Community Affairs Officer's note - Issue 1, 2004

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AUTHOR

Jacqueline Nicholas

Community Affairs Officer

Homeownership is often described as our best available wealth-building tool. It's how most of us define the American Dream. Two features in this issue reflect the full circle of homeownership, as many Americans experience it. Our profile of Glacier Affordable Housing Foundation (GAHF) describes a Montana partnership that helps low- and moderate-income families purchase homes. Many of them are young and just starting out in life. GAHF's assistance is bridging the gap between their hard work and the high entry costs of homeownership. Our main feature explores reverse mortgages, which allow older homeowners to borrow against their equity without making loan payments. These products are an increasingly attractive option for senior citizens who want to stay in their homes while maintaining a comfortable standard of living. Reverse mortgages can repay older homeowners for years of hard work by helping them address a variety of financial needs. As both features indicate, homeownership can have profound effects on individuals and families, no matter what stage of life they have reached.

Plan to end long-term homelessness in Minnesota released

August 1, 2004

A status report from an interagency working group in Minnesota includes a plan to end long-term homelessness in the state by the end of 2010.

The Working Group on Long-Term Homelessness (Working Group) convened in 2003, when the Minnesota legislature, at the request of Governor Tim Pawlenty, directed the state commissioners of human services, corrections, and housing finance to address the issue of long-term homelessness in Minnesota. Representatives of 30 county and municipal development authorities, foundations, human services organizations and charitable groups are participating in the effort.

The Working Group defines long-term homelessness as "lacking a permanent place to live continuously for a year or more or at least four times in the last three years." According to a 2003 survey by the research arm of the Amherst H. Wilder Foundation, approximately 3,300 Minnesotans experience long-term homelessness in the course of a year. They make up a subset of the estimated 20,300 people in the state who are homeless or at imminent risk of losing housing.

The status report, released in March, outlines a proposed $540 million plan for providing housing and support services to 4,000 long-term homeless families and individuals. The plan would allocate $180 million for supportive housing, community services and income supplements, with lesser amounts for rental and operating assistance, new construction, housing acquisition and rehabilitation, and other uses. An estimated $88 million a year would be required to cover ongoing costs after implementation. Funding would come from a variety of state, federal, local and philanthropic sources.

To keep expenses in check, the plan urges the pursuit of cost-effective strategies, such as using innovative designs and alternative materials in new construction, maximizing the use of the private rental market as a housing source and scrutinizing support services to focus on those that relate directly to long-term housing success.

To access the full report and related information, visit www.mhfa.state.mn.us.

For seniors, reverse borrowing can be a financial step forward

Reverse mortgages are designed to supply an income stream while allowing seniors to stay in their homes.

August 1, 2004

AUTHOR

Paula Woessner

Senior Publications Editor, Community Development and Engagement

In the not-too-distant past, senior homeowners who found themselves house rich and cash poor had limited options for improving their financial circumstances: take out a second mortgage, at sometimes costly rates, or sell the house. More and more, seniors are becoming aware of another choice. Reverse mortgages are designed to supply an income stream while allowing seniors to stay in their homes. Unlike traditional home equity loans, no repayment is required on a reverse mortgage for as long as the individual owns and lives in the home.

Reverse mortgages make up just a tiny fraction of the overall mortgage market, but their numbers are growing. According to the U.S. Department of Housing and Urban Development (HUD), the popularity of the most common type of reverse mortgage nearly tripled in the last few years, from 6,638 loans reported in all of 2000 to 12,848 loans made in just the first five months of fiscal year 2004.

Several factors have converged to create an ideal moment for reverse mortgages. Interest rates are at historic lows, significantly reducing the cost of borrowing money. On the flip side, the low rates deliver low investment income for seniors. The resulting financial squeeze, combined with the rising costs of health care, drives many seniors to seek additional sources of income. Home equity, boosted by steep property-value increases in many parts of the country, is an appealing source. Meanwhile, lenders are looking for new loan products to offer as the refinancing boom subsides. And media coverage of reverse mortgages is increasing, especially in the financial press, major newspapers and network news broadcasts. The buzz is prompting many consumers to wonder what reverse mortgages are and how they work.

