BORDER ACH PAYMENTS SERVICES IN RESPONSE TO THE NEEDS AND DESIRES OF THE MEXICAN REMITTANCE MARKET.

In mid-2005, the Federal Reserve Banks and Banco de México launched Directo a México[SM], a campaign to spread the word about the benefits of using the FedACH International® Mexico Service for cross-border payments. Thanks to promotional events and user-friendly marketing materials, Directo a México is now widely known as an efficient payments system that makes it possible for U.S. financial institutions to provide reliable ACH service to Mexico for their customers.

Not only is Directo a México committed to low fees and next-day clearing of payments, but the program also provides foreign exchange rate conversions at highly competitive rates. This service has helped U.S. banks and credit unions increase their historically small share of the rapidly growing U.S.-to-Mexico remittance market.

Nevertheless, banks and credit unions still find it difficult to attract the many customers who would benefit from sending remittance payments through Directo a México. An account-to-account transfer, Directo a México requires that both the sender and beneficiary (recipient) maintain accounts at financial institutions. Because the majority of those sending money to Mexico (or receiving it) do not have bank accounts, they do not participate. Estimates show that only about five percent of remittances are sent to and from bank accounts.

New Fed partnership gets the unbanked on board

In an effort to help bank the unbanked on both sides of the border, the Federal Reserve Banks and Banco de México have collaborated with Banco del Ahorro Nacional y Servicios Financieros, S.N.C, commonly known as

Bansefi, a government-owned development bank in Mexico. Through this new relationship, Bansefi and the Federal Reserve Banks have created an innovative internet tool, the Beneficiary Account Registration (BAR) website, which provides access to formal financial services as well as low-cost delivery of money transfers from the United States.

The BAR website, owned and managed by Bansefi, allows banks and credit unions in the U.S. to pre-open an account for a third-party beneficiary in Mexico (who will receive the remittance transfer) at any Bansefi branch throughout Mexico. Through this service, which is available to any financial institution enrolled in Directo a México, users with passwords can access the BAR website to register the beneficiary. The registration process generates a CLABE (Clave Bancaria Estandarizada)—a unique, 18-digit number designated to identify each bank account in Mexico—which can be used immediately by the financial institution to send a money transfer via Directo a México.

To formalize the account and withdraw the funds, the beneficiary needs only to go to the designated Bansefi branch in Mexico with proper identification. The fact that the funds are waiting for the beneficiary creates a great incentive to formalize the account, and more importantly, to enter into the formal financial system. If the beneficiary does not go to the Bansefi branch within 10 business days, the account is formally closed and the uncollected funds are returned to the sender's account in the United States.

The beneficiary's new account is an entry-level savings arrangement called Cuenta con tu Gente, "account with your people." No fees are required to open the account or to access funds at any Bansefi branch. The minimum initial deposit and minimum balance is 50 pesos (approximately U.S. $5).

Currently, the BAR website makes it possible to pre-open an account at any of more than 500 Bansefi branches. The next step is to include the credit union members of L@Red de la Gente in Mexico (see sidebar). If all L@Red de la Gente credit unions choose to participate, more than one thousand locations will be available for U.S. financial institutions to pre-open accounts.

Directo a México's overall goal is to promote efficient, low-cost, account-to-account funds transfers to Mexico. The creation of Bansefi's BAR website has provided another incentive for Mexican consumers in the United States to look to financial institutions for their banking and money transfer needs. ♦

This article was written by Elena Whisler, retail payments project coordinator and program specialist for Directo a México at the Atlanta Fed.

bansefi

banco del ahorro nacional y servicios financieros s.n.c.

Bansefi is a development bank owned by the Mexican government. The Mexican Congress created Bansefi in April 2001, with a mandate to promote savings in Mexico. Bansefi serves as a bank with over 500 branches mainly located in lower-income communities, providing financial services to their customers. In addition, it provides financial assistance, training, and direct access to the payments system in Mexico through a network of credit unions and savings institutions called the Popular Savings and Credit Organizations.

Pago de Remesas en México
L@Red de LaGente

L@Red de la Gente, translated as "The People's Network", is a commercial alliance between Bansefi and the Popular Savings and Credit Organizations. Membership in this network is voluntary. As of mid-2006, it comprised over 94 credit unions and savings institutions with more than 1,280 branches (including Bansefi). All members are regulated by the Mexican National Banking Commission (CNBV), which also regulates all commercial banks. Funds are insured by Fondo de Proteccion, similar to deposit insurance in the U.S., for up to 10,000 UDIs (an index unit of funds used in Mexico) depending on the level of operation of the credit union.

