Profitwise
News and Views

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# Alternative IDs, ITIN Mortgages, and Emerging Latino Markets

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FEDERAL RESERVE BANK
OF CHICAGO

Profitwise
News and Views

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## In Brief

# FACTA Makes Free Credit Reports Available to Consumers

The Fair and Accurate Credit Transactions Act of 2003 (FACTA) became law in late 2003 and amended the Fair Credit Reporting Act (FCRA). The main purpose of the FACTA is the prevention of identity theft, and Title II of the act addresses improvements in the use of and consumer access to credit information. The act mandates, among other things, that the three national consumer reporting agencies (CRAs) – Equifax, Experian, and TransUnion – provide consumers with a free copy of their credit report, upon request, once every 12 months.

Credit reports include current and past addresses, bill payment history, and information on lawsuits, arrests, and bankruptcies. The CRAs sell the information in credit reports to creditors, insurers, employers, and other businesses that use it to evaluate applications for credit, insurance, employment, or renting a home. Consumers should review their credit report to make sure the information it contains is accurate, complete, and up-to-date, and to help guard against identity theft.

Free credit reports are becoming available throughout the country (rolling from the West to the East Coast) during a nine-month period, which began December 1, 2004. Consumers in the Midwestern states – Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin – can order their free credit reports as of March 1, 2005. By September 1, 2005, free reports will be accessible to all Americans, regardless of where they live.

Consumers can order free annual credit reports online at www.annualcreditreport.com, by calling (877) 322-8228, or by completing the Annual Credit Report Request form (available at www.ftc.gov/bcp/conline/edcams/credit/docs/fact_act_request_form.pdf) and mailing it to: Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281.

When ordering consumers must provide their name, address, Social Security number, and date of birth. To verify identity, some may need to provide further information, such as a specific monthly payment.

For more information on free annual credit reports, the Federal Trade Commission (FTC) has prepared a brochure, *Your Access to Free Credit Reports* (available at www.ftc.gov/bcp/conline/pubs/credit/freereports.htm), explaining consumers' rights and an in-depth Q&A about accessing free credit reports.

*Visit the Web site of the Federal Reserve Bank of Chicago at:*

chicagofed.org

# Around the District

## Illinois

**Foreclosures Fall in Chicagoland Area: New Report Documents First Drop in Home Mortgage Loan Failures in a Decade**

Chicagoland home foreclosure starts are showing a significant decrease for the first time in nearly a decade, according to a new report by the National Training and Information Center (NTIC), released October 8, 2004, at the Federal Reserve Bank of Chicago.

The report, *Preying on Neighborhoods II: Community Partners Turn The Tide Against Predatory Lending*, includes an analysis with foreclosure maps and lending data statistics for Chicago, the southern suburbs, and Cook, Will, DuPage, Kane, Lake, and McHenry counties. Foreclosure starts are signs of severe financial distress among homeowners. The report offers reasons to hope a 10-year trend is turning around.

*For additional information, or a copy of the report, contact Joseph Mariano, NTIC executive director at (312) 243-3035.*

## Indiana

**Innovative Online Business Resource for Hoosiers**

The largest online resource collection for Indiana small business owners has recently been made available.

SmallBizU is the first online university created specifically for small businesses and entrepreneurs. Made available to Indiana residents through the Indiana Department of Commerce, this program is the largest collection of entrepreneurial training resources available on the Web.

"The online courses are designed to help small businesses keep their workforce competitive in the global markets, and promote the capacity to meet challenges and create valued products," said Lt. Governor Davis, who leads the state's economic development efforts as director of the Indiana Department of Commerce.

*For more information, visit www.smallbiz.in.gov.*

## Iowa

**Nine Iowa Cities Receive HUD Funding**

In December 2004, the state of Iowa received funding from the federal Department of Housing and Urban Development (HUD) for nine projects to revitalize downtown buildings in The Main Street Iowa projects. This funding totals nearly $500,000, and will be used to help create jobs and restore the beauty and luster of Iowa's downtowns. The nine cities receiving grant monies from the Iowa Department of Economic Development are: Dubuque, Corning, Waterloo, State Center, Bedford, West Des Moines (Valley Junction), Jewell, Charles City, and Burlington.

HUD's Neighborhood Initiative Account for Special Projects is the source of the financing, which has provided nearly $1.5 million to Iowa cities under the project since 2002.

*For more information on the Main Street Program, go to www.iowalifechanging.com/community/mainstreet.*

## Michigan

**HUD Approves $17 Million Loan Guarantee to Expand Detroit's Cultural Center**

Detroit's Cultural Center is in store for a makeover because of a $17 million loan guarantee approved by HUD Secretary Alphonso Jackson. Eighteen blighted parcels of land, including several historic buildings that are currently abandoned or underutilized, will be home to three new parking garages, art galleries, a performing arts theatre, new apartments, a restaurant, and coffee shop.

*For more information, call HUD's Detroit office at (313) 226-7900.*

## Wisconsin

**Public Policy Forum Releases Report on Regional Revenue Sharing Strategies**

The Milwaukee-based Public Policy Forum recently issued a report exploring alternatives to address Wisconsin's ongoing attempts to resolve shared revenue issues between state and local governments. The report, *State Shared Revenue and the Future of Regional Cooperation,* finds that "Regional cooperation that acknowledges the regional economy and addresses fiscal disparities to reap benefits for all jurisdictions in the region," holds the most promise.

*The full text of the report is available at www.publicpolicyforum.org/research.php.*

# Alternative IDs, ITIN Mortgages, and Emerging Latino Markets

W-7
Application for IRS Individual Taxpayer Identification Number
MEXICO
MEXICO

By Mari Gallagher

*The author gratefully acknowledges and thanks Mark Doyle of Second Federal Savings Bank, Michael Frias of the FDIC, Rob Paral of Rob Paral and Associates, Harry Pestine and Kathleen Toledano of the Federal Reserve Bank of Chicago, Jeanne Hogarth and Marianne Hilgert of the Board of Governors of the Federal Reserve System, and the author's many colleagues at MCIC for their many contributions to this emerging body of work.*

## Overview

Mainstream financial institutions – banks, savings and loans, and credit unions – create and allocate capital and economic opportunities through their central and defining function of taking in deposits and making loans. This process determines where credit and capital will flow.[1] As such, it shapes nearly every aspect of our social, economic, and built environment. Market forces and regulatory structures behind this flow are powerful and, at times, contentious. Banking practices and public policy influence one another continually, but are continually impacted most by emerging market conditions.

It is significant that the last five years have seen proliferation in: 1) local bank branches, particularly in Latino markets; 2) transnational cooperation among governments, regulators, and corporations, as well as new technologies that together have encouraged the use of mainstream financial products among Latino immigrants living in the U.S. and family members in the home country receiving remittances; 3) alternative banking products and credit scoring; 4) free checking and other incentives to respond to the competitive marketplace; 5) public and private sector programs and partnerships to reach the unbanked; and 6) the view that "banking" the "unbanked" Latino customer is an attractive pursuit.

It is also significant that banks are now making loans to undocumented Latinos – primarily Mexicans – in increasing numbers. For many large financial institutions, the silos of compliance, with respect to documentation, and new markets have intersected for the first time.

