

COMMUNITY DIVIDEND

Issue No. 2/1999

In this issue

Community Affairs Officer's note/2

Credit card buyers, look before leaping to new card/6

Microenterprise awards are announced/10

Resources/12

Calendar/14

Personal finance

The bedrock of a community's financial health

By Thomas Moore and Margaret Tyndall with contributions from Bryan Jon Maciewski

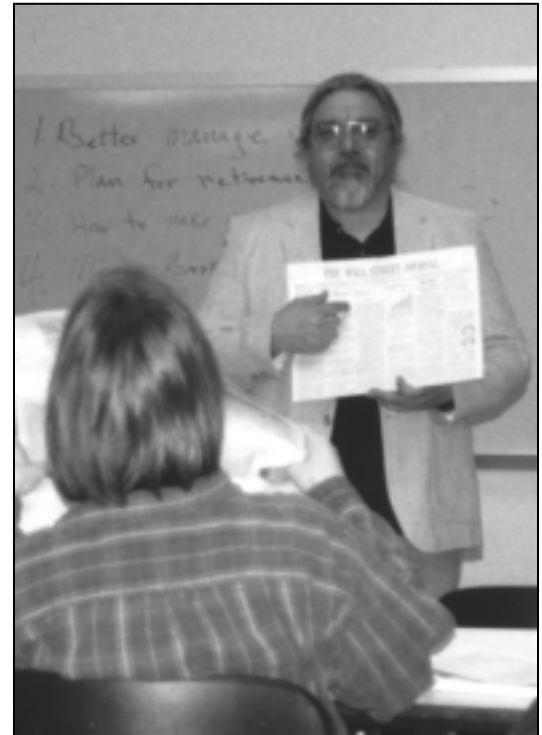
Buying a car or that first home, comparing insurance rates, paying personal bills and balancing the checkbook are all matters of personal finance. The vast majority of consumers, however, learn these financial skills "on the job." While many succeed in managing their personal finances, others experience financial failure. Unfortunately, these failures can have harmful effects on local communities and the economy, as well as individuals and families.

Increasingly, community leaders are recognizing the need for personal financial education to promote sound money management skills. In this article, we discuss the importance of teaching these skills and look at some examples of personal financial education. Finally, we offer you a story about one effort of this Reserve Bank to foster personal financial education on Indian reservations.

Why are personal financial skills important?

If an individual is or is not very good at managing his or her finances, does it matter to others outside of that family? Does it matter to the larger community? Does it matter to the economy as a whole?

In fact, it does matter. The personal financial decisions that each individual makes can have an impact on that person's family and the community. For example, only if an individual has properly managed his or her family's finances will that family be able to get a loan to purchase a home. Most, if not all, commu-



Instructor Bryan Jon Maciewski teaches personal finance at Fond du Lac Tribal and Community College in Cloquet, Minn. "We want to teach a foundation of good money management skills that will stay with them for many years," Maciewski says.

nities encourage homeownership. Community leaders appreciate the investment and commitment that comes with owning a home and view these as strengthening the community.

Homeownership matters to the larger economy as well. According to the U.S. Census Bureau, 44 percent of the nation's household wealth in 1993 was held in the form of home equity. In many cases, that equity becomes seed capital for small businesses, college tuition for children, or a retirement nest egg.

Also of great importance to a healthy economy is a steady rate of new business formations. According to the Small Business

see FINANCES on page 3

Community Dividend is published four times per year by the Federal Reserve Bank of Minneapolis, 90 Hennepin Ave., P.O. Box 291, Minneapolis, Minn. 55480-0291; (612) 204-5000. It covers topics relating to community development, reinvestment and neighborhood lending. It reaches financial institutions, community-based and development organizations, and government units throughout the Ninth Federal Reserve District.



Community Affairs Officer
JoAnne Lewellen
(612) 204-5064
joanne.lewellen@mpls.frb.org

Community Affairs Manager
Margaret Tyndall
(612) 204-5063
margaret.tyndall@mpls.frb.org

Community Affairs Staff
Nicole Bennett
nicole.bennett@mpls.frb.org
Thomas Moore
thomas.moore@mpls.frb.org
Stephanie Omersa
stephanie.omersa@mpls.frb.org
Cindy Porter
cindy.porter@mpls.frb.org

Editors: Nicole Bennett and
Stephanie Omersa
Design/Production: Straight
River Media

For address changes or additions, contact Connie Stewart
(612) 204-5148
connie.stewart@mpls.frb.org

We welcome your questions and concerns. Please write or call any of the Community Affairs staff members listed above.

***Community Dividend* is available on the World Wide Web at www.minneapolisfed.org.**

Articles may be reprinted if the source is credited and we are provided copies of the reprint. Views expressed do not necessarily represent those of the Board of Governors of the Federal Reserve System or the Federal Reserve Bank of Minneapolis.

Community Affairs Officer's Note

How many credit card solicitations have you received in the past month? If it seems like a new offer arrives almost every day, you are not alone. The stack of solicitations in your mail box is just one sign that credit is much more widely available today than in the past. While this expansion has allowed many more people into the credit market, it has also resulted in some negative consequences. Personal bankruptcy rates are rising, and an increasing number of people are unable to manage their personal finances.