Bringing HBCUs Back to Their Communities

SINCE 1837 HISTORICALLY BLACK COLLEGES AND UNIVERSITIES (HBCUS) HAVE BEEN PRODUCING AFRICAN AMERICAN LEADERS: DR. MARTIN LUTHER KING, JR., THURGOOD MARSHALL, LANGSTON HUGHES, OPRAH WINFREY, SAMUEL L. JACKSON AND EDWIN MOSES ARE ONLY A FEW HBCU ALUMNI WHO HAVE MADE SUBSTANTIAL CONTRIBUTIONS TO AMERICAN SOCIETY.

But the importance of HBCUs extends beyond the young women and men they educate. They contribute substantially to economic growth by sending a steady stream of graduates into middle- and upper-income careers. HBCUs have also traditionally worked to improve the economic health of the neighborhoods surrounding their schools, and many include this commitment in their mission statements.

Collaborating to meet pressing needs

Commitment to the community often presents stiff challenges for HBCUs. Some are situated in the middle of well-established urban African-American communities, while others are in the heart of rural America. Regardless of their surroundings, institutions are faced with the need to adapt to a changing world. Shifts in demographic trends, economic structures, land-use patterns, social forces, government policies and funding patterns all affect a school's ability to address community needs.

Inadequate affordable housing, high unemployment rates, lack of accessible child care, below-par secondary schools, shortage of affordable health care and elevated crime rates create a daunting scenario for HBCUs trying to make a difference in their communities.

Addressing such issues is not a job for the HBCU alone, but one that calls for strong partnerships and coalitions with neighborhood and political leaders, nonprofit organizations, corporations, foundations and the faith community. By forming such alliances, HBCUs can maximize their value as a resource for the community.

The perspective and knowledge afforded by education is an academic institution's most obvious asset. These schools serve as centers supporting research, original thinking and innovative ideas. Faculty and students can offer talent, expertise and problem-solving skills relevant to many facets of community life. HBCUs can also bring the insights of various disciplines, including health care, education, economics, sociology, environmental management, business, information technology, architecture, urban design, and planning.

Although much work can be done through volunteer community service programs, it is unrealistic to expect them to be sufficient by themselves. Adequate funding is critical to make the best use of all the academic and human resources HBCUs can provide.

Over the years, the White House has extended its support to these efforts. In 1980, President Carter signed an executive order establishing a federal program to assist HBCUs working in their communities. Similar executive orders were issued by later Presidents. This money became an incentive prompting many schools to increase their involvement in community initiatives.

Since 1980, the Department of Housing and Urban Development (HUD), which administers the funding, has allocated millions of dollars in grants. But in recent years, funds have become less available, forcing many schools to limit their involvement in community development initiatives. Some have even discontinued their programs.

Sixth District HBCU educators convene

On June 14, 2006, representatives from HBCUs met at the Birmingham Branch of the Federal Reserve Bank of Atlanta to discuss strategies for creating or enhancing community development programs at historically black institutions. Representatives from a dozen schools in the Sixth District identified key issues of concern:

- Preserving and sustaining existing community development programs;
- Obtaining additional grants and subsidies;
- Securing administrative, financial and moral support from college presidents and boards of regents by conveying to them how the programs benefit the school;
- Engaging the broader community.

Dr. Cordell Wynn, president emeritus of Stillman College in Tuscaloosa, Ala., opened with the keynote address, which emphasized the importance of working in partnership with the community. In addition to representatives from the Federal Reserve Bank, officials from HUD, Seedco and the Federal Home Loan Bank Board were on hand to discuss the benefits of their programs.

Benedict College and Benedict Allen-CDC in Columbia, S.C., were cited as models of best practices. The Benedict Allen-CDC has successfully built and rehabilitated neighborhood housing at all income levels to create a more vibrant, mixed-income community. It has also provided a recreational park and plans to implement local broadband internet service. These projects have the added benefit of serving as self-sustaining revenue sources.

Summit yields strategies

Participants in the summit concluded that all HBCUs should be interested in the economic viability of the communities surrounding their schools, stating that it is crucial for academic institutions and communities to foster a shared vision. They noted that concern about the economic health of the community is not solely altruistic; the well-being of the neighborhood has a direct impact on a school's ability to recruit and keep students.