The basics

A reverse mortgage is a loan on the equity in a home, with no repayment required until the home is sold or is no longer occupied by the borrower. Any equity left over at the time of sale is paid in a lump sum to the borrower or to his or her heirs. The borrower can never owe more than the home is worth, and cannot lose the home as long as the property taxes and homeowners' insurance are paid and the home is kept in good repair. Third-party closing costs are similar to those on a regular, or “forward” mortgage, and are usually added to the loan balance, instead of being paid out-of-pocket.

Most reverse mortgages are available to anyone aged 62 or older, regardless of household income or the value of the home. Nearly any type of home is eligible, including townhouses and condominium units. Payments are tax-free and can be used for any purpose. Reverse mortgages have no effect on the receipt of Social Security and Medicare payments, but may affect Medicaid benefits.

Loan amounts depend on a number of factors. In general, the older the borrower and the more valuable the home, the larger the payments. Products differ, but most reverse mortgages offer a variety of ways to receive payments, such as lump sums, lines of credit, monthly advances, or some combination.

Birth of an industry

Reverse mortgages have existed since the early 1960s, when a handful of lenders began offering products they developed in-house. The reverse mortgage industry developed gradually in the succeeding decades, supported by the lobbying efforts of consumers, AARP and state offices on aging. The birth of the current industry dates to 1989, when HUD's Federal Housing Administration (FHA) agreed to insure reverse mortgages and Fannie Mae agreed to purchase them. The federal stamp of approval led to a dramatic expansion of the industry. A trade group, the National Reverse Mortgage Lenders Association (NRMLA), was established in 1997 to encourage uniform levels of service across the country. NRMLA includes about 90 percent of all reverse mortgage lenders. It currently has 163 members, up from an original count of 42.

Although reverse mortgages have developed into safe, regulated products, some issues have led to lingering misconceptions. For instance, a small percentage of the loans made prior to 2000 involved shared equity and appreciation. According to Ken Scholen, director of the AARP Foundation's Reverse Mortgage Education Project, some of those loans have now become "horrifically expensive," leading to negative perceptions about reverse mortgages in some quarters.

The HECM

The most common type of reverse mortgage is the FHA-insured Home Equity Conversion Mortgage, or HECM, which accounts for 90–95 percent of all reverse mortgages. Over 100,000 HECMs have been made since 1989.

Of all reverse mortgages, HECMs offer the most flexible payment options and tend to provide the most cash for borrowers. The HECM line of credit has particular appeal, because it increases in value over time. There is no set minimum or maximum home value under a HECM, but the loan is capped at limits that the FHA sets for each county in the nation. In the continental U.S., the 2004 ceiling ranges from $160,176 to $290,319, depending on location. An insurance premium, equal to 2 percent of either the home's value at closing or the FHA county limit (whichever is less) plus 0.5 percent annually on the loan balance, is added to each mortgage.

As it promised in 1989, Fannie Mae purchases nearly all HECM loans. It also offers its own reverse mortgage product, the Homekeeper loan, which is designed for homes with values that exceed the FHA's county mortgage limits.

Counseling eases concerns

Before a HECM can be originated, the borrower must receive counseling from a HUD-approved housing counseling agency. Congress specified the requirement as a means of ensuring that borrowers would be well-informed, and industry players agree it's a good idea.

"Reverse mortgages are complex," says Anita Olson, chief of customer service in the FHA area of HUD's Minneapolis field office. "It can be overwhelming, because there's so much to know, and there's fear. It's a huge financial decision."

According to Olson, some of the "younger elder" population—those in their early to late 60s—are fairly accustomed to debt and financing arrangements. Seniors in their 70s and 80s, who make up the majority of reverse mortgage borrowers, often have a different mindset.

"They grew up in the Depression Era, and it's ingrained in them to not be encumbered, to pay off their mortgage and avoid other debts," she says. "They may be leery of reverse mortgages initially, but after learning the facts, they're receptive to the idea. They see that after they made the mortgage payments all those years, the home can pay them back."