The banking industry finds the Latino market valuable because of its size, rate of growth, cross-selling opportunities, and customer referrals (friends and family members) further up the economic ladder. Consumer and community advocates find banking relationships valuable because they mitigate the expenditure of resources associated with other financial transactions (time, effort, and money), leaving more disposable income, energy, and purchasing power. Depository accounts eliminate the need to carry or store large amounts of cash "under the mattress," reducing incidence of theft. Consistent account usage – deposits and withdrawals – encourages savings and can help to establish a credit history. Bank usage, in turn, facilitates upward economic mobility through the acquisition of other mainstream financial products: certificates of deposits, credit cards, individual retirement accounts, and loans for education, small businesses, and housing.[2] In other words, market decisions within the banking industry shape the ability to build assets and create wealth in ways that affect individuals and their households, and investments and growth patterns in local and regional economies.

Regulators have consistently promoted mainstream banking access and use for low-income individuals and other marginalized groups as part of Community Reinvestment Act compliance, though not at the expense of safe and sound business practices.

Ninety-three percent of non-Hispanic Whites have bank accounts, compared to only 63 percent of African Americans, 43 percent of all Latinos, and 25 percent of Mexican immigrants. How can Latino immigrants – particularly Mexicans – be encouraged to enter the mainstream banking system? One strategy has been the development and acceptance of alternative identification, such as the Matricula Consular Card (now called the High

Security Consular Registration Card or, in the remaining portion of this article, the Consular Card) and the Individual Tax Identification Number (ITIN). Foreign or U.S. government-issued cards such as these are acceptable forms of identification under Section 326 of the USA PATRIOT Act.

Electronic methods are an increasingly popular method for sending remittances. During the past three years, electronic transfers increased 145 percent. Industry observers suggest that this increase is partly due to U.S. and Mexican alliances to allow Mexican citizens living in the United States, documented and undocumented, to open accounts through the use of alternative identification cards.[3] In 2003, the Partnership for Prosperity report addressed to President Vicente Fox and President George W. Bush also cited alternative IDs as a major contributor to this upward trend.

The market response by financial institutions has in many cases gotten ahead of the varying state laws regarding alternative identification for undocumented immigrants. This has led to some political challenges for banks, and misunderstanding among undocumented customers and potential customers.

The purpose of this article is to share research on the use of these alternative identification cards in the banking industry and new information on the rise of the ITIN mortgage market.

## Background on Consular and ITIN Cards

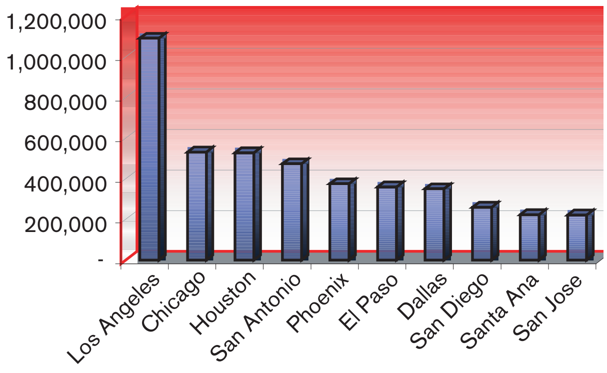
MCIC and the Federal Reserve Bank of Chicago cosponsored a forum in February 2004 that focused on the increasing use of Consular Cards and ITINs at financial institutions throughout the United States. Approximately 200 people attended. Represented were 12 foreign consulates, 36 banking institutions, and 14 government offices. Nonprofit service agencies, alternative lenders, regulators, and research organizations also attended. Over two dozen participants came from other states specifically to attend the forum, and three came from other countries. The panel discussion included representatives of the Federal Reserve Bank of Chicago, the IRS, Freddie Mac, Second Federal Savings Bank, Latinos United, and the Illinois Coalition for Immigrants and Refugee Rights. Following are the "lessons learned" from the forum and related research findings.

The **Consular Card** is an alternative form of identification issued by the Mexican Consulate since the 1870s to Mexican nationals, regardless of their legal status, living in the U.S. To obtain a card, an individual needs to present a Mexican birth certificate, another official identity document such as a Mexican voter's registration card or driver's license, and documentation that attests to that person's address in the U.S., such as a utility bill. The card bears the individual's photograph and U.S. address. In response to the terrorist attacks of September 11, 2001, this photo ID was enhanced with 13 security features.

The ITIN, a nine-digit number that begins with the number 9, was created for taxpayers who do not qualify for a Social Security number. The IRS has issued more than 7 million ITINs since 1996, when the policy was enacted. Many undocumented immigrants living in the United States pay taxes (such as payroll taxes) and need ITINs for that purpose. One also needs an ITIN to open an interest-bearing account if a Social Security number is not obtainable.

Consular Cards and ITINs have opened a new door of opportunity to previously unbanked immigrants. Once they establish credit in the U.S., they may be offered credit cards, home and business loans, investment advice, and other bank services. In the absence of a Social Security number, ITINs are acceptable forms of ID for mortgage applications, although to date the formal secondary mortgage market is not buying and securitizing the loans. This means that banks must portfolio them, self-insure them, and pass on these extra costs to the ITIN bearing customer. As of September 2004, there were 18 banks and one credit union that accept ITINs for mortgage underwriting; TCF Bank and Fifth Third Bank are the largest institutions. TCF made a public announcement citing the size and attractiveness of the market. The Minnesota-based bank has $11.7 billion in assets nationwide and more than 190 branches in Illinois. Most of the financial institutions engaged in the ITIN mortgage market are small community lenders, such as Second Federal Bank, which serves the Chicago metro area, and Mitchell Bank, which serves the Milwaukee area. Three private mortgage insurers are providing Private Mortgage Insurance (PMI) to ITIN mortgages. Several banks report excellent repayment performance – no "late pay" histories and no defaults – although industry data is not centralized,

### Chart 1: Top 10 Cities with Mexican Ancestry Population



and institutions are in the early stages of performance tracking.

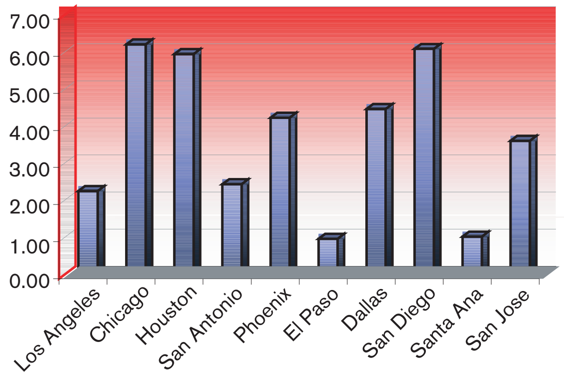
## National Practices

Today, approximately 30,000 out of roughly 88,000 total bank offices across the country accept Consular and/or ITIN cards, and Chicago leads the nation with respect to its proportion of banks that accept these alternate forms of identification to Mexican ancestry population.[4]

We can also see Chicago's dominance by comparing it to the Los Angeles experience. Chicago has 2.9 million total residents, of which 530,000 (18 percent) are of Mexican ancestry, not including those that are undocumented. Los Angeles has 3.7 million total residents with more than 1 million people (30 percent) of Mexican ancestry. In other words, Los Angeles has twice the Mexican ancestry population of Chicago, a longer history of Mexican ancestry residents, and a much higher ratio of Mexican ancestry population to the total population.

Yet the Chicagoland banking industry appears to be pursuing the Mexican American market more aggressively. In Los Angeles, there are 2.3 banks that accept the Consular Cards as identification per 10,000 Mexican ancestry population compared to 6.2 banks in Chicago.