The group also agreed that a community development program can not be successful without the complete support of the school's administration. Searches for top leadership positions at HBCUs should seek candidates with community development backgrounds or those who will support the school's involvement in the community.

HBCUs SHOULD CONSIDER USING THE CDC STRUCTURE TO SEPARATE COMMUNITY DEVELOPMENT ACTIVITIES FROM THE SCHOOL.

Finally, they determined that HBCUs should consider using the CDC structure to separate community development activities from the school. It is critical, they advised, for the CDC to include a number of stakeholders from its community on the board of directors.

They concurred that qualifying for and selling low-income housing or historical tax credits is a viable way for the CDC to obtain funding for building affordable multifamily housing projects. While CDCs should partner with an experienced developer, they must establish a fair partnership agreement to address issues such as fair compensation as well as require periodic meetings and site visits for learning opportunities.

An HBCU-sponsored CDC is eligible for a number of free technical assistance options, and it can compete for grants with other nonprofits. HUD, the Federal Home Loan Bank of Atlanta, and Seedco are a few of the

Benedict College received HUD grants to help support its neighborhood revitalization efforts.

institutions that can provide funding, loans and technical assistance.

In addition to forming CDCs, HBCUs were urged to create educational programs to encourage faculty, staff and students to integrate higher education in a variety of community service, educational and research activities within the community.

In conclusion, HBCUs have great potential as catalysts in addressing the needs of entire communities of which they are a part. Thus it's vital to explore new or better ways to increase their capacity for community and economic development, especially by linking human and financial resources via effective partnerships. ♦

This article was written by Mike Milner, regional community development director in the Atlanta Fed's Birmingham branch.

Photo provided by Federal Reserve Bank of Richmond's Community Affairs office publication *Marketwise*, Issue Two, 2004.

For additional information

Refer to the following article from the Federal Reserve Bank of Richmond's *Marketwise* publication on Benedict Allen-CDC:

http://www.richmondfed.org/publications/community_affairs/marketwise/pdf/mwise2004-2.pdf

The following works examine the relationship between HBCUs and their neighboring communities:

Freeman, Kassie and Rodney T. Cohen (2001). "Bridging the Gap Between Economic Development and Cultural Empowerment: HBCUs' Challenges for the Future." Urban Education 36(5): 585-596

Department of Housing and Urban Development (2003). Minority-Serving Institutions of Higher Education: Developing Partnerships to Revitalize Communities. Washington, DC: 86.

CDFI Investing Made Easy with CARS

WOULDN'T IT BE EASIER AND MORE EFFICIENT TO INVEST IN COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS IF A RATING SYSTEM EXISTED TO PROVIDE AN OBJECTIVE, THIRD-PARTY ANALYSIS?

The newly established CDFI (Community Development Financial Institution) Assessment and Rating System (CARS) makes monitoring CDFI investments easier and more effective. Reports by analysts with CDFI experience consider financials, portfolio and other CDFI information to document any deterioration or improvement.

New CDFI rating system

CARS makes it possible for banks and other investors to access ratings and analyses on a growing number of CDFIs. The Opportunity Finance Network of the National Community Capital Association began analyzing and rating CDFIs through CARS in late 2004, and the number of rated institutions is growing along with investor interest in the new system.

Thus far CARS has rated 22 CDFIs and provides regular annual reviews on rated CDFIs. By the end of 2006 the number will grow to nearly 30. Its clients include some of the largest and best known institutions, such as The Reinvestment Fund in Pennsylvania and Low Income Investment Fund in California, as well as smaller CDFIs like the Florida Community Loan Fund, The Housing Fund in Tennessee and People Fund in Texas.

CARS assesses CDFIs in the areas of impact performance, financial strength and overall performance. Each report includes ratings and a thorough analysis of at least twenty pages with user-friendly summaries, in-depth assessment, financial statements and ratios, and tables showing trends.

Reports cover four key impact performance criteria and provide analysis of capital, assets, management, earnings and liquidity in a "CAMEL" format. It also includes a peer comparison that investors can use to establish a context for the investment opportunity they are considering.