HECM counselors must work for a HUD-approved housing counseling agency and be specially trained to provide information on reverse mortgages. The AARP Foundation takes these requirements a step further by administering a test for reverse mortgage counselors. The highest scorers can become part of the organization's Reverse Mortgage Education Project (RMEP). This network of 44 counselors served 3,400 consumers in 2003. Fifty-four new counselors will be added to the network by midsummer of 2004, broadening its geographic reach.

According to Gary Valley, an RMEP network counselor who directs Catholic Community Services in Superior, Wisconsin, the counselor's role is to act as a disinterested third party, equipping the senior with information.

"Our role is not to try to sell the idea or product, but to make sure people are well enough informed to make a decision," he explains.

The counseling process begins with a cold call from a senior. Callers are often referred to the counseling agency after first approaching a reverse mortgage lender. Counselors do not call consumers; a strict protocol prohibits them from initiating the contact. During the introductory conversation, the counselor establishes whether or not the caller is likely to be eligible for a reverse mortgage and gathers enough financial information to generate a reverse mortgage report, which is a cost-benefit financial projection based on the figures provided. The counselor also discusses other options that may be available, to determine if the caller's financial need could be addressed through existing assistance programs.

The caller later receives an information packet containing the reverse mortgage report and the publication *Home Made Money*, AARP's consumer guide to reverse mortgages. If the consumer chooses to proceed with the process, a formal counseling session is scheduled. Sessions typically last one to two hours and can be held over the phone. Valley conducts most of his counseling this way and, as one of the few RMEP network counselors who speak Spanish, takes calls from all over the country.

Family members are encouraged to participate in the counseling session. It's not unusual for Valley to take part in a conference call with a senior and numerous children, grandchildren and other relatives.

"When families participate," he says, "there are more sets of ears in the process. Parents are happy that their children are helping them get over some of the anxiety about it."

After the session, the senior receives a certificate of completion that must be presented to a reverse mortgage lender in order for the application process to continue. The counselor contacts the consumer two to four months later, to check in, and AARP follows up with a survey. Recent survey results indicate that counseling is highly effective. According to RMEP, 94 percent of respondents rated the counseling experience favorably, and 96 percent reported feeling well-informed after the session.

Reverse mortgages at a glance

Most reverse mortgages share key features that distinguish them from traditional home equity loans. A summary:

- No repayment is required until the property is sold or is no longer occupied by the borrower.
- Loans are available to anyone aged 62 or older, regardless of household income or the value of the property.
- A borrower can never owe more than the home is worth, and cannot lose the home as long as the taxes and insurance are paid and the home is well-maintained.
- Loan size depends largely on the borrower's age and the value of the home.
- Payments to the borrower are tax-free, can be used for any purpose and are available in a variety of forms, such as lump sums or lines of credit.
- Counseling may be required before a loan can be originated.

Lending perspective

A senior with a certificate of completion in hand can choose from a growing assortment of reverse mortgage lenders. The industry includes a variety of financial institutions, from small town banks to giant mortgage companies. Some focus solely on reverse mortgages.

As of April 1, NRMLA's member directory lists 20 separate reverse mortgage lenders operating in the six Ninth District states (Michigan, Minnesota, Montana, North Dakota, South Dakota and Wisconsin). California-based Financial Freedom Senior Housing Corporation, the industry's largest reverse mortgage lender and servicer, is well-represented in the Ninth District. Ron Evenson, a reverse mortgage specialist with Financial Freedom, covers the Red River Valley region of the Dakotas and western Minnesota. Evenson did 20 reverse mortgages in the last year and reports that "business is building."

Wells Fargo Home Mortgage began offering reverse mortgages in the Ninth District in 1991, during its former life as Norwest Home Mortgage. Wells Fargo Reverse Mortgage Consultant Doug Harms, who covers roughly the same geographic area as Evenson of Financial Freedom, has seen the volume of loans increase sharply in the last year.

Smaller, independent institutions have also staked claims in the market. Intermountain Mortgage Company, headquartered in Billings, pioneered reverse mortgages in Montana and Wyoming in the early 1990s. According to Julie Okragly, a vice president who manages the company's financial services area, Intermountain made a total of 65 reverse mortgages in 2003 and is now originating them at a pace of 10 a month.