### Chart 2: Accepting Bank Offices Per 10,000: Mexican Ancestry Population



Chicago has more total bank branches than Los Angeles, but Illinois has fewer bank branches than California. How do these two states compare in terms of banks and branches that accept alternative IDs? Illinois has approximately 14 accepting branches compared to California's approximately four accepting branches per 10,000 Mexican ancestry population.

Free maps and other information on these patterns can be found at www.mcic.org.

## Understanding Latino Market Dynamics

One cannot understand the opportunities of the undocumented immigrant financial services market in the Chicago region without placing it in context of larger Latino market dynamics. In 2000, there were 281.4 million residents in the United States. Of those, 35.3 million, or 12.5 percent, were Hispanic, meaning that one person in eight was of Hispanic origin. This number includes people from Cuba, Central or South America, Mexico, Puerto Rico or some other Latino origin, and Hispanic Americans as well as immigrants.

The Hispanic population is the fastest growing segment of the U.S. population. Between 1990 and 2000, the nation's Hispanic population grew by 57.9 percent, from 22.4 million to 35.4 million. This compares to a 13.2 percent increase for the total U.S. population. More than half of the Hispanic population is of Mexican ancestry (58.5 percent). According to the U.S. Census Bureau, if this trend continues, by 2020 there will be over 82 million Hispanics in the U.S. – one out of every three U.S. residents. Slightly less than half of all Hispanics lived in central cities within a metropolitan area (45.6 percent) compared with slightly more than one-fifth of non-Hispanic Whites (21.1 percent).

Although the Mexican population in Chicago is smaller than that of Los Angeles, Mexicans represent a much larger percentage of the total Hispanic population. In Chicago, of the 753,000 Hispanics, 70 percent are of Mexican origin. This includes both documented Mexican immigrants and the native-born population who claimed Mexican ancestry on their Census form.

## Homeownership Opportunities and Challenges Among Immigrant Populations

Homeownership is the number one way that Americans build assets for a secure future, and improve their overall quality of life. A home is an investment that usually appreciates in value and whose equity can be accessed for important financial needs, such as starting a business or sending a child to college. Homeownership correlates with community investment and revitalization, as homeowners are more apt to protect and invest in their surroundings. Homeownership also contributes to local and national economies.

Immigrants also use homeownership to build a secure future, though not with the same frequency as native born. Immigrant homeownership rates lag the rate of the general population, and many programs and lending products have been geared to the special needs of immigrants in an attempt to reverse this trend. Immigrant homeownership challenges and opportunities are likely to accelerate in this decade, in part due to the sheer numbers of new immigrants entering the country. For

### Table 1: Chicago's Immigration Patterns: 1990-2000

| | 1990 Population | % of 1990 Total | 2000 Population | % of 2000 Total | % Change |
|---|---|---|---|---|---|
| Total foreign born | 469,117 | 17% | 628,708 | 22% | 34% |
| Naturalized citizen | 177,398 | 6% | 223,942 | 8% | 26% |
| Not a citizen | 291,719 | 10% | 404,766 | 14% | 39% |

example, the number of foreign-born households in the United States increased by 4.3 million during the 1990s, more than double the increase in the previous decade. A study conducted by Analysis and Forecasting Incorporated revealed that immigrants accounted for 31 percent of total household growth in the 1990s. The number of foreign-born homeowners grew by 2.2 million last decade, triple the increase in foreign-born owners during the 1980s.

Between 1990 and 2000, the foreign-born population in Chicago also increased substantially. Currently, 22 percent of the residents of the city are foreign born – a level of immigrant population that has not been seen since the early twentieth century.

Immigration has become a suburban, statewide, and regional phenomenon. Local economies on the upswing – whether dominated by textiles, services, or agriculture – will likely continue to attract both documented and undocumented immigrants. New destination states, such as Georgia and Tennessee, are seeing the most dramatic increases. For example, in Dalton, Georgia (the self-described rug capital of the world), the local school population is now dominated by children of Mexican nationals. In Nashville, Tennessee, the local immigrant and refugee population (Mexicans and all nationalities) climbed 68 percent, from 1990 to 2000, to 39,596 people, yet these figures are well below state-wide increases: Georgia's foreign-born population increased 233 percent this past decade and Tennessee's increased 169 percent.

### Industry Pressure Points

Currently, the secondary market is not active in buying ITIN mortgages, yet the primary market is active, particularly in the larger Chicago area.

Despite the growing interest in ITINs and recent press on new trends (see Crain's articles of April and July 2004, and the Chicago Tribune article of December 2004, which cites MCIC analysis), new data, information, and projections are needed to fully size the undocumented Mexican market. Even in the absence of branded information sets, niche community banks such as Second Federal Savings are already making these loans and holding them in their portfolios. Anecdotal accounts on the performance of these loans are positive, but, again, there is no commonly available industry documentation quantifying performance.

Large financial institutions are privately assessing the ITIN mortgage market. This presents an opportunity for the larger market, but also a threat to small, niche lenders who are already testing the market at their own risk. In short, the niche players are creating the market, but they can easily lose it to the bigger players that come in once the pioneering work is done.

The regulatory community cites language in Section 326 of the PATRIOT Act in explaining that Consular and ITIN cards are acceptable forms of IDs. Nonetheless, the small players making these loans might feel pressure to demonstrate their safety and soundness compliance. This takes a commitment of time and resources, the cost of which is often harder for smaller institutions to absorb. The market is new and exploratory. While it is each institution's responsibility to demonstrate the performance of their own portfolio, it is difficult to draw conclusions about the viability of the ITIN mortgage market overall.

Pressure is mounting for government-sponsored entities such as Freddie Mac, Fannie Mae, the Federal Home Loan Bank System, and other actors, to quantify the risks and benefits of buying, funding, and/or insuring ITIN mortgages. Inconsistent state laws regarding acceptable forms of identification for obtaining driver's licenses and other benefits and services potentially complicate this task.

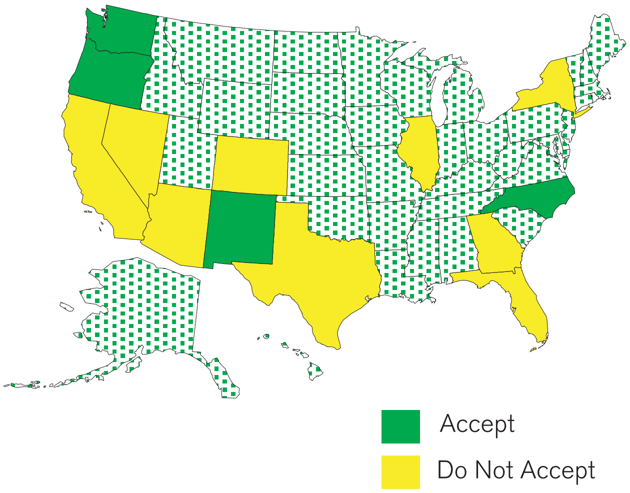
For example, regarding driver's license acquisition:

- 10 states accept the Consular Card
- 5 states accept the ITIN
- 22 states have state laws that require the license to expire concurrently with an immigrant's visa
- 23 states have lawful presence laws, meaning that it is written into the law that only legal residents can obtain a driver's license
- In some cases, states have policies or practices that allow a temporary or specific-use license regardless of immigration status

Policy to accept alternative identification does not correlate with the sitting governor's party or the number or proportion of Mexicans in that state. Of the 10 states where state policy is to accept the Consular Card as documentation to obtain a license, six have Democratic governors and four have Republican governors.