You might wonder why it matters to a community if some families have financial problems. The cover article in this issue explains how personal financial management can affect an entire community by limiting home ownership and business formation opportunities. It describes several programs under way in the Ninth District, including an innovative effort of the Fond du Lac Tribal and Community College, to address these concerns through education and financial counseling.

The second article provides valuable information on credit card solicitations. It explains the differences between "pre-approved" and "pre-qualified" offers, describes common

charges and fees, and provides ways to compare credit solicitations. Readers should feel free to copy this article for interested consumers.

In the third feature article, we shift our focus to success stories in the Ninth District. The Northeast Entrepreneur Fund and the Montana MicroBusiness Finance Program were recently honored for their work in microenterprise development. By helping entrepreneurs start and expand small businesses, these organizations are improving the financial health of families and communities in Minnesota and Montana.

We hope that you can use the information and ideas presented in this issue to improve the financial literacy and economic opportunities of people in your community.

— JoAnne F. Lewellen
Federal Reserve Bank
of Minneapolis

FINANCES

continued from page 1

Administration (SBA), of the net new jobs created in the whole U.S. economy in 1995, new establishments accounted for 69 percent of new jobs, compared with 31 percent for existing establishments. These new firms are created by entrepreneurs using their own savings, investments or home equity. Without good personal financial skills, these funding sources are not available. In addition, many lenders find that personal financial habits carry over into business finance practices and use the owner's personal financial history as the basis for decisions about lending to the business.

Poor credit history may even affect an individual's ability to find employment. Some companies use consumer credit reports in making hiring decisions. Therefore, an individual's ability to get a good job may also rest on having a good credit history. Since high employment rates are important to both communities and the economy as a whole, an individual's personal financial skills have wide repercussions.

For all individuals to participate fully in the economy, opportunities to own a home or start a business should be accessible to everyone. For people of limited means or those with past credit problems, strong money management skills are critical to take advantage of these opportunities. Personal financial education teaches individuals with limited incomes how to save to meet future goals and helps those with blemished credit records re-establish a strong financial foundation. By improving their personal finances, these individuals are able to contribute to the economic vitality of their communities.

The link between personal financial education and community development is recognized in the Community Reinvestment Act (CRA). According to the recent Interagency Questions and Answers on CRA, dated May 3, 1999, "Establishing school savings programs and developing or teaching financial education curricula for low-or-moderate-income individuals" constitutes an example of a community development service under CRA. (See §§____.12(j) and 563e.12(i), Q&A 3.)

What is personal financial education?

Paul Strassels, author of *Credit When Credit Is Due*, defines personal finance as, "the total treatment of income and expenses, managing the checkbook, making normal everyday purchases, and debt repayment on a timely basis." So it follows that personal financial education teaches the skills necessary to perform these tasks. Financial planning and methods of saving and investing are also included in any personal financial course to help students think about and realize future plans.

Personal financial education comes in many forms. For example, some Federal Reserve Banks produce and distribute consumer personal finance publications and other Reserve Banks offer training programs for teachers, students or adult audiences.

Another form of personal financial education is home buyer education provided by community-based nonprofits specializing in various types of pre- and post-purchase education and credit counseling aimed at first-time home buyers. These programs, which help provide access to homeownership and, after the purchase, help preserve home equity and avoid the perils of foreclosure, contribute to the increase in homeownership across America. An example of these educational efforts is the "Full-Cycle Lending" program offered by Neighborhood Housing Services organizations across the country.

Other specialized programs include those offered by nonprofit credit counseling firms. While such programs are often targeted to individuals experiencing financial difficulties, one program developed by the Consumer Credit Counseling Service (CCCS) in Rapid City, S.D., aims at a wider audience.

In an effort to stem the tide of bankruptcies in South Dakota, CCCS, through its American Center of Credit Education (ACCE) division, developed a standardized personal finance course for adults called "Credit When Credit Is Due." The premise of this program is that individuals who successfully complete the course should be better prepared to manage their finances and creditors should recognize this enhanced financial competency through

see FINANCES
on page 4

For all individuals to participate fully in the economy, opportunities to own a home or start a business should be accessible to everyone. For people of limited means or those with past credit problems, strong money management skills are critical to take advantage of these opportunities.

What is Indian Country?

A few readers have commented on the use of the term "Indian Country." This term is commonly used to describe tribal lands. Congress defined it first in 1948 in a federal criminal statute. See 18 U.S.C. § 1151. The Supreme Court also borrowed this definition for several civil cases. See DeCoteau vs. District County Court, 420 U.S. 425, 427 n. 2 (1975). Generally, the courts have defined Indian country broadly to include formal and informal reservations, dependent Indian communities, and Indian allotments, whether restricted or held in trust by the United States.

FINANCES

continued from page 3

more favorable loan terms or other incentives.

The program, which began in Rapid City in 1998, is already used throughout South Dakota and in 10 other states. The program is in various stages of implementation in another eight states. Many of the close to 1,000 individuals who have successfully completed the course now have statements on their credit reports attesting to their participation in the course and, according to ACCE, more than 40 creditors in South Dakota, North Dakota and Minnesota will grant concessions or incentives to these participants.