1st United Bank in Faribault, Minnesota, strives to offer a wide range of financial services to its small community of 20,000 people. The bank began offering reverse mortgages in 2003. Reverse Mortgage Specialist Debbie Nelson recalls feeling skeptical before researching the product.

"I was naïve, thinking banks would be foreclosing on seniors," she recalls. "After learning more, we determined that reverse mortgages offer seniors a lot of options." Nelson has closed a handful of loans so far and expects demand to increase as awareness of the product grows.

Borrowers' ages and need levels vary, but lenders say a typical reverse mortgage customer is a 75-year-old who wants to improve monthly cash flow in order to cover basic living expenses. Other uses for the money include paying off credit card debts, medical bills or existing mortgages; traveling to see loved ones; and making home repairs and improvements.

The product can address dire financial needs. Okragly remembers a Wyoming couple who drove to Billings to meet with her.

“They had to sell some of their possessions in order to raise gas money for the trip home,” she recalls. “We were able to get them a reverse mortgage of $60,000.”

One of Evenson’s customers was left with only $107 a month to live on after paying her husband’s nursing home bills. A reverse mortgage provided her with an additional $600 a month to cover living expenses.

Some cases are especially poignant. Harms recalls working with an elderly stroke victim who wanted to die at home. A reverse mortgage paid for in-home health care until he passed away.

Getting the word out

Reverse mortgage specialists describe themselves as educators first and lenders second.

“We don’t sell these mortgages,” explains Harms. “We educate people about them, and if a senior chooses the product, we facilitate the process.” He gets the word out by training staff at Wells Fargo branches, talking to service organizations and conducting seminars. He sees reverse mortgage counseling as a big help.

“Counseling is a wonderful requirement,” he says. “It’s a great safety net and helps guard against misconceptions.”

Evenson of Financial Freedom notes the importance of educating financial advisors and elder-law attorneys about the product. To increase awareness of reverse mortgages in her community, Nelson of 1st United Bank attends senior fairs, conducts educational events and makes a point of referring to herself as a reverse mortgage lender, in order to prompt questions.

“Because seniors have been preyed upon by so many people, they’re leery when they first hear about reverse mortgages,” she explains. “It’s important to get more information out to them so they’ll look at the product.”

Lenders say family involvement is a crucial part of the education process.

“Ninety-nine percent of the time, the children are very supportive. They often do the front-end research for their parents,” Harms says.

Nelson points out the importance of raising awareness across the population, not just among seniors.

“Family members might not be aware that their parent or grandparent is in financial need,” she says. “It’s a good thing for families to discuss together, so seniors are aware that the product is out there.”

Forecast: partly cloudy?

Reverse mortgage lenders are optimistic about the industry’s future, considering a vast market of more than 20 million homeowners over the age of 60 and huge growth potential as the Baby Boom generation ages. Many industry players expect reverse mortgages to be routine in a decade.

“In 10 years, this will be the norm,” says Olson of HUD. “This will be something that people just do. You pay a mortgage for a certain period, then you reverse it.”

“I think this is the product of the future,” says Nelson of 1st United Bank. Ron Evenson of Financial Freedom shares that view.

“When it finally catches, I can see this skyrocketing,” he predicts.

Scholen of the AARP Foundation has a more cautious outlook, describing the industry as “fragile” and noting that the oldest Baby Boomers are just now approaching 60 and won’t be ideal reverse mortgage candidates for some time. And Scholen has concerns about the fallout from some of the reverse mortgage products that were offered prior to 2000.

“The future of this industry has everything to do with its past,” he explains. “The biggest cloud on the horizon now is all those shared-equity and shared-appreciation loans. They haven’t been made for a number of years, but some are coming due now and the required repayments can be shockingly large. It may lead to litigation and negative media coverage, which could easily put a damper on the market.”

From hopelessness to independence

Time will tell whether reverse mortgages develop into a commonplace financial option or not. For now, there is little question that many seniors in need who take advantage of the newer, safer reverse mortgage products can enjoy an increased level of financial comfort and greater peace of mind.