Map 1 shows all states with at least 100,000 or more Mexican immigrants and their state (driver's license)

### Map 1: States That Have 100,000 or More Mexican Immigrants by Consular Card Policy



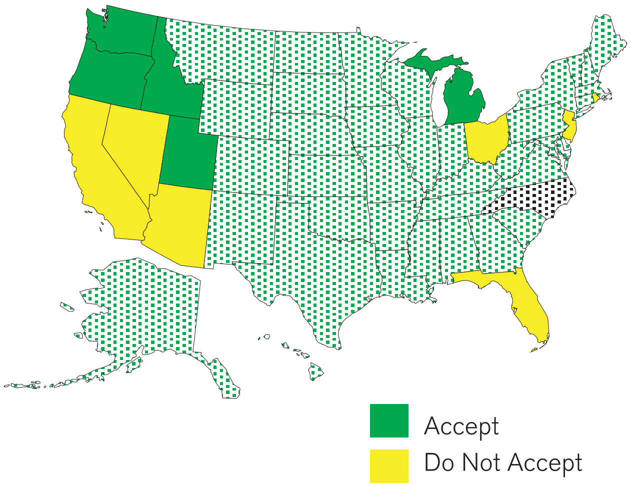
policies on Consular Cards. Those shaded in green accept the card; those shaded in yellow do not.

Of the states where at least 40 percent of all bank branches accept alternative identification cards:

- 7 have Republican governors
- 7 do not accept Consular Cards
- 8 have lawful presence laws related to obtaining a driver's license
- 11 do not accept the ITIN[5]

Map 2 shows all of the states where at least 40 percent of bank branches accept alternative identification cards by state policy regarding Consular Cards for obtaining a driver's license. Those shaded in green accept the cards; those shaded in yellow do not. This variation has led to some political challenges for banks, which are pursuing the market most aggressively in states with high Mexican concentrations, and to some confusion and mistrust among documented and undocumented customers and potential customers, particularly migrants who routinely live in several states each year and have difficulty keeping up with each state's practices.

### Map 2: States Where at Least 40 Percent of Bank Branches Accept Alternative IDs by Consular Card Policy



## ITIN Mortgage Case Study: Second Federal Savings of Chicago

The undocumented Mexican population living in the United States poses unique underwriting challenges. Many have been in this country for many years – some even decades. Anecdotes from immigrant advocacy groups and others suggest that a substantial number have achieved economic and social stability and some have achieved a fair measure of professional and personal success. However, their lack of official status has historically restricted or discouraged participation in mainstream financial activities, such as opening a checking or savings account, paying bills and rent by check or electronic means that can be easily traced, and receiving income that can be verified through conventional methods. Mexican immigrants in particular tend to be "under-banked" and have established few formal ties – and in many cases no ties – to credit channels typically assessed by underwriters. Many fear that they will lose money placed in banks if they ever are deported.

Under the Equal Credit Opportunity Act, a bank may consider the applicant's residency status in the U.S., the applicant's immigration status, and any other information necessary to determine the creditor's rights and remedies in case of default. For example, a bank can distinguish between a noncitizen who is a long-time resident with permanent resident status and a noncitizen who is temporarily in this country on a student visa.

Community banks – often understaffed and besieged by eager brokers with mortgage deals in hand – need to ensure proper screening and documentation. Dual identity issues are likely to be challenges for all institutions engaged in ITIN mortgages, as some applicants are likely to have an ITIN and an invalid Social Security number.

Second Federal Savings has developed alternative underwriting criteria and methods in an effort to respond to the needs of the market and to meet safety and soundness. The underwriting process for ITIN mortgages primarily focuses on establishing true customer identity, credit worthiness, and income verification.

Many Mexican families in Second Federal's market rely on extended family members, friends, and networks to carry out shared domestic, social, and economic functions of the household. The family unit is often comprised of mixed status residents, some with legal residence status and some with undocumented status.

### Table 2: A Summary of Second Federal's Underwriting Criteria Compared to the Mainstream Market

| Mainstream Market | Second Federal ITIN Market |
|---|---|
| **Income** | |
| 24 months employment in same type of work | 12 months employment in same type of work |
| Cash income not allowed | Some cash with employer letter allowed |
| 2 years tax returns and W-2s, pay stubs/VOE[a] | Pay stubs and VOE in lieu of W-2s/tax returns |
| 75% of verifiable border income | 75% of verifiable border income |
| 75% rental credit added to income | 75% of rental credit deducted from PITI[b] |
| Debt-to-income[c] ratios 41/45 with DU[d] | |
| Debt-to-income ratios 28/36 without DU | Debt-to-income ratios 45/45 without DU |
| Automated underwriting by Fannie Mae | |
| **Credit** | |
| 24 months – 4 trade lines | 12 months – 3 trade lines/alternative sources |
| Credit score driven | Credit score weak tool/tends to be inaccurate |
| Credit verified by Social Security number | Credit verified by SSNs used and ITINs |
| Collections over $250 must be paid | All collections must be paid |
| **Collateral** | |
| 1-2 Units – LTV[e] 95% with PMI | 1-2 Units – LTV 95% without PMI |
| 3-4 Units – LTV 80% | 3-4 Units – LTV 90% without PMI |
| Down payment funds – 3% from borrower | Down payment funds – 3% from borrower |
| Down payment funds must be seasoned | Seasoning of down payment funds not required |
| Seller contribution – maximum 3% | Seller contribution – 1-2 no max. 3-4 6% |
| Appraisal – can be exterior only in some cases | Appraisal – always interior and exterior |
| **Identity** | |
| U.S. Citizen or Permanent Resident Alien | Must have an ITIN # or completed W-7 at SFS |
| State issued picture ID | National picture ID (e.g., Consular Cards, passport) |
| **Depository Account** | |
| Must show at least 2 months PITI reserve | Account at SFS/monthly payment auto drafted |
| **Other** | |
| Homebuyer counseling – 95% LTV | Homebuyer counseling – 90% LTV |
| Standard process for applicants | Hands-on process, additional documentation |

[a] VOE – verification of employment form.

[b] PITI – the total housing monthly cost of principal, interest, taxes, and insurance.

[c] Debt-to-income ratio – PITI ÷ gross monthly income/total monthly debt payments ÷ gross monthly income.

[d] DU – Desktop Underwriter – Fannie Mae's proprietary underwriting tool for approved mortgage seller/servicers.

[e] LTV – loan-to-value ratio, or the total mortgage amount divided by appraised value of home.

ITIN mortgages in Second Federal's portfolio typically have multiple contributors listed as part of the borrower team. Second Federal allows multiple wage earners who plan to continue cohabitating to coqualify for the mortgage as a household. Furthermore, borrowers can have a coborrower who does not occupy the mortgaged unit. However, when processing a loan with a nonoccupant coborrower, the applicant that intends to reside in the property must use 5 percent of their own funds for down payment and closing costs if the loan-to-value ratio is greater than 80 percent.

Boarder income is allowed if there is reasonable assurance that it will continue for at least one year after purchase. Boarders can include extended family members, such as a cousin, or more formal arrangements.

Applicants are required to complete a home buyer education program if they are first-time homebuyers. Training options are reviewed and approved by Second Federal Savings. Second Federal partners with local organizations, such as the Resurrection Project, to provide the training, but other providers are also allowed.