In a recent speech, Federal Reserve Board Chairman Ben Bernanke highlighted the value of CARS for investors and community development:

". . . the Opportunity Finance Network's CDFI Assessment and Rating System (CARS) gathers data to evaluate a CDFI's overall creditworthiness and effectiveness in using its financial resources to achieve its development objectives. A CDFI is rated . . . in a manner broadly analogous to the way a supervisory agency would rate a commercial bank. . . .Although still in its early stages, this initiative, if successful, will have the double benefit of attracting more funds into community development and helping to ensure that those funds are effectively used."

CARS can increase the efficiency and effectiveness of both CDFI underwriting and monitoring. Sixteen leading CDFI investors including banks, socially responsible investors and foundations, are already using CARS in their due diligence process, to structure loan covenants, and to monitor their existing investments.

CDFIs also benefit from rating system

Not only is CARS helping investors, but rated CDFIs are benefiting as well. As investors increase their use of CARS, they demand less information (and thus less time and energy) from rated CDFIs during both the underwriting and monitoring processes. Some investors are beginning to give priority to rated CDFIs and to use the CARS ratings in their covenants. Some are also considering offering discounts to rated CDFIs because lending to them is less expensive.

One of the most significant initial impacts of CARS has been improved transparency and performance on the part of CDFIs. The rigor of the analysis helps CDFIs understand their strengths and challenges, and it motivates them to address issues that will help them improve and achieve a higher rating.

Although CARS is still in its infancy, it holds enormous potential to facilitate investing in CDFIs, to help new investors enter the CDFI market, to help CDFIs improve their performance and, ultimately, to increase the flow of capital to disadvantaged people and communities through sound investments in CDFIs. ♦

This article was written by Kathy Stearns, executive vice president at Opportunity Finance Network.

For more information or to receive a complimentary sample CARS™ analysis, please contact Kathy Stearns at 215-320-4307 or kstearns@opportunityfinance.net.

CARS™

...*the* rating system for CDFIs.

Rated CDFIs (analyses currently available)*

- Coastal Enterprises, Inc.
- Community First Fund
- Federation of Appalachian Housing Enterprises
- Florida Community Loan Fund
- The Housing Fund (Nashville)
- Low Income Investment Fund
- Lenders for Community Development
- Mercy Loan Fund
- Montana CDC
- New Hampshire Community Loan Fund
- Nonprofit Finance Fund
- Northern Economic Initiatives Corporation
- Northland Foundation
- PeopleFund (formerly Austin CDC)
- Primary Care Development Corporation
- The Reinvestment Fund
- Rural Community Assistance Corporation
- Unitarian Universalist Affordable Housing Corp.

* Green text indicates the CDFIs in the process of being rated, or scheduled to be rated. Note: At this time, CARS™ is not rating depository institutions or venture capital funds.

CDFIs in the Pipeline (as of July 2006)*

- ACCION New York
- Arcata Economic Development Corporation
- Boston Community Capital
- Chicago Community Loan Fund
- Clearinghouse CDFI
- Connecticut Housing Investment Fund
- Enterprise Community Loan Fund
- Enterprise Corporation of the Delta
- Greater Berks Development Fund
- Housing Assistance Council
- Housing Development Fund of Lower Fairfield County
- Housing Partnership Network
- Illinois Facilities Fund
- Initiative Foundation
- Kentucky Highlands Investment Corporation
- LISC
- Mile High Housing Fund, Inc.
- NCB Development Corporation
- Nonprofit Assistance Fund
- Partners for the Common Good
- Seedco
- ShoreBank Enterprise Pacific
- South Hartford Initiative
- Spokane Neighborhood Economic Development Alliance
- Vermont Community Loan Fund
- Western Massachusetts Enterprise Fund

Post-Katrina Housing Woes Challenge Residents and Planners

THE POST-KATRINA HOUSING CHALLENGE FACING LOUISIANA AND THE GULF COAST GOES BEYOND SIMPLY REBUILDING PHYSICAL STRUCTURES: IT ALSO ENCOMPASSES THE NEED TO ESTABLISH GUIDING PRINCIPLES FOR CREATING COMMUNITIES THAT ARE INCLUSIVE, HEALTHY AND SAFE.

FEMA reported that 426,773 Louisiana residences and 234,284 in Mississippi suffered damage from Katrina. Of those, 283,838 in Louisiana and 68,729 in Mississippi were completely destroyed. Residents and business owners in flooded communities lost homes, rental property and commercial property—basically the entire community infrastructure.