Lenders and counselors emphasize the fact that reverse mortgages are not for everyone. Education, counseling, and family participation provide a foundation, but in the end, the decision to take out a reverse mortgage comes down to an individual choice. For the right person and situation, a reverse mortgage can be transforming.

"It can truly change their lives," says Harms of Wells Fargo. "It can take them from a feeling of hopelessness to a sense of independence."

Debbie Nelson of 1st United Bank voices the sentiments of many industry players.

"It's not the best option for everyone, but it will really help a lot of people," she says. "They've earned that equity. They've worked so hard all their lives. If they look into the product, many will see how that equity could make their lives better, to pay medical expenses, to travel, or to stay in their home. Whatever the future brings."

For more information

AARP
www.aarp.org/money/revmort/
Features a comprehensive consumer guide to reverse mortgages.

AARP Foundation's Reverse Mortgage Education Project
www.hecmresources.org/states/reque_state_index.cfm
Includes a directory of network counselors.

National Reverse Mortgage Lenders Association
www.reversemortgage.org

U.S. Department of Housing and Urban Development
www.hud.gov/offices/hsg/sfh/hecm/hecmabou.cfm

A unique partnership provides housing help in Montana

Glacier Affordable Housing Foundation is helping make homeownership a reality for creditworthy low- and moderate-income families in northwest Montana.

August 1, 2004

AUTHOR

Sue Woodrow

Assistant Vice President and Branch Executive, Helena

Steve Van Helden, president of Glacier Bank in Kalispell, Mont., has a vision. That vision is to make homeownership a reality for all creditworthy low- and moderate-income families in Montana who want to purchase a home but can't reasonably save for the down payment. Glacier Affordable Housing Foundation (GAHF), which Van Helden chairs, is already making his vision possible in a five-county area in northwest Montana, with additional pilot programs in Helena and Laurel. But the need, Van Helden says, is statewide.

A unique approach

Glacier Bank has partnered with the City of Kalispell for some years to provide funds for rehabilitating homes in blighted sections of the city. Additional funds, in the form of grants, have come from sources such as the Federal Home Loan Bank of Seattle. Over time, Van Helden grew frustrated, because recipients of the grant money were never required to pay the funds back.

"Grant money is hard to win," he notes, "and it rubbed me the wrong way that the families receiving the grant money could subsequently sell their houses and go to Hawaii on their equity. What if, instead, we created an entity to provide down payment and closing cost funds for borrowers, with no repayments or interest? Then, if they sell their home, they pay us a percentage of the appreciation based on the size of the original down payment loan. The repaid money could then be recycled for future grants."

Van Helden sold this idea to Glacier Bancorp's board of directors. In 1995, GAHF was established as a 501(c)3 nonprofit organization, and the Federal Home Loan Bank of Seattle awarded the newly formed foundation a capacity-building grant. However, it soon became apparent to Van Helden that this seed money alone was not enough to meet the foundation's goals.

"We needed partners," he recalls. "If we were going to win grants, we needed to be competitive. We decided on a unique approach. We asked the Flathead Valley counties to partner together in applying for federal community development block grant and Home Investment Partnership Program funding. These grants would then be funneled through the foundation solely for affordable housing assistance. This had never been done before."

Van Helden and Susan Moyer, the community development official for the City of Kalispell, met with each of the five county commissioners in the area and shared their idea. GAHF would serve as the conduit for any grant money awarded to the counties, ensuring the funds would be used for affordable housing assistance in those counties on a prorated basis. GAHF would also recycle any repaid funds back to each respective county, keeping each county's money in that county perpetually.

"We knew it was a win-win deal," says Van Helden. "The commissioners agreed, and we started winning grants."

This multijurisdictional partnership has expanded and become the cornerstone of GAHF, pooling the collective expertise and resources of 27 diverse organizations.

"The whole concept of Glacier Affordable Housing Foundation is about partnership," Van Helden emphasizes. "We recognized from the beginning that we couldn't do it all. We've set it up so that everyone can contribute what they do best. For example, Glacier Bank provides the underwriting expertise and loan servicing. USDA Rural Development guarantees the loans. The Montana Board of Housing buys the loans under a special set-aside program. Local nonprofits advertise and prescreen applicants. Flathead Valley Community College, together with local realtors, builders, credit bureaus and others, provides the first-time homebuyer education classes that the foundation requires. It all comes down to partnering."