Industry experts speculate that, over the years, some undocumented residents (Mexicans and other nationals) have obtained mortgages with invalid Social Security numbers. The secondary market has likely purchased some of these mortgages. These mortgages are thought to be a very small share of total mortgages. However, on occasion, ITIN mortgage applicants are not first-time homebuyers. Documenting the true identity of each applicant and past identity paths and actions, then assessing their credit worthiness is time-consuming work, which might explain why, to date, smaller banks are more active than larger banks. Table 2 is a summary of Second Federal's underwriting criteria compared to the mainstream market.

Latinos generally, and Mexican documented and undocumented residents specifically, will likely provide a key growth area for the mortgage market. Investor interest in this market will take hold if data, trend analysis, and new information developed through pilot programs indicate that performance falls within the industry's risk tolerances.

The community development impact of increased homeownership among undocumented populations has the potential to transform communities. As a follow-up to the forum cosponsored by the Federal Reserve Bank of Chicago, MCIC received e-mail correspondence from over 100 service providers, community development coalitions, and lenders from across the country who were seeking more information, underwriting guidance, and best practices.

MCIC's projections suggest that the ITIN mortgage market for undocumented Mexicans is huge, untapped, and growing. Recently, MCIC projected the size of the market by Illinois county, by specific towns and suburbs of the Chicago metro area, and by Chicago community area. These maps are now available at no cost on MCIC's Web site. Visit www.mcic.org to view the maps and to subscribe to the E-list (free of charge) to ensure that you receive future maps and publications.

**Notes**

[1] Hoffmann, Susan, *Politics and Banking*, The John Hopkins University Press, 2001.

[2] Federal Reserve Board "The Unbanked–Who Are They?" *Capital Connections* 3:2 (Spring 2001).

[3] 2003 data collected by MCIC.

[4] Cited in the *Partnership for Prosperity Report* to President Vicente Fox and President George Bush in 2002, a forum cosponsored by the Federal Reserve Bank of Chicago and MCIC in 2004, a Federal Reserve Bank of Dallas publication in 2004, and an Office of the Comptroller of the Currency publication in 2004.

[5] Only five states in total accept the ITIN.

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# Community Banks: What is Their Future and Why Does it Matter?

By Robin Newberger and Robert DeYoung

The U.S. banking system has undergone a dramatic restructuring since the 1970s. One of the biggest changes is the reduced number and market share of community banks. The number of banks with less than $1 billion in assets – a common definition of community bank – has declined from approximately 14,000 in 1980 to about 7,000 today. Concurrently, the proportion of assets held by the ten largest bank holding companies increased from less than 25 percent to more than 75 percent, while community banks' share fell from about one third of the market to well under one fifth.

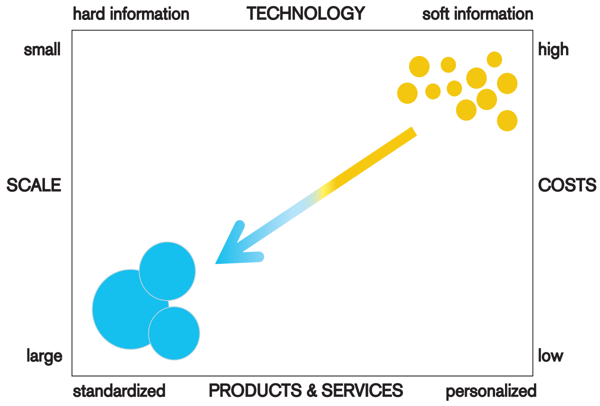
This article reports on recent research by economists at the Federal Reserve Bank of Chicago that examines the long-term viability of the community bank business model.[1] This line of research originated with a strategic map, Figure 1, of changes to the banking industry over the past two decades and their effects on commercial bank behavior.

The map indicates that community banks continue to pursue a traditional strategy that provides differentiated banking products and services, but requires high per-unit production costs. In contrast, the map indicates that large banks have moved away from traditional approaches and increasingly pursue a low-cost, high-volume retail strategy. Because it is logical to assume that the new larger bank business model is more profitable than the old one, a natural question arises: if the driving forces behind this bifurcation are permanent, is the traditional community banking model still a viable business strategy?

This question has important implications for local economic development. Small, locally-focused banks channel a larger proportion of their loanable funds to small businesses than large banks. In many small towns, these loans can represent a substantial portion of total available business credit, which in turn may affect job creation and the overall economic health of an area. A reduced community bank presence in a particular region may also impact the Community Reinvestment Act (CRA) related activities that take place in those areas, even if the community banks are replaced by branch offices of large banking companies. Large banks must pass CRA lending, investment, and service tests, but each branch is not required to pass the tests individually. In addition, recent reductions in the number of community banks may impact growth in community development financial institutions (CDFIs); community banks sometimes seek and receive CDFI certification and support from the federal government to provide financial services in markets with few mainstream financial institutions.

The analysis begins in the 1970s and 1980s, when a set of strict federal and state banking regulations largely shielded community banks from outside competition. There were extensive geographic limitations on branch banking, and non-bank financial institutions were prohibited from offering many traditional banking products. Small investors had few liquid alternatives to bank deposits before the advent of money market mutual funds and other new retail investment products. The combination of these restrictions allowed community banks to act as significant players in the investment, residential mortgage, consumer finance,

## Figure 1: Strategic Map of U.S. Banking Industry



and payments markets. In this environment, most banking institutions followed the traditional small-scale, high-cost strategy of offering personalized products and services.

Deregulation and technology transformed the banking industry in the 1980s and 1990s. Barriers to interstate banking were gradually eroded in the 1980s, and were eliminated by the Riegle-Neal Interstate Banking and Branching Efficiency Act in 1994. In 1999 the Gramm-Leach-Bliley Act effectively repealed the Glass-Steagall Act, which had largely prevented commercial banks, investment banks, brokerage houses and insurance companies from competing with each other. These regulatory changes exposed both large banks and community banks to increased competition from each other as well as from non-bank financial institutions.

This competition was further fueled by new information and communications technologies, financial markets, and production techniques that dramatically altered the cost structures and optimal operating scale of many banking services. Among other advances, internet banking and electronic-based payments diminished the importance of bank location; credit scoring significantly reduced the marginal cost of underwriting a consumer loan; and asset securitization facilitated the large-scale “commoditization” of auto loans, mortgage loans, and student loans. These developments have eroded community banks’ traditional comparative advantages – which are based on small scale, local focus, and relationship-building – over large banking organizations.

These regulatory and technological changes created incentives for banks to grow larger – and acquiring other banks was the fastest way to grow. At first, banks from adjoining markets participated in modest mergers; mega-mergers between increasingly large banking companies followed. As bank size increased, the largest banks gained access to the lowest unit cost structures (many banking services exhibit scale economies). The size of operations allowed large banks to apply the new production technologies more efficiently, such as automated underwriting, securitization, widespread ATM networks, and electronic payments, which reduced unit costs even further. At the end of this process, retail banking at large banks was ultimately transformed into a high-volume, low-cost ‘financial commodity’ strategy, which offered few personalized services and relied on automated production techniques.

Although many community banks have also grown larger via mergers, they have continued to occupy the same strategic ground as in the past. Their relatively small size elevates their costs, but their local economic focus and person-to-person ethos give them a competitive advantage at relationship lending. Relationship lenders rely less on ‘hard,’ quantitative financial information about their borrowers that can be fed into an automated credit scoring model, and rely more on ‘soft,’ qualitative information about their borrowers that they have accumulated over time through the breadth and depth of their customer relationships. This approach allows them to: assess the creditworthiness of unique small business customers; better understand the needs of their local deposit customers; and deliver high-quality, personalized banking services to both.