Another type of specialized training is education for start-up business owners offered by the SBA or by business incubators and incubation programs. For example, as part of its entrepreneurship certificate and two-year degree program, Si Tanka College, located in Eagle Butte, S.D., on the Cheyenne River Indian Reservation, offers a course that combines personal financial education with information geared to tribal members who want to start a business. According to Tanya Ward, former president of the college, "The personal finance part of the course came into being when we discovered that most potential small business owners were not able to manage their own finances."

How the FRB Minneapolis got involved

As a result of discussions with community leaders, Community Affairs staff at the Federal Reserve Bank of Minneapolis became interested in reaching a wider, and younger, audience about the importance of personal financial education.

The specialized programs that attract first-time home buyers or would-be business owners often come too late to have an impact. By the time many young people are of an age to think about buying a home or starting a business, they already have severe credit problems.

In particular, as part of our ongoing work in Indian Country, we heard from tribal leaders that educating young tribal people about personal finances would be an important step to

advance economic development in Indian Country.

The Federal Reserve and Fond du Lac Tribal and Community College

In response to these concerns, we began working with Fond du Lac Tribal and Community College (FdLTCC) in Cloquet, Minn., and Cloquet-area bankers to develop a "turn-key" course that could be used by other tribal colleges. As we envisioned the program, each tribal college would need to secure an instructor, but the syllabus and text would be ready to use. We envisioned a course that would be attuned to the particular Indian culture of the students, be it Ojibwa, Lakota, Cheyenne, Crow or another culture. Finally, we wanted the course to involve local bankers as guest lecturers. Guest lecturers almost always enliven a course, and we wanted the students to hear about banking directly from those who work in the field every day. In addition, we thought that students at the tribal colleges and officials from the local banks would benefit from meeting face-to-face.

The result of our collaboration was a four-credit, 10-week course offered by FdLTCC beginning in 1998. Bryan Jon Maciewski, an enrolled tribal member, teaches the course

For more information

For more information on the "Credit When Credit Is Due" program, including the course outline, please call the American Center of Credit Education at (888) 830-3104.

For more information on the personal finance course offered at Si Tanka College, please contact Jennifer Schoelerman, academic dean, Si Tanka College, at (605) 964-8011.

For more information about Fond du Lac Tribal and Community College's personal finance course, including the syllabus and complete course outline, please contact Bryan Jon Maciewski by phone at (218) 879-0821 or (800) 657-3712 or by e-mail at bjon@ezigaa.fdl.cc.mn.us.

and focuses on items he believes engage college-level students.

"I want to bring the subject matter closer to the things my students are dealing with in everyday life, such as changing their personal spending habits, making a personal monthly budget, shopping for an insurance agent, purchasing a car, checkbook management and the importance of a savings account," he said.

"I also deal with technical matters like personal debt ratio and how to determine if an auto lease is more suitable than an outright purchase. I want to make the course enjoyable and worthwhile at the same time."

As for the "cultural relevance" of the course, Maciewski noted that "since it is being taught by an Indian, it has cultural relevance. Students will believe it applies to them."

Fond du Lac Tribal and Community College

Fond du Lac Tribal and Community College in Cloquet, Minn., has a student body of 850 Native American and non-Native American students from the Fond du Lac Reservation and surrounding communities. This college is the nation's only tribal and state-funded community college. FdLTCC was created by the Minnesota Legislature in 1987 and chartered as a tribal college by the Fond du Lac Reservation that same year.

Fond du Lac Tribal and Community College is accredited by the Commission of Institutions of Higher Education of the North Central Association of Colleges and Schools. Because it is an accredited member of the North Central Association, credits earned at the college may be transferred for full credit to all member institutions. All full-time faculty at the college possess a master's degree or above.

With a full complement of study programs that range from accounting and journalism to pre-law and tribal management, many students complete their two-year program at FdLTCC before continuing their higher education studies at neighboring colleges or universities.

To Maciewski, a personal finance course is important for college students. "Young people are constantly bombarded with credit card solicitations from financial institutions," he said. "They assume that because a financial institution sent a pre-approved credit card, it is their right to use it. Unfortunately, it does not stop with just one credit solicitation, and before they can blink, they have received two to three others, and they begin living off the credit cards."

"We want to teach a foundation of good money management skills that will stay with them for many years," he said.

Upon completion of the class, students receive a general foundation in money and banking (including the Federal Reserve System), investment and retirement, stocks and bonds, insurance, real estate, checking and savings accounts, and basic money management.

According to Maciewski, drawing guest speakers from community institutions, including banks, insurance companies, mortgage lending institutions and realty companies has worked well and kept the students interested in the course material.

This course has now become one of the core requirements for students pursuing FdLTCC's new associate of science degree in business and financial services, which was approved recently by the Minnesota State Colleges and Universities' Board of Directors.

Because the personal finance course is offered at the beginning of the degree program, Maciewski believes that it will be much easier for students to associate all business finance situations to the personal finance model. **CD**

Bryan Jon Maciewski is an enrolled member of the Fond du Lac Band of Lake Superior Chippewa. In addition to his position as instructor of the personal finance course at FdLTCC, he also serves as the director of training and career development for tribal employees.

Consumer & Compliance Issues

Credit card buyers, look before you leap to new card

Editor's note: We are pleased to announce the addition of Consumer & Compliance Issues, a new regular feature in Community Dividend. Staff from the Consumer Affairs Examination section of the Banking Supervision Department will provide information on consumer protection and regulatory compliance issues.