How it works

To qualify for the program, applicants must first complete homebuyer training and then apply for down payment assistance. In the case of a married couple, both partners must take the homebuying course. Applicants are approved if they are deemed creditworthy and can make the monthly mortgage payments under established criteria.

Van Helden notes, “There are low-income people who have very good credit and stable employment. Those are the applicants we look for.” GAHF has had no problem finding interested homebuyers. “The applicant waiting list has never fallen below 40, and right now, we’re at 85 families,” says Van Helden. “There’s a huge need.”

The borrower’s share of the down payment can be made in dollars or sweat equity.

“One fellow didn’t have dollars to contribute,” Van Helden recalls, “but he built all the kitchen cabinets in his house. We want this to be a partnership where the client is a partner, too.”

Once approved, one of the participating banks will make the first mortgage loan to the borrower. The Montana Board of Housing, which has a pool of $5 million to $6 million set aside for GAHF clients, purchases these loans at below-market interest rates. This enables the lending banks to make below-market-rate loans to GAHF clients, which increases the clients’ buying power.

The lending bank retains the servicing of the loan. USDA Rural Development guarantees the loan and GAHF then provides a second mortgage to the borrower—at no interest and with no monthly payments—of up to $35,000, depending on need. Glacier Bank services these second mortgage loans for GAHF. In the event that a borrower sells the home, he or she repays the second mortgage based on the original loan-to-value percentage.

“If a borrower purchases a home for $100,000 and the foundation lends them $30,000 in a second mortgage for down payment and closing costs,” Van Helden explains, “the borrower will repay the principal and 30 percent of the appreciation when the home is sold. That keeps us even with inflation.” Those dollars are then recycled into additional loans in the same county.

A remarkable success

This process has proven highly successful. To date, GAHF has made 232 down payment assistance loans that leverage Federal Home Loan Bank Affordable Housing Program funding, Home Investment Partnership Program grants (also known as HOME grants) and community development block grant dollars, private donations and recaptured loans, to the tune of nearly $4.5 million. Each loan represents a low- or moderate-income family that usually ends up paying less in monthly mortgage costs than it previously paid for rent. The total value of the homes these families have purchased is $18.6 million.

Performance has been remarkable, with only four foreclosures since the program began.

“Two of those were due to layoffs in Libby,” explains Van Helden. “In another case, the defaulting borrower moved out of state, but is making voluntary monthly payments to repay the foundation. Since we started making loans, only one was a bad experience. Considering that nearly half of our borrowers earn only 50 to 59 percent of the area median income, 1 loan out of 232 is pretty amazing.”

Pretty amazing is right. Van Helden attributes the success rate to GAHF’s loan-approval criteria and the required homebuyer training, which helps instill a sense of both personal and social responsibility in the borrowers. “The borrowers understand what has gone into providing them with this assistance,” Van Helden says, “and how, if they sell their houses, their repaid dollars will go to help someone else.”

A little help from some friends

Twenty-seven partners are helping Glacier Affordable Housing Foundation make homeownership a reality for low- and moderate-income Montanans. The list:

- Glacier Bank of Kalispell, Libby, Polson and Whitefish
- City of Kalispell
- Flathead County
- Lake County
- Lincoln County
- Glacier County
- Sanders County
- Lewis and Clark County
- Montana Department of Commerce HOME Program
- Montana Department of Commerce Community Development Block Grant Program
- Federal Home Loan Bank of Seattle
- Montana State Board of Housing
- Flathead Valley Community College
- Northwest Montana Human Resources
- Rocky Mountain Development Corporation
- Big Sky Economic Development Authority
- City of Laurel
- U.S. Department of Housing and Urban Development
- USDA Rural Development
- Montana HomeOwnership Network
- First Interstate Bank, Kalispell
- Mountain West Bank, Helena
- Valley Bank, Helena
- American Federal Savings and Loan, Helena
- Western Security Bank, Billings
- Cal Scott
- Moon Consulting

The next step

To Van Helden, the next step is clear.