Plans for rebuilding must look beyond current conditions and demographics to consider the make-up of the citizenry prior to the disaster. Otherwise, planners risk under-investing in affordable housing, making it impossible for previous residents to return to their neighborhoods.

An opportunity to eliminate concentrations of poverty

The hurricane season of 2005 revealed the disastrous consequences of patterns of poverty in the Lousiana and Gulf Coast regions. A recent study by the Brookings Institution suggests that many areas in the United States with demographics and economies similar to those of the communities ravaged by Katrina and Rita have been created through policies that concentrate the poor in segregated inner-city neighborhoods.

A RAND Gulf States Policy Institute study further suggests that lack of information for low-income populations about home financing and affordable housing options has helped to perpetuate poverty in these neighborhoods.

Regardless of the reasons for the widespread disparity in the region, the ultimate goals of rebuilding an equitable Gulf Coast region should be progress and improvement—not simply re-establishing the status quo.

Barriers to rebuilding equitably

The trend in government disaster assistance is to pay more to those who incur larger financial losses. The elderly living on fixed incomes, disabled and low-income populations are not only more at risk after hurricanes, but they are also more likely to experience difficulty acquiring financing for rebuilding compared to more affluent populations who have the means to rebuild, acquire funding through lenders and access larger pools of federal assistance.

Middle-income individuals and families who lost their possessions and the equity in their homes also face hardships as they continue to pay mortgages on mere slabs and incur the added costs of securing new residences. Many middle-income individuals unable to recover from losses have essentially become the new poor.

Until disaster assistance is expanded to include provisions that consider the availibility of resources and funds in conjunction with financial loss, low- and even middle-income individuals and families will find it especially difficult to repair or rebuild their homes following a disaster.

SOME INFLATED LAND AND HOUSING COSTS CAN BE ATTRIBUTED TO THE POSSIBILITY OF REDEVELOPMENT.

The economics and politics of rebuilding

After Katrina, the cost of land and housing in many hurricane-affected areas increased substantially. Some of the increases are fueled by demand for housing while some inflated land and housing costs can be attributed to the possibility of redevelopment. Regardless of the reason for the increases, widespread destruction of property on valuable coastal land is opening the door for private developers and community leaders to re-envision the use and look of some of these areas.

Although Katrina damaged over 234,000 Mississippi residences, 68,729 of which were completely destroyed, only 1,504 formal building permits for new construction and repair were issued in Hancock, Harrison and Jackson counties—the three hardest hit counties—between Katrina's landfall and June of 2006.

Gulf Coast homeowners must jump a number of hurdles to rebuild: Hurricane victims have to settle with insurance companies to determine how much money they will receive to rebuild. They must also understand how or if the plan for recovery in their area will affect their property or its zoning. They must then find contractors and workers who can do the work. And they must ultimately follow new regulations and requirements for rebuilding. For those desperate to see progress or come to a decision about whether to rebuild, the recovery process is slow and sometimes confusing.

Many homeowners have waited for redevelopment plans to be released so they can make informed decisions, but some have decided not to wait and have stickered their property with outrageous price tags in hope that a developer or a casino will meet their asking price. Others fear the city will acquire their land through eminent domain, offering a fraction of the land's future value, or worry that the bank will foreclose and seize the property.

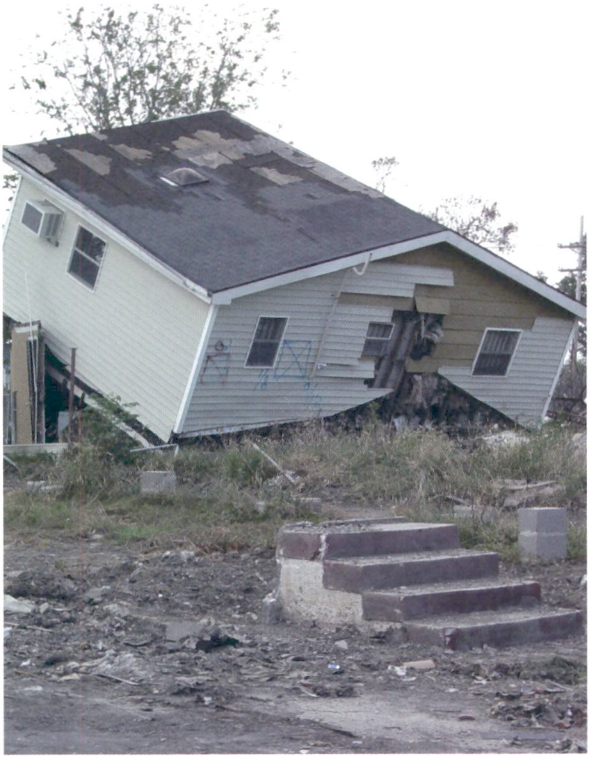
Large numbers of rental properties were lost in Louisiana and Mississippi, and renters are waiting to see if their residences will be rebuilt for lease or sold by the owner for development. Across the board the shortage of rental property is hampering economic recovery in these areas because the low- and moderate-income employees who make up a large percentage of the workforce are unable to find affordable rental property.