We are interested in your feedback on this new feature. Please send us your comments and ideas for future columns.

The following article on credit card solicitations is written for consumers. Lenders and community organizations are free to make copies for interested customers.



Thorough research and sound decision-making are needed before deciding to use a credit card.

Whether you are looking for your first credit card or evaluating the suitability of a current credit card, you need to educate yourself.

By Lisa DeClark

Who has not received a "pre-approved" credit card solicitation in the mail? Most of you probably receive a few such solicitations each month.

Competition among credit card issuers is fierce, resulting in better credit accessibility and more choices for consumers. Given these factors, each current or potential credit card borrower should be evaluating (or reevaluating) the available options. Whether you are looking for your first credit card or evalu-

ating the suitability of a current credit card, you need to educate yourself.

If you receive a pre-approved credit card solicitation, the credit card issuer has already decided to issue you a card, if you continue to meet their established criteria. Now, you need to decide whether to accept the offer. First, you need to evaluate how you will use the credit card. Second, you need to read the entire solicitation, including the fine print, very

closely. The solicitation will provide you with valuable information to determine whether the credit card is suitable for you. Finally, evaluate your own creditworthiness. If you have sufficient income and a good credit history, you might be able to negotiate a lower rate or annual fee.

Shop, shop, shop!

Before you decide to accept a pre-approved credit card offer, you should shop

around to make sure you get a credit card that suits your needs. Credit card terms and conditions vary considerably.

To make your comparison shopping as effective as possible, you need to consider how you use a credit card. Do you pay your credit card bills in full each month? Do you always have a balance due? Do you use the cash advance feature? Do you require any special terms or features?

Once you have identified your needs, you can start shopping for the appropriate credit card.

What's in the fine print?

Just as credit card terms and conditions vary, so do the pre-approved credit card disclosure forms. Fortunately, a federal regulation, Regulation Z — Truth in Lending Act, requires all consumer credit card issuers to disclose, in writing, certain types of information using similar terminology.

In addition to requiring the use of similar terminology, Regulation Z requires credit card issuers to make certain important disclosures in a similar format. You simply need to read the disclosure forms and understand the terminology to do your comparison shopping.

You will find the following disclosures on credit card solicitations, including pre-approved solicitations, and applications. With the exception of the last two items, each of the following disclosures must be disclosed in a table format.

■ *Annual percentage rate.* The annual percentage rate (APR) is the cost of cred-

it, expressed as a yearly rate. For most credit card plans, the credit card issuer has the right to change the APR; these are variable-rate plans. Credit card issuers are required to disclose whether the APR may vary and how it is determined.

If you are not the type of borrower who always pays your credit card balances in full, the APR will be particularly important. You will want to find a card with the lowest possible APR.

On the other hand, if you pay your credit card balances in full, the APR may be less important to you than other types of fees, such as the annual fee and transaction fees, and features, such as grace periods.

■ *Balance computation method for finance charge calculations.* The balance computation method determines the balance that the credit card issuer will use to calculate your periodic finance charge: the interest you must pay each month.

There are four common balance-computation methods. The average daily balance method is used by most credit card issuers. The adjusted balance method, where the current purchases are not included in the balance until the following billing cycle, is the method typically most favorable to consumers. Other common methods use the previous balance or the previous two balances.

■ *The minimum finance charge* is any fixed or minimum finance charge that the issuer can charge during a billing cycle.

■ *The grace period* is the

period during which you can avoid a finance charge by paying your balance in full. If you carry a balance from month to month, there is typically no grace period on new purchases. If you pay your balances in full, the grace period will be an important feature for you.

■ *Issuance or availability fees.* Some credit cards charge approval, opening and/or annual membership fees for participating in the credit card plan. If you pay your credit card balances in full, you should be more interested in finding a credit card plan with a low annual fee than a low APR.

■ *Transaction fees.* Many credit card issuers charge fees for certain types of transactions, such as cash advances.

■ *Other charges.* Some credit card issuers charge other fees, such as application fees, late payment fees or exceeding the credit limit fees.

Again, it is important to read the disclosures to do your comparison shopping. Once you decide to accept a pre-approved credit card solicitation or have an application approved by a credit card issuer, your understanding of the terms and conditions of the credit card plan should prevent any surprises once you receive the credit card.

Making sense of the terminology

Despite the disclosure requirements of Regulation Z, credit card solicitations can

see CREDIT CARDS on page 8

Once you have identified your needs, you can start shopping for the appropriate credit card.

CREDIT CARDS
continued from page 7

be confusing. Below, you will find some disclosure issues and practices that often cause confusion among consumers.

■ *Introductory or discounted interest rates.* Some credit card issuers offer low introductory interest rates. Most introductory rates last for a short period, such as six months, and then the credit card issuer increases the interest rate on your credit card plan.

Typically, when the introductory period expires, your entire outstanding balance (as opposed to just new purchases) will be subject to the higher finance charge. Sometimes the introductory fee only applies to certain types of transactions, such as new purchases or rollover balances.

Even if the credit card issuer initially offers you an introductory or discounted interest rate, it must disclose the APR that would otherwise apply to the account. For a fixed-rate account, it must disclose the rate that will apply after the introductory rate expires. In a variable-rate account, the card issuer must disclose a rate based on the index or formula applicable to the account.