"We want to expand statewide," he says, "and provide a vehicle for banks to assist with affordable housing in their communities." Just how to do that, however, has not been so clear.

"There are impediments to going statewide," Van Helden explains. "It's a complicated program. It's taken me years to set this up, develop the expertise, and train all the realtors, loan officers and others involved. But even more so, I've struggled with how to continue winning enough grant money to meet the needs out there and how to use these dollars on a statewide basis. Recently, it occurred to me that I've been spinning my wheels, trying to solve the wrong problem. I've focused on the money problem, but that's not the main issue. It's really an ease-of-entry problem for banks. How can we facilitate this process and motivate banks across the state to participate in our program, so they don't have to reinvent the wheel?"

One avenue Van Helden is exploring, together with state and federal officials, is a way to enable banks to make Community Reinvestment Act (CRA) qualified investments that could be funneled through GAHF. "While banks in Montana generally can meet CRA lending and service requirements," he comments, "it's hard to find CRA investment opportunities in Montana. Something like this would enable banks to make CRA-qualified investments that would go toward affordable housing assistance in their communities. We would continue to provide our expertise in getting those dollars to the borrowers."

Van Helden has taken some additional steps in the hopes of enabling GAHF to provide affordable housing assistance across the state. Recently, the foundation received its certification as a community development financial institution (CDFI) from the U.S. Treasury's CDFI Fund. The certification will enable GAHF to apply for technical assistance funds that could pay for a study of marketing and community needs, among other things. Eventually, as nonfederal donations increase, GAHF may be eligible for matching financial assistance funds. Van Helden also hopes the CDFI certification will "grease the wheels" for other grant awards.

And the clients? Numerous letters and comments from borrowers attest to the program's positive impact on families and the community. One client, a single mom, sums it up.

"A new beginning for my family and a brighter future is what GAHF and the grant money have given to us. Words are not enough to say thank you."

CDFIs and the CRA

When Glacier Affordable Housing Foundation (GAHF) was certified as a community development financial institution, or CDFI, in late 2003, it joined a group of specialized institutions that provide a range of financial products and services in underserved markets.

There are nearly 700 CDFIs in the U.S. The list includes depository institutions, such as banks and credit unions, and nondepository entities including loan funds and community development venture capital funds. CDFIs work in a variety of market niches, such as affordable housing and small business development. The CDFI Fund, a program of the U.S. Department of Treasury, certifies and provides technical and financial assistance to CDFIs. The fund was authorized in 1994 to expand the availability of credit, investment capital and financial services in distressed communities. It distributes dollars through a variety of channels, including the Bank Enterprise Awards and New Markets Tax Credit programs, and has made $534 million in awards so far.

GAHF's CDFI certification could make the organization an attractive investment opportunity for banks, because investments in CDFIs can qualify as community development investments under the Community Reinvestment Act, or CRA. The CRA, enacted in 1977, requires depository institutions to help meet the credit needs of their communities. If a bank's assessment area includes low- or moderate-income geographies, it must provide community development loans, services and investments in those neighborhoods. By investing in a CDFI, a bank can fulfill the investment requirement while directing funds toward specific community development goals in its operating area.

For more information

CDFIs: www.cdfifund.gov
CRA: www.federalreserve.gov/DCCA/CRA/default.htm

GAO releases statement on predatory lending

August 1, 2004

A recent statement from the U.S. General Accounting Office (GAO) assesses the extent of predatory lending in the U.S. and discusses various preventive and regulatory measures designed to address the problem.

The statement is based on a GAO study of federal and state efforts to combat predatory lending practices. The GAO, acknowledging that there is no universally accepted definition of predatory lending, applies the term to “a range of practices, including deception, fraud, or manipulation, that a mortgage broker or lender may use to make a loan with terms that are disadvantageous to the borrower.”

Among the study findings, the GAO reports that federal banking regulators see little evidence of predatory lending by the institutions they supervise, but the practices of nonbank mortgage lending companies that are owned by financial or bank holding companies may be a matter of concern. In addition, the study indicates that consumer education and counseling efforts are useful in reducing predatory lending, but a variety of factors may limit their effectiveness.