The financial stability of residents continues to be compromised by the escalation in costs following Katrina. Although jobs are currently plentiful, pay has not kept pace (except in the casino and gambling industry) with the rising costs of housing, insurance premiums and building materials.

Wind, water and limited credit

As storm victims have turned to insurance companies or lenders for help rebuilding their homes and businesses, many have been met by complications that make them uncertain about whether they will be able to find the resources they need to recover from their losses.

Many policyholders believe their insurance companies have not provided adequate compensation in proportion to their covered losses, and insurance companies have



been widely criticized about their service and performance following the storms. Debate was sparked by insurance companies' assertions that the flooding outside of New Orleans was not a wind-driven occurrence. This opinion, recently reinforced by a federal ruling in Mississippi courts, leaves tens of thousands of insured homeowners in areas hit by 20 to 30 feet of storm surge ineligible to collect on their claims.

Some lenders, including the Small Business Administration, are basing their decisions to provide loan assistance on traditional lending criteria such as the victims' current job status, credit scores and credit history. These qualifiers, especially unemployment, can exclude tens of thousands of people from accessing the funds they need to rebuild their homes and restart their lives.

New Rules and Restrictions

New rules, restrictions and zoning are also affecting construction in Louisiana and Mississippi. Because they are concerned about future disasters, policymakers, insurance companies, mortgage companies and developers have tightened building regulations, changing and adding rules that will govern the rebuilding process. New regulations not only stipulate the designs and materials that can be used, but they also escalate the cost of rebuilding.

FEMA recommendations are particularly important to insurance companies and lending institutions, which use them to determine premiums and to decide whether flood insurance is required with a mortgage.

FEMA's new recommendation in Biloxi, for example, increased the base elevation for construction from 13 feet to 18 feet above the ground, and some elevation requirements extend as high as 27 feet, depending on the location of the property. Estimates for elevating an 800-square-foot home by 12 feet range from $20,000-$50,000, dramatically increasing the cost of rebuilding and severely limiting the number of people who can afford it. Those who fail to comply can be denied building permits from the city and insurance coverage from private companies or the federal government.

Zoning regulations and building codes also affect the ability of disaster-stricken communities to rebuild in innovative and equitable ways.

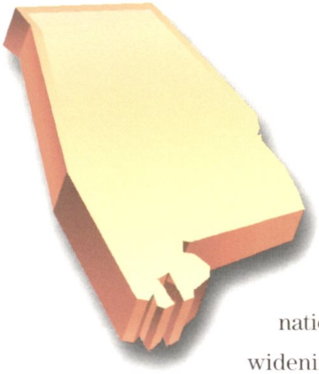
Conclusion

Since the storms affected everyone—the rich, the poor and people of all races and ethnicities—the success of the rebuilding will be largely determined by its inclusiveness. At the very least, local, state and federal leadership should enforce provisions to protect the rights and property of homeowners and renters with plans that are carefully considered, well-informed and equitable. ♦

Selections from "The Bridge," August 2006 special edition, were reprinted with permission from the Foundation for the Mid South.

Photos on page 17 by Mark Wolfe courtesy of FEMA.

Photo on page 19 from Foundation for the MidSouth.



ALABAMA

STATEWIDE COLLABORATIVE PROMOTES FINANCIAL STABILITY FOR INDIVIDUALS AND FAMILIES

In light of diminishing national savings rates and the widening gap between rich and poor, state wealth-building programs are more important than ever. According to CFED's "Assets and Opportunity Scorecard," which gave Alabama an overall "D" grade, the state has room for improvement.