■ *"Pre-approved" versus "pre-qualified" offers.* A pre-approved offer generally requires only your acceptance, typically in writing, but sometimes only verbal, of the offer.

A pre-qualified offer differs from a pre-approved offer; it simply means that you have been selected to apply for the

credit card. The creditor in a pre-qualified offer typically has not reviewed any information about you or your credit history.

The provisions of the Fair Credit Reporting Act make it even harder to determine if an offer is truly a pre-approved offer. This act specifically allows a lender offering a pre-approved card to verify that you meet the issuer's criteria after acceptance. The issuer is not required to disclose that they will re-verify your status or employment. So, even with a pre-approved solicitation, you can be rejected if there have been changes in your financial picture.

■ *Pre-approved "up to" a specified credit limit.* Many pre-approved credit card solicitations will state that you may qualify for credit "up to" a certain credit limit. Once you respond to the solicitation, the credit card issuer will review your credit history to determine your credit limit, which might be significantly less than what you expect based on the solicitation.

■ *High fees.* Sometimes credit card issuers disclose and assess high up-front fees. These fees might include an annual fee and a card reservation fee, among others. These fees can add up quickly. Imagine your surprise if you were to receive a credit card with a \$300 credit limit with \$150 in up-front fees charged to your account before you even used the credit card. Fortunately, all the fees must be disclosed, so be careful to read the entire solicitation.

■ *Secured credit cards versus unsecured credit*

cards. Most credit cards are unsecured lines of credit; however, some credit card issuers offer secured credit cards.

Typically, borrowers with credit history problems will not qualify for unsecured credit cards, making the secured credit cards an attractive option. Issuers of secured credit cards require borrowers to deposit funds to guarantee repayment of the credit card debt. The required deposit usually equals the credit limit on the card, and issuers may pay interest on the deposit.

Most secured credit cards carry a higher interest rate than unsecured credit cards.

■ *Cash advances.* Most credit card issuers impose both finance charges and transaction fees on cash advances. The finance charge (interest) typically begins accruing from the date of the advance; there generally is no grace period for cash advances. Further, a transaction fee, sometimes as much as 2.5 percent of the transaction, may be charged for the advance.

You should beware of solicitations and advertisements that state "no finance charge" for cash advances. Since the term finance charge only refers to interest, the issuer still might charge a transaction fee for cash advances.

Unscrupulous practices

Further complicating your review of credit card solicitations is the presence of unscrupulous lenders. Following are some potentially unscrupulous practices that occasionally are encoun-

If you pay your credit card balances in full, you should be more interested in finding a credit card plan with a low annual fee than a low APR.

Filing a complaint

If you have a problem with your bank regarding your credit card, it is best to try to resolve the complaint directly with the bank. If that is unsuccessful, you have the right to file a complaint against the bank.

To file a complaint, you need to determine the bank's primary federal regulator. If you have received a credit denial notice, the name of the primary federal regulator must be printed on the notice. If you do not have this information, you can conduct an institution search at www.ffiec.gov/nic to determine the appropriate regulator to contact. Each regulator has a consumer or customer assistance section to assist you in filing your complaint. For more information, contact:

Federal Deposit Insurance Corporation
www.fdic.gov/consumer
(202) 942-3100

Federal Reserve Board
www.federalreserve.gov/consumers.htm
(202) 452-3946

Office of the Comptroller of the Currency
www.occ.treas.gov/customer.htm
(800) 613-6743

Office of Thrift Supervision
www.ots.treas.gov
(800) 842-6929

National Credit Union Administration
www.ncua.gov
(703) 518-6300

Federal Trade Commission
www.ftc.gov/ftc/complaint.htm
(202) 326-2222

tered.

■ *Advance-fee or guaranteed loans.* Some credit solicitations or advertisements guarantee that you will get a loan but require you to pay a fee before you apply for the loan. If a solicitation or advertisement guarantees you a loan, but requires you to pay a fee before applying, there is a strong chance that the offer is not legitimate.

Most legitimate lenders will not guarantee you a loan for a fee before receiving an application. Beware of any offers of easy credit.

■ *"900" or "976" telephone numbers.* Some credit solicitations or advertisements state that you can get more information by calling a "900" or "976" telephone number. Some of the solicitations or advertisements do not disclose the cost of these telephone calls; these are most likely to be the offers

that are not legitimate. You pay for these telephone calls; sometimes the costs can be quite high. Further, after making the telephone call, you may never receive the credit card.

Follow these rules


You need to be cautious when shopping for a credit card. To avoid any surprises, remember a few simple rules.

First, if the offer seems too good to be true, it probably is not legitimate.

Second, credit card issuers are required to disclose certain terms and conditions at the time of application or when you are sent a pre-approved credit card solicitation. Read the disclosures, including the fine print, before accepting a pre-approved solicitation.

Third, understand how you use a credit card in order to obtain the most cost-effective

credit card.

Finally, remember that competition among credit card issuers is fierce and negotiating for a lower interest rate or annual fee might yield results. 

Lisa DeClark is a senior Consumer Affairs examiner in the Banking Supervision Department at the Federal Reserve Bank of Minneapolis.