Call report data[2] from the Federal Deposit Insurance Corporation (FDIC) in 2003 indicates clear differences between large banks and community banks in terms of their size, production methods, output mix, and financial structure, consistent with the strategic map analysis.

- At $60 billion, the average large bank is around 100 times larger than the average large community bank.
- On average, credit card loans (a classic financial-commodity product) comprise nearly 10 percent of the loans held by large banks, but less than 1 percent of the loans held by community banks.
- On average, small business loans (a classic relationship product) comprise less than 5 percent of the loans held by large banks, but between 10 and 15 percent of the loans held by community banks.
- On average, community banks finance between 40 and 65 percent of their assets using local household and business deposits, compared to only about 30 percent for large banks.
- Community banks operate considerably more physical office locations per customer, and employ more bank workers per customer, than do large banks – suggesting both higher costs per unit as well as higher levels of convenience and personal service.

But the bottom line for bank survival is profits. In terms of the strategic map analysis, the community bank strategy is profitable only if community bank customers are willing to pay high prices for personalized service, offsetting their high unit costs. In contrast, the large retail bank strategy is profitable only if their costs are low and financial services volumes large, because of their commodity products that generate very slim profit margins.

Can community banks compete in terms of profitability? Recent data on return on equity (ROE), a standard measure of profitability, gives a qualified indication that well-managed community banks can indeed be competitive against larger banking companies. The analysis defines a ‘best practices’ community bank as one that earned a ROE above the median for its peer group. On average, large and medium-sized best-practices community banks earned ROEs of 17.8 percent and 16.9

percent, respectively, in 2003.[3] This is quite comparable to the average ROE of 16.0 percent earned by all large and midsized banks in 2003. (Analysis using data from other years, and other groups of years, produces similar results.) Moreover, the profits earned by community banks also tend to be stable over time, likely because of the relationship nature of their business model. The Sharpe Ratio, a measure of profitability that adjusts for earnings volatility, shows that risk-adjusted profitability at large and medium-sized community banks tended to equal or exceed levels generated by large banks and mid-sized banks between 1995 and 2001.[4]

While community banks cannot compete in every segment of the financial services market, these comparisons suggest that the traditional community bank business strategy can earn satisfactory rates of return – but there are two crucial caveats. First, the best-practices analysis indicates the importance of being well-managed; for example, worst-practices large community banks earned only a 9.3 percent ROE on average in 2003. Well-managed banks do a superior job of controlling costs, screening for creditworthiness, minimizing interest rate risk, servicing depositors, applying new processes and techniques, cross-selling financial products, and many other tasks that enhance profits.

Second, although community banks are very small relative to large banking companies, they can benefit from substantial scale economies by getting larger; for example, ROE at best-practices small community banks in 2003 was only 14.4 percent on average. Small community banks are penalized by their lower scale of operations. By growing larger, these banks could potentially spread their fixed overhead expenses over more customers, better diversify their portfolios, and use greater financial leverage, all of which enhance profitability. The smallest community banks have to be especially well run to overcome these size disadvantages.

Although further reductions are expected in the population of community banks in the coming years, this trend should moderate, and the outlook appears to be positive for well-managed community banks. Their local geographic focus makes them natural clearing houses for information that is valuable for underwriting loans to small local businesses – products that are unlikely to become "commoditized" like residential mortgage and consumer lending – and the profitability of this core line of business will ensure that these banks remain active in local markets from which they draw the majority of their deposits.

This 'localness' also makes community banks well suited to provide CRA-qualified loans, investments and access to other financial services for low- and moderate-income households. Going forward, it will be interesting to see how community banks respond to recent regulatory decisions to streamline CRA exams for institutions between $250 million and $1 billion in assets.[5] Under the streamlined rules, CRA exams do not consider an institution's community development lending, investments and services, and do not require small institutions to report small business lending data. These changes could influence the way in which mid-sized and large community banks allocate their resources in increasingly competitive business environments.

## Notes

[1] For example, see Robert DeYoung, William C. Hunter, and Gregory Udell, 2004, "The Past, Present and Probable Future for Community Banks," *Journal of Financial Services Research* 25(2/3), and Robert DeYoung, 2002, "Whither the Community Bank? Relationship Finance in the Information Age," *Chicago Fed Letter*, No. 178.

[2] Every national bank, state member bank, and insured nonmember bank is required by the Federal Financial Institution Examination Council to file consolidated Reports of Condition and Income (Call Report) as of the close of business on the last day of each calendar quarter (FDIC Web site 12/15/04).

[3] The analysis groups banks into size categories as follows: large banks have more than $10 billion in assets; midsized banks have between $1 billion and $10 billion in assets; large community banks have between $500 million and $1 billion in assets; midsized community banks have between $100 million and $500 million in assets; and small community banks have less than $100 million in assets.

[4] The Sharpe Ratio = (average ROE – average 90-day T-bill rate) / standard deviation of ROE.

[5] Streamlined CRA evaluations already apply to banks with assets less than $250 million. The Office of Thrift Supervision has already increased this threshold, and the FDIC has proposed to do the same.

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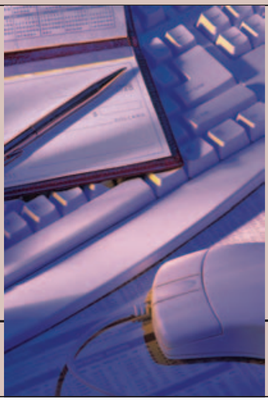
# Check Clearing in the 21st Century: Where Are My Checks?



By Desiree Hatcher

Financial institutions are understandably concerned with the technological and procedural implications of Check 21, but smoothing the transition with customers ultimately may prove to be the key challenge. Millions of people still use paper checks and won't be happy to find facsimiles returned in their monthly statements.

Checks are widely used in the United States by individuals, businesses and governments. Research financed by the Federal Reserve indicates that check use in the U.S. peaked in the mid-1990s and has been steadily declining since. But Americans still write about 40 billion checks a year. That represents about half of the nation's non-cash transactions. People see checks as a very convenient, reliable, and familiar payment instrument. So while check volume will continue to decline, checks will not disappear any time soon.

Over the years, banks have become quite efficient at processing paper checks. However, the system is a paper-based, transportation-reliant process whose vulnerabilities were highlighted by the terrorist attacks on the World Trade Center and the Pentagon.

Electronic payment networks were virtually unaffected on 9/11. However, checks are largely transported by air, and commercial air service was suspended nationwide from September 11 to September 13, 2001, as federal aviation officials scrambled to beef up security procedures at airports. The suspension of air service delayed processing of out-of-area checks, perhaps increasing operational and fraud risk associated with checks during that period as they continued to be deposited and accumulated locally. That resulted in a backlog once the restrictions were lifted and checks could once again be moved by air.

The grounding of aircraft underscored the need to make the nation's payment system more flexible. However, other factors, notably significant opportunities for cost savings, have also fueled the push to electronic processing.

## Enter Check 21

The Check Clearing for the 21st Century Act, or Check 21, was signed into law October 28, 2003. The law went into effect on October 28, 2004.

The goal of Check 21 is to facilitate check truncation (removing an original paper check from the check collection or return process and sending the recipient a substitute check or, by agreement, information relating to the original check, whether with or without subsequent delivery of the original paper check) and imaging without making it mandatory. Check 21 accomplishes this goal by authorizing, but not requiring, the use of a new negotiable instrument – the image replacement document.