To access the full statement, visit www.gao.gov/new.items/d04412t.pdf.

HP awards grant to Neighborhood Development Center

August 1, 2004

The Neighborhood Development Center, a St. Paul-based nonprofit agency that provides loans and assistance to inner-city small business owners, was recently named 1 of 17 grant recipients under the 2004 Hewlett Packard Company (HP) Microenterprise Development Program.

HP launched the program in 2003 to recognize and support nonprofit microenterprise development agencies that serve clients in low-income communities. A multiphase review process was used to select the 17 grantees from a pool of 327 applicants. Each recipient will receive equipment, cash, services and technical support worth a total of $150,000 to $250,000.

SBA launches new Native development initiative

August 1, 2004

The U.S. Small Business Administration has announced a new entrepreneurial development initiative designed to help Native American businesses succeed. Components of the initiative include ongoing consultation with tribal governments, participation in tribal-sponsored economic development events, implementation of an outreach campaign aimed at Native entrepreneurs and development of working relationships with tribal colleges and other Native organizations to provide training for Native small business owners. Contracts awarded under the initiative incorporate partnerships with tribal colleges and governments, Native organizations, federal agencies and the private sector.

The initiative's first round of awards includes three Native-owned firms in the Ninth District: Mandaree Enterprise Corporation on the Fort Berthold Reservation in North Dakota, to develop a business and technology incubator for Native entrepreneurs; Nth Degree Analytics in Bozeman, Mont., to conduct research on job creation tracking in Indian Country; and G&G Advertising in Billings, Mont., to develop marketing products for Native small businesses.

Additional contract awardees are Arviso Business Consulting of Chandler, Ariz.; and Kauffman & Associates of Spokane, Wash.

Wind turbine to power tribal college

August 1, 2004

A college campus in the Ninth District will soon run entirely on renewable energy, according to the Spring 2004 issue of the American Indian Higher Education Consortium's Tribal College Journal publication.

Turtle Mountain Community College (TMCC) in Belcourt, N.D., will install a 660-kilowatt wind turbine this summer, completing a long-term plan to make the campus completely self-sufficient in its use of energy. The turbine is expected to generate 1,900,000 kilowatt hours of electricity annually, saving the college an estimated $131,000 in energy costs each year. Wind power will complement TMCC's heating and cooling system, which relies on geothermal energy instead of fossil fuels.

Much of the project's funding came from the U.S. Congress, with technical assistance provided by the Foundation for the American Indian. The foundation is also involved in another turbine project at Fort Peck Community College in Poplar, Mont.

12th graders' financial literacy improves slightly, survey finds

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America's high school seniors have a slightly better understanding of personal finance than they did two years ago, according to a survey conducted by the Jump$tart Coalition for Personal Financial Literacy (Jump$tart) and funded by Merrill Lynch.

From December of 2003 through February of 2004, Jump$tart surveyed more than 4,000 12th graders in 33 states. The survey included a timed examination, consisting of about 30 multiple-choice questions on income, money management, saving and spending; and a series of questions about respondents' financial habits and socioeconomic backgrounds.

On average, students answered 52.3 percent of the exam questions correctly. The score is a slight improvement over the results of Jump$tart's previous two surveys, conducted in 2002 and 2000, but falls short of the 57.3 percent score recorded during the first survey year in 1997. Graded on a typical academic scale, 65.5 percent of the 2004 respondents failed the exam and only 6.1 percent scored better than a C. Students performed better on questions about income and spending than they did on money-management and savings questions.

Nearly 80 percent of students reported having a savings or checking account with a financial institution. Those students scored higher, on average, than students without accounts. College-bound seniors performed better than their noncollege-bound peers, and students who took a full semester of required money management courses scored better than those who either did not take such a class or took it as an elective. The survey results indicate that parental involvement is a major factor in financial literacy, with 58.3 percent of students reporting that they learned most of their money management skills at home.

To access the survey, visit www.jumpstart.org and click on "Downloads."