Understand how you use a credit card in order to obtain the most cost-effective credit card.

Congratulations

Microenterprise awards are announced

By Stephanie Omersa

Two Ninth District organizations recently received awards for their outstanding work in the field of microenterprise development.

The Montana MicroBusiness Finance Program, Helena, Mont., and the Northeast Entrepreneur Fund, Inc. of Virginia, Minn., received the Presidential Award for Excellence in Microenterprise Development at a White House ceremony in February.

The awards seek to promote sound lending practices and bring wider public attention to the successes and importance of microenterprise development, especially in enhancing economic opportunities among women, low-income people and minorities who have historically lacked access to traditional sources of credit.

Montana MicroBusiness Finance Program

The Montana MicroBusiness Finance Program (MBFP) is a statewide government financial intermediary that builds the capacity of local organizations to promote community asset-building and microbusiness ownership.

The Presidential Award given to MBFP recognizes its development of an innovative and effective program to facilitate microentrepreneurship through provision of comprehensive services, formation of creative partnerships, implementation of a performance measurement system, and adaptation of services to meet local needs.

MBFP operates as part of the Montana Department of Commerce and assists 12 microlending organizations across the state. These organizations provide loans, technical assistance, training and support to current and potential small business owners. Since the creation of MBFP in 1991, the 12 microlenders have made 574 loans to microentrepreneurs totaling \$8.4 million.



Entrepreneur Carol Willoughby (left) and Mary Mathews of the Northeast Entrepreneur Fund accept the Presidential Award for Excellence in Microenterprise Development from President Clinton at a White House ceremony in February.

Robyn Hampton, administrative officer for MBFP, is responsible for working with participating microlenders and evaluating the success of the program. According to Hampton, a microbusiness loan program makes sense in Montana. She notes that almost 95 percent of Montana companies are microbusinesses, which are defined as companies with less than 10 employees. With few large companies and many rural communities, creating self-employment opportunities is critical to the economic vitality of Montana families and communities.

The microlending organizations supported by MBFP have been successful but face ongoing resource challenges. With a strong entrepreneurial culture in Montana, demand for technical assistance and microbusiness financing is high. Finding staff and resources to meet that demand can be challenging. The microlending organizations work hard to attract and retain talented loan officers, who are critical to the success of microbusiness loan programs.

Funding is available from MBFP, but it is not grant money. MBFP funds, which provide six of every seven dollars in capital for the

The awards seek to promote sound lending practices and bring wider public attention to the successes and importance of microenterprise development.

microlenders, are loaned at 2.5 percent interest. Principal repayment is deferred, but interest must be paid quarterly. There is no free lunch for these organizations; money must be raised from a variety of sources to cover loan write-offs and operating expenses.

Despite these challenges, success stories are common.

If you are in Lewistown, Mont., and have the urge to take part in an aerobics class, stop in at The Total Body Racquetball and Fitness Center. Business owners Kevin and Heidi Snyder received loans from District VI Human Resources and Development Council (HRDC), a microlender supported by MBFP, to purchase a building and expand their equipment and facilities.

"District VI HRDC provided us with the business counseling, training, and financing that we needed to launch and operate a successful business," Heidi Snyder said.

Northeast Entrepreneur Fund

The Northeast Entrepreneur Fund, Inc. (NEF) serves unemployed, underemployed and low-income individuals in seven counties in northeastern Minnesota.

NEF received the Presidential Award for its strong commitment to developing and implementing impact measures to assess the performance of its programs, as well as for providing an effective and flexible model to deliver skill development services to rural entre-

preneurs.

Since its creation in 1989, NEF has provided training or technical assistance to more than 2,800 customers and has helped start, expand or stabilize 399 businesses. With a local population base of 310,000 people, NEF has provided services to approximately 2 percent of the entire regional workforce.


The organization is noted for the development of its CORE FOUR Business Planning Course, a 12-hour, four-week course covering business operations, marketing, cash flow and success planning. In addition, NEF offers a variety of services, including one-on-one business counseling and workshops on selected business topics, to meet the needs of each customer.

Mary Mathews has been president of NEF since 1989 and has witnessed many changes in the region during her tenure.

Encouraging a local entrepreneurial culture has been one of the organization's greatest challenges, Mathews said. In the past, most people in the region expected to work for the large mining and timber companies that have been the core of the economy there for decades. Now that's beginning to change.

"It has been exciting to watch the interest in self-employment grow," Mathews said. "People now think of starting a business as one of their options."

NEF staff got a special surprise when Carol Willoughby, an NEF entrepreneur from Duluth, was invited to speak at the Presidential Awards ceremony and introduce President Clinton, who presented the honors at the event.

Willoughby started her business, Let the Whole World Know, in 1991 because she was afraid to ask anyone for a job in her field of graphic arts. With assistance from NEF, today she operates a successful, home-based specialty sign and banner company that serves customers in the Upper Midwest. She describes her business success as "a dream come true." 

This article includes information provided by the Community Development Financial Institutions Fund, which administers the awards program.

Program information

For more information on the Northeast Entrepreneur Fund, contact Mary Mathews at (218) 749-4191. For more information on the Montana MicroBusiness Finance Program, contact Robyn Hampton at (406) 444-4325. To learn more about the Presidential Award program, contact the CDFI Fund at (202) 622-8662 or visit www.treas.gov/cdfi/.