CFED ratings for Alabama were as follows:

- 47th in household net worth development programs;
- 48th in households with zero net worth;
- 50th in households with checking accounts;
- 49th in households with savings accounts;
- 50th in bankruptcy rate.

Coalition responds to dismal data

With this dismal data in mind, a small group of nonprofits, financial institutions, colleges and bank regulatory agencies met last year in Livingston, Ala., to discuss the possibility of creating a statewide IDA (Individual Development Account) coalition.

The group initially envisioned an IDA pool for nonprofits to access in their wealth-building programs for low- and moderate-income individuals. However, they soon realized that many other strategies could be useful in asset building, and the group broadened its structure to form the Alabama Asset Building Coalition (AABC).

AABC is a statewide collaborative that promotes financial stability for individuals and families. By facilitating savings, financial education and other wealth-building programs, the coalition aims to create an economic foundation that will make it possible for under-served residents in Alabama to reach their highest potential. Directed initially by a steering committee, AABC will establish a formal board of directors under a nonprofit with IRS 501(c)(3) status.

AABC's partners include 23 nonprofits, 6 financial institutions, 2 foundations, 4 private companies, 2 city governments, 4 colleges and universities, and 4 government and bank regulatory agencies—including the Federal Reserve Bank of Atlanta.

In terms of funding, the United Way of Central Alabama (UWCA) requested and received on behalf of AABC over $600,000 in grants from the Department of Health and Human Services through the Assets for Independence Act. With matching funds from financial institutions, foundations, employers and local city governments, total IDA program funds have reached $1.2 million.

Unique structure eases bank burden

This IDA program is unique from many in not burdening its financial institution members with cumbersome recordkeeping. Instead, UWCA administers the program and handles accounting, working directly with the coalition members.

Banks participate largely by creating and servicing individual savings accounts. Once individual savers reach their goals, they are awarded a matching grant portion. Typical savers' goals are home purchase, college education or small business investment.

AABC programs are up and running, and IDA accounts are being opened daily. AABC also provides financial education (including the FDIC Money Smart curriculum), IRS educational programs for the Earned Income Tax Credit and the Child Tax Credit, and free income tax preparation services through IRS Volunteer Income Tax Assistance (VITA) sites. ♦

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

NORTH FLORIDA

DISASTER RECOVERY TRAINING IN FLORIDA

Since the 2004 hurricane season, eight hurricanes have ravaged Florida, leaving a trail of unprecedented damage in most regions of the state. Local governments have not only been called upon as first responders in these disasters; they also serve as a critical link for low- and moderate-income citizens to access disaster recovery resources and mitigation tools for future events.

To foster dialogue about these issues, the Florida Community Development Association hosted the first statewide disaster recovery training in Florida for local government housing agencies, community development professionals and nonprofit organizations this November in Orlando.

Designed to provide the tools for local government and nonprofit organizations to access federal, state and private resources for recovery, long-term mitigation and sustainability, the conference also highlighted best practices and lessons learned during the eight disaster events.

Experience with disaster informs planning

The keynote speaker at the workshop, Disaster Housing Chief Roy Dunn with the state of Florida's Emergency Response Team detailed lessons learned during previous disasters. He described ongoing planning at the state level to provide sustainable housing resources in a post-disaster environment and emphasized the importance of collaboration among all levels of government. According to Dunn the fundamental insight emerging from ongoing recovery efforts in Florida is that all levels of government must work closely together alongside private and nonprofit sectors, coordinating their efforts to assist disaster victims.

Intergovernmental partnerships in housing recovery, local government best practices, volunteer coordination, FEMA Public Assistance Programs, housing preservation and hazard mitigation were among the session topics at the workshop. Business recovery and the role of financial institutions in recovery were also discussed, as well as initiatives in the insurance industry to include local government in responding to insurance issues among low- and moderate-income homeowners.

Disaster recovery will continue to be a critical issue in our state, and another recovery workshop is scheduled in 2007. Providing affordable, sustainable housing after emergency housing services are discontinued remains key to the economic health of the community and the region. By assisting in the coordination and facilitation of this conference, the Jacksonville Branch of the Federal Reserve Bank of Atlanta's Community Affairs program demonstrates a part of the Fed's commitment to disaster recovery efforts in the Sixth District. ♦

Disaster Housing Chief Roy Dunn speaks at training session.

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

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