Image replacement documents (IRDs) are "substitute checks" that the law says are the legal equivalent of the original check. A substitute check can be created from an electronic image of an original check and processed by receiving depository institutions just like original paper checks. A substitute check must:

- Contain an image that accurately reflects all of the information on the front and back of the original check.
- Bear a magnetic ink character recognition (MICR) line containing all the information appearing on the MICR line of the original check.
- Conform, in paper stock, dimension, and otherwise, with generally applicable industry standards for substitute checks.
- Be suitable for automated processing in the same manner as the original check.
- Bear the legend, "This is a legal copy of your check. You can use it in the same way you would use the original check."

If these conditions are met, any party may use the substitute check for purposes where an original check is required, such as a court proceeding or proof of payment.

Check 21 does not require collecting banks to truncate or image checks. Nor does it require paying banks to accept electronic images. Check 21 only requires that paying banks accept substitute checks as well as originals. Whether they accept the substitute checks in paper or electronic form is strictly their decision. However, the expectation is that Check 21 will increase electronic presentments at the earliest possible stage of processing.

Check 21 requires depository institutions to provide a specific notice for consumers who may receive substitute checks in their account statements. Notice is not required to those consumers who do not currently receive their original checks back (i.e., statement summaries or image statements), or will not otherwise receive a substitute check. The Check 21 notice must explain that the substitute check is the legal equivalent of the original paper check and describe consumer expedited re-credit provisions for substitute checks.

## Potential Challenges for Consumers

### No (required) return of original checks

Financial customers will not be able to get some original paper checks back, as not all will be returned to their bank by the payees' banks. If a paper check is not returned, it will be held or destroyed by the payee's bank, not the issuing bank. In lieu of returning original checks, financial institutions can:

- Ask for the return of substitute checks with checking account statements. They are the legal equivalent of the original check, and legal proof of payment.
- Use duplicate checks (usually a chemically treated paper attached to each check that records all writing on the original check). While duplicate checks do not provide legal evidence of receipt of payment, they provide a record of the actual payment amount, date, etc., for checking account balancing.

### Double posting

A new potential risk of double posting will be created (i.e., both the original check and the substitute check are posted and twice the correct amount is removed from the payer's account). Under Check 21, a bank that creates a substitute check must warrant that it is not requesting payment on items already paid. However, in the event a substitute check is incorrectly charged to an account (paid twice, paid for the wrong amount, or otherwise paid in error), a consumer may make a claim for expedited re-credit within 40 days from the date the statement is mailed or the date the substitute check is made available, whichever is later. A depository institution has 10 business days to investigate and resolve a claim for expedited re-credit. If a depository institution cannot determine whether a customer's claim is valid by the end of the tenth business day, the depository institution must re-credit the amount of the substitute check or $2,500, whichever is less. Any remaining amount must be re-credited within 45 days and include interest if the account is an interest-bearing account.

### No float

The processing time under the new law could be 24 hours or less. As a result, checks will clear sooner, increasing the risk that a check will bounce if funds are not in the account when the check is first written. Those who do not ensure sufficient funds are in their account at the time a check reaches the payee can expect bounced-check fees.

Currently, the new law does not shorten hold times, as established by the Expedited Funds Availability Act (Regulation CC), for deposited checks. However, after 30 months from passage, there will be a study on whether banks are making funds available to consumers earlier than required by law. Financial institution customers using checks should:

- Not write a check unless the funds are already in the account to cover it;
- Sign up for direct deposit, under Regulation CC, direct deposits must receive next day availability, while checks may be subject to the bank's check hold policy;
- Consider obtaining overdraft protection, keeping in mind that it should not be used as a line of credit;
- Use a credit card – credit card users have until the credit card bill is due to float the payment.

### Stop payment option is reduced

A customer may order his bank to stop payment on a check. However, the request for stop payment must be received before the payment is deducted from the account. With Check 21, the window for requesting stop payment orders will be reduced significantly. Use of a credit card in lieu of a check is an option that affords a greater level of protection in case of a dispute.

The Fair Credit Billing Act allows those paying by credit card to withhold payment on any damaged or poor-quality goods or services purchased with a credit card, as long as they have made a reasonable attempt to solve the problem with the merchant (from UCC code 4-403).

### Fraud investigations may be hindered

Faster clearing may mean fraudulent checks may be discovered earlier. However, prosecution may be hindered as a substitute check is not as useful as the original check for proving forgery or alteration; it cannot provide fingerprints, determine pen pressure or the paper stock used to forge checks, and it is less useful for handwriting analysis. Also, security features built into today's paper checks will not show when the check is electronically imaged. Without the evidence found in analyzing checks, it may be more difficult to convict criminals. Therefore, consumers should take the following measures to safeguard checking account information:

- Never carry a checkbook unnecessarily;
- Never leave bill payments or other checks in mailbox;
- Always review monthly account statements, and report any unauthorized transaction or suspicious activity to their financial institution immediately;
- Report lost or stolen checks and checkbooks immediately to their financial institution;
- Tear or shred any old checks or account statements before throwing them away;
- Never give checking account information to telemarketers or to callers claiming to need to confirm or verify checking account information.

In addition, instead of using checks, consumer should use alternative methods of payment. With a credit card, a debit card, a personal computer or ACH, the transaction is electronic and is governed by the Electronic Funds Transfer Act, or Regulation E. The regulation includes procedures for resolving errors and provides limited liability for unauthorized transactions. However, be aware that liability for credit cards is different than electronic debit transactions. A customer's maximum liability on a credit card is $50. On an electronic debit, unless the financial institution has been contacted within 60 days of receipt of the monthly statement, there may be no limit to liability for unauthorized transactions.

## Benefits to Banks

For banks, the main advantage of Check 21 is cost savings. Estimates indicate that upon full implementation of Check 21, the banking industry could potentially reduce its check processing costs by over $2 billion a year. That estimate includes a reduction of $250 million in transportation cost. In addition, banks will benefit from improved availability of funds, and greater efficiency in processing return items. As clearing time shrinks, credit risk is reduced as well. Further, Check 21 will help alleviate the danger of checks being lost or delayed during transport.

## Potential Benefits to Customers

The real power of Check 21 imaging is found in integrating check images with other customer service devices and processes. This integration is just now reaching the market and is focused in four areas: the platform (bank office), the Internet, e-mail, and ATMs.

### Integration at the platform level

Currently, if a customer needs a copy of a particular cancelled check, a customer service representative (CSR) takes the request and promises to provide a copy to the customer by mail or fax. The request goes to research, the item is recovered from microfilm, and a copy is made and sent to the customer. Next day service is considered outstanding.

However, a bank that uses the workstation integration of check images, a process that makes electronic images of checks available on any terminal in the bank, can offer faster service. Here, the customer approaches the CSR and makes the request. The CSR accesses the customer's account on the bank's online system, reviews the customer's activity on the account to verify the item has cleared, and by "double clicking" the check's serial number on the screen, produces the imaged check on screen. At this point, the CSR can answer any question about the check for the customer. If the customer wants a copy, the image – front and back – can be printed and given to the customer. The time it takes to serve the customer is reduced from days (one day at best) to minutes.

### Integration through the Internet

A bank can take customer service to a higher level by delivering check images to customers through the Internet. An Internet banking customer who wants to know whether or not a check has cleared simply accesses their account and reviews the list of cancelled checks. Each cancelled check can be viewed, stored electronically, or printed simply by clicking on the check number.