Other award recipients

In addition to the Montana MicroBusiness Finance Program and the Northeast Entrepreneur Fund, other Presidential Award recipients were: Corporation for Enterprise Development, Washington, DC and San Francisco, Calif.; Detroit Entrepreneurship Institute, Inc. of Detroit, Mich.; Institute for Social and Economic Development, Iowa City, Ia.; and Micro Industry Credit Rural Organization (MICRO), a loan fund of the PPEP Microbusiness and Housing Development Corporation, Tucson, Ariz.

Resources

For free copies of recent issues of *Community Dividend*, community development articles or newsletters from other Federal Reserve Banks, please contact Community Affairs at the Federal Reserve Bank of Minneapolis at (612) 204-5074 or visit www.minneapolisfed.org.

Community Dividend

Issue No. 1 1999 features: The facts about the Twin Cities; Who's receiving mortgage loans in the Twin Cities?

Winter 1998-1999 features: Mixed-use development: Through the lenders' looking glass; What does "mixed-use development" mean?; Mixed-use development profile: Minneapolis; Mixed-use development profile: Hibbing, Minn.; Mixed-use development profile: Edina, Minn.; Mixed-use development conference; The future of mixed-use development: A developer shares his views.

Fall 1998 features: Straw bale construction provides affordable, efficient housing; Alice Rivlin gets a first-hand look at two Twin Cities neighborhoods; Explaining the shortage of affordable housing; How much do you know about the Minneapolis Fed?

Summer 1998 features: U.S. banks offered historic opportunity in Indian Country; Tribal sovereign immunity: An obstacle for non-Indians doing business in Indian Country?; Model code addresses economic development in Indian Country; Federal Reserve Governor Meyer visits Ninth District Indian reservations.

Consumer education

SHOP: The Card You Pick Can Save You Money explains how to comparison-shop for credit cards and includes the results of the Federal Reserve's semiannual survey of credit card terms. To obtain a copy, contact the Federal Reserve Board at (202) 452-3244 or

visit www.federalreserve.gov.

Helping People in Your Community Understand Basic Financial Services is a guide for community educators to use with a variety of audiences who currently do not have accounts with financial institutions or who need basic information about how to use accounts. To obtain copies, fax a request to the U.S. Department of Treasury Financial Management Services Product Promotion Division at (202) 874-7321 or visit www.fms.treas.gov/eft.

Building a Better Credit Record provides information to consumers on how to understand and legally improve a credit report. For a complete list of Federal Trade Commission publications on consumer issues, contact the FTC at (202) 382-4357 or visit www.ftc.gov.

Looking for the Best Mortgage: Shop, Compare, Negotiate describes how consumers can compare and negotiate interest rates, fees and other payment terms to get the best financing when shopping for a mortgage. The Interagency Task Force, which includes several bank regulators and other federal agencies, developed this brochure. To order a copy, call the Federal Reserve Board's Publications Services at (202) 452-3244 or visit www.federalreserve.gov.

Individual Development Accounts (IDAs): Strategies for Asset Accumulation provides an introduction to the IDA concept and how it can help low-income individuals buy a home, start a business or continue their education. To obtain a copy, contact the Office of Thrift Supervision at (202) 906-7857 or visit www.ots.treas.gov.

Community development

Capital Connections newsletter highlights the community development and reinvestment support activities of the Federal Reserve

Resources

System's Community Affairs program. It shares information about informational products, educational programs, and services available from the Federal Reserve to help facilitate community development partnerships, community reinvestment, and fair and equal access to credit. For more information, contact the Federal Reserve Board at (202) 452-3378 or visit www.federalreserve.gov.

Directory of Community Development Financial Institutions includes information about 469 CDFIs across the nation engaged in a wide spectrum of community development financing activities. Contact the CDFI Coalition at (215) 923-5363 or visit www.cdfi.org.

Web sites

National Institute for Consumer Education
www.nice.emich.edu

Jump\$tart Coalition for Personal Financial Literacy
www.jumpstartcoalition.org

American Indian Higher Education Consortium
www.aihec.org

Correction

The previous issue of *Community Dividend* included information on two publications about the Twin Cities region available from the Metropolitan Council. The phone number listed to order those publications was incorrect. The correct phone number for the Council's Metro Information Line is (651) 602-1140.

Lists of CRA ratings and future evaluations

Federal Reserve Board
www.federalreserve.gov

Federal Deposit Insurance Corporation
www.fdic.gov

Office of the Comptroller of the Currency
www.occ.treas.gov

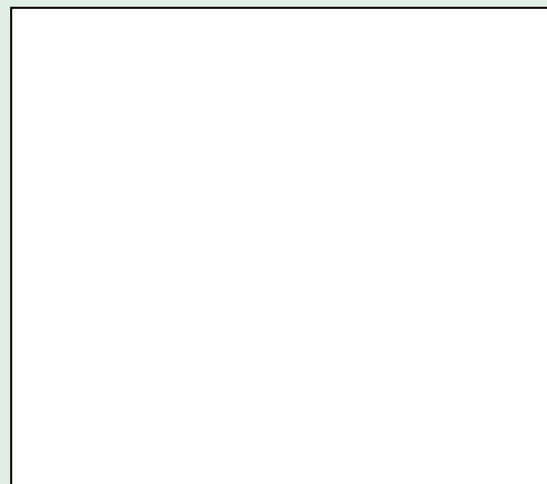
Office of Thrift Supervision
www.ots.treas.gov

Federal Financial Institutions Examination Council
www.ffiec.gov (This site provides an excellent search engine for CRA ratings.)