### Integration with e-mail

Still building on customer service, banks can add statements and images to an automated e-mail process, and neither the bank nor the customer has to look for items. E-mail statements let the bank send monthly statements and cancelled checks as an attachment to e-mail. Customers can view the images, save them to their PC, or print and file a hard copy.

### Integration with ATMs

A handful of financial institutions have piloted ATMs that allow customers to insert checks and cash directly into the machine. These ATMs are equipped with check-imaging devices and bunch note acceptors (bill scanners).

With envelope-free deposits, an image of the check appears on the screen when a customer inserts it into the ATM, and the customer is asked to confirm the amount. An image of the check also appears on the receipt, along with a breakdown of cash by denomination. The images may be a key to getting consumers, who are generally much more comfortable with taking funds out of an ATM than putting them in, to make more ATM deposits.

## Conclusion

Because of Check 21, within the next few years, more banks will be able to transmit digital images of checks and thereby offer faster turnaround on several check-related services. The change will also reduce labor and postage costs for banks. Bank customers, while no longer able to take advantage of so-called "float," (the unofficial grace period once enjoyed while their check was moved physically from one location to another), will benefit from new services and improved or enhanced existing services.

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# Shriver Center's SEED Program Encourages Savings, Builds Long-Term Personal Finance Skills

The Sargent Shriver National Center on Poverty Law is leading a local effort to prove that low-income parents can build assets and save for their children's future education if they are offered tailored financial products, incentives, and training.

The Savings for Education, Entrepreneurship, and Downpayment program (SEED) is offered to students, at the William M. and Charles H. Mayo Elementary School in Chicago's Bronzeville neighborhood.

Program participants open 529 college savings accounts with donated funds at the local Bank One branch—also a SEED partner—and additional deposits by participants (up to $125 per year) are matched dollar for dollar. Parents and their children may earn additional benchmark payments by completing age-appropriate financial education classes and other projects.

The Shriver Center's program is part of a six-year national initiative, managed by Washington, D.C.-based Corporation for Enterprise Development (CFED), to learn how SEED accounts affect participants psychologically, economically, socially, and behaviorally, and how to deliver such accounts efficiently to millions of children.

CFED selected, in a highly competitive process, nine groups from a pool of 149 applicants. The nine SEED partners represent many kinds of organizations, including Head Start programs, elementary schools, Boys and Girls Clubs, and a local United Way. The Shriver Center, through its community investment unit, wanted to participate because it views such programs as a critical extension of antipoverty initiatives.

"Many low-income and working families operate outside the financial mainstream, and they do not have regular checking and savings accounts. The result is that such families do not save and, consequently, do not build wealth and assets which can be used to pay for college or start a business," said Nancy Wilson, director of the Shriver Center's SEED program.

### Private Financing Sets Stage for National Policy

Private foundations and banks fund the SEED initiative. The Bank One Foundation supports the Chicago SEED program.

"We are very interested in improving financial education skills and asset development within communities. We're always looking for innovative applications of the financial services we provide, and it's exciting when we find meaningful opportunities for community change," said Lesley Slavitt, vice president of the Bank One Foundation.

The local SEED program, which was launched October 2003, reached initial capacity within two months. Because of this early success and strong demand, CFED recently increased its annual grant to the Chicago SEED program. With the additional support, the Shriver Center will increase local program enrollment to 75 from 50. In addition, SEED participants now have up to $2,000, up from $1,250, available over five years for initial deposits, matching funds, and benchmark payments.

Just as private funding for demonstration projects such as individual development accounts (IDAs) paved the way for publicly funded IDA programs, the SEED initiative seeks to set the stage for a universal, progressive American policy for asset building among children, youth, and families.

### Clear Goals: Build Skills, Save for College

SEED expands on the success of IDA programs for adults by targeting the matched savings program to children and by providing opportunities for both parents and children to learn and develop financial skills that have long-term value.

"Financial education – learning how they can make their money work for them, how to develop and manage a household budget, and save – is knowledge that will transfer from parent to child," said Wilson. "In this case, by incorporating such education into the school curriculum in addition to training parents, we build good habits that benefit the entire family."

SEED is unique because the savings goal is clearly set on education. "It is important for both parents and children that college is a stated goal early in a child's life. Such a goal, absent the wherewithal to get sufficient academic and financial preparation, may become yet another unmet goal," said Dory Rand, supervising attorney of the Shriver Center's Community Investment unit. "SEED is an endeavor to connect dreams with opportunities, to make college feasible because parents and students planned for it, not just hoped for it."

*To learn more about the Shriver Center's SEED program, contact Nancy Wilson at (312) 368-1073 or nancywilson@povertylaw.org. Visit http://cfed.org/focus to learn more about the national SEED initiative.*

# Calendar of Events

### Promises & Pitfalls: As Consumer Finance Options Multiply, Who is Being Served and at What Cost?

**Washington, D.C.**
**April 7-8, 2005**
The fourth biennial research conference sponsored by the Community Affairs Officers of the Federal Reserve System. Consumer financial markets channel trillions of dollars of credit to households of varying income levels through a wide range of intermediaries that operate in many markets. How efficiently do these markets operate, and how well are consumers' needs being met? This conference will bring together a diverse audience from academia, financial institutions, community organizations, foundations, and government to learn about current research on consumer finance.

The conference keynote speaker will be Alan Greenspan, Chairman of the Board of Governors of the Federal Reserve System.

*For more information, visit www.federalreserve.gov/communityaffairs/national/2005researchconf/default.htm.*

### Striking the Right Notes on Entrepreneurship

**Memphis, TN**
**April 18-20, 2005**
This conference is sponsored by the Federal Reserve Bank of St. Louis in cooperation with the American Bankers Association, CFED, the Federal Reserve Bank of Kansas City, and the Ewing Marion Kauffman Foundation. This unique event will provide people working with small business and entrepreneurship a chance to discuss challenges and opportunities for advancing the field.

The conference also will feature two pre-conference training sessions tailored to community leaders and financial institutions.

*For more information, contact Matt Ashby at (314) 444-8891, or Matthew.W.Ashby@stls.frb.org.*

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

**Chicago, IL**
**April 21-22, 2005**
This conference on the future of community development and community development finance will be held at the Federal Reserve Bank of Chicago on April 21-22, 2005. The conference will be geared toward practitioners in the community development finance field including mainstream financial institutions, CDFIs, and other community-based intermediaries; funders; and investors.

*For more information, visit www.chicagofed.org/community_development.*

### Politics to Policy – Supporting Microenterprise

**Glen Ellyn, IL**
**April 29, 2005**
The Illinois State Microenterprise Initiative, an association of organizations that assist people in becoming self-sufficient through self-employment, will hold its Spring Conference at the College of DuPage. The keynote speaker will be David Wilhelm, former advisor to President Clinton.

*For information, visit www.ilmicroenterprise.org.*

### Advancing Regional Equity and Smart Growth: The 2nd National Summit

**Philadelphia, PA**
**May 23-25, 2005**
Sessions will highlight the important policy, organizing, and capacity building work of groups nationwide committed to advancing social and economic equity in a regional context. The summit will have the latest information about the changing face of regions, learn strategies that build power for regional equity, and discuss innovative policy and practice.

*For more information, visit the conference Web page at www.fundersnetwork.org, or e-mail Jesse Leon at jesse@fundersnetwork.org.*

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