Lending in Indian Country: Cultural and Legal Issues

This five-part video series, produced by the Federal Reserve Bank of Minneapolis, is a live seminar recorded on video. The video explores cultural differences, land and title issues, tribal powers, sovereign immunity, tribal courts, collateral, remedies and other issues of interest to those seeking to do business in Indian Country. The package is available for \$135 and payment must accompany the order.

For a brochure and order form, call (800) 553-9656, ext. 5074.



Calendar

August 30-September 3

Neighborhood Reinvestment Training Institute

Sponsor: Neighborhood Reinvestment Corporation. In New Orleans. Contact: (800) 428-5547 or visit www.nw.org.

September 12-15

Community and Economic Development Conference: Building From a Position of Strength

Sponsor: American Bankers Association. In Washington, D.C. Contact: (202) 663-5000 or visit www.aba.com.

September 21

Fed Focus

Sponsor: Federal Reserve Bank of Minneapolis, Public Affairs. In Billings, Mont. Contact: (612) 204-5261.

September 27-29

Walking the Native Path into the Next Century: Seeking Solutions Through Housing and Economic Development Opportunities

Sponsors: Joint sponsors (see facing page for additional information). At the Mille Lacs Indian Reservation near Onamia, Minn. Contact: (612) 204-5075.

September 28

Interagency Symposium on Defining Qualified Community Development Investments

Sponsor: Federal Reserve Banks of Dallas, Chicago, San Francisco and Richmond. In Chicago. Contact: (804) 697-8463.

August 11-12

Second Annual Minnesota Rural Summit

Do you have a stake in rural Minnesota? Join your colleagues and neighbors who care about rural Minnesota issues at the 1999 Rural Summit to meet, share ideas and learn together what can benefit rural communities and all of Minnesota.

The theme of this year's conference is Rural Minnesota: Communities, Technologies, and Connections for the Next Millennium. Minnesota Rural Partners and the Minnesota Regional Development Organizations are the hosts for the event, which will be held in Duluth. For registration information, contact Monica Hendrickson at (218) 529-7543 or visit www.stcloud.msus.edu/~mnrp.

October 19-20

Second Montana Affordable Housing Conference: Developing an Action Agenda for Building Montana Communities

Sponsor: Montana housing organizations. In Great Falls, Mont. Contact: (406) 761-5861.

October 26

Fed Focus

Sponsor: Federal Reserve Bank of Minneapolis, Public Affairs. In Minneapolis. Contact: (612) 204-5261.

Want to expand
your business into
new markets?

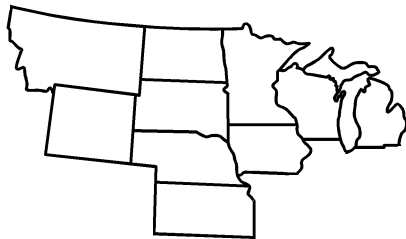
Need more housing and
economic development in
your community?

Tired of asking the right questions
but not having the right answers?

We'll help you find answers at

“Walking the Native Path into
the Next Century: Seeking
Solutions Through Housing and
Economic Development
Opportunities”

September 27-29, 1999
on the Mille Lacs Indian Reservation
near Onamia, Minnesota



Meet with bankers, tribal leaders, economic development and housing practitioners, government agencies staff and other interested partners.

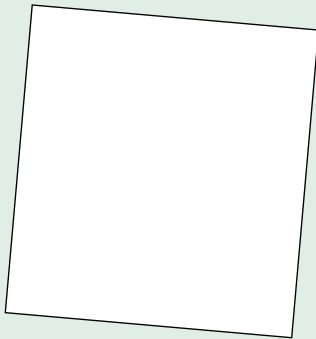
Discuss strategies to address economic development and housing challenges and opportunities in Indian Country.

Additional information about the conference will be sent out by mid-summer. If you have questions, please call (612) 204-5075.

Principles & Practices of Community Development Lending

A five-step investment model to strengthen bank community development lending

The second edition of *Principles & Practices of Community Development Lending* is targeted to lenders and their community development partners who want to increase their knowledge of how to evaluate and make community development loans. This guide develops a method for analyzing community development loan proposals and includes a helpful list of public and private credit programs for those seeking project financing.



Please send me *Principles & Practices of Community Development Lending*. Enclosed is a check for \$25 plus sales tax (if in Minnesota). For orders shipped to Minneapolis, please add \$1.75 sales tax. To other Minnesota locations, please add \$1.63. Make checks payable to the Federal Reserve Bank of Minneapolis.

Name _____

Title _____

Company _____

Address _____

City _____

Phone _____ Fax _____

Please send your order and payment to:

Federal Reserve Bank of Minneapolis, BSD,
Community Affairs, P.O. Box 291, Minneapolis, MN
55480-0291.

For more information, please contact Community Affairs at (612) 204-5074.