FEDERAL RESERVE BANK
OF MINNEAPOLIS

Editor's note - Issue 2, 2004

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November 1, 2004

AUTHOR

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This issue of *Community Dividend* includes features on securitization of community and economic development (CED) loans, the Earned Income Tax Credit (EITC) and Volunteer Income Tax Assistance (VITA) program, and a new statewide financial education coalition in Montana. The topics don't appear to have much in common on the surface, but they all center on the idea of tailoring programs and services to fit a community's needs. Securitization of CED loans can increase the pool of funds available to grassroots organizations that are positioned to assess where help is needed in their neighborhoods. A Twin Cities VITA site provided tax preparation help in Spanish to meet the needs of the local population. The Montana Financial Education Coalition was founded in response to multiple needs. Its broad mission will enable the organization to adapt as financial education needs change across the state.

In a similar vein, Community Affairs strives to design programs and events that reflect the needs of our District. This issue features one small example. The sidebar "¿Califica para el Crédito por Ingreso de Trabajo?" was created to provide basic information on the EITC to our growing Spanish-speaking population. It's the first time *Community Dividend* has included an item in a language other than English. Considering the growing cultural and linguistic diversity in the Ninth District, it won't be the last.

Community Affairs Officer's note - Issue 2, 2004

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November 1, 2004

AUTHOR

Jacqueline Nicholas

Community Affairs Officer

Partnership is the cornerstone of our work in Community Affairs. Our initiatives would not be possible without multiple partners who share their time, energy and ideas with us. Those partners include organizations like community development corporations, government agencies, financial institutions and universities. We also work with and learn from colleagues in other areas of the Federal Reserve System.

Activities in our District demonstrate that partnership is crucial throughout the community development spectrum. In Minneapolis, the combined efforts of U.S. Bank employees, community members and volunteers helped low-income families file for tax credits. Collaboration among dozens of individuals and organizations in Montana launched an energetic statewide coalition to promote financial education. Countless other community development efforts in the Ninth District are fueled by the talents and resources of multiple contributors. In this field, strong partnerships can make strong communities.

VITA sites provide outreach, tax help to low-income workers

Millions of Americans could receive valuable refunds during the next tax season, provided they file for a federal tax credit designed to assist low-income people. A related program providing free tax preparation assistance can help them file for the full refunds they deserve.

November 1, 2004

AUTHOR

Brad Bly

Community Affairs Senior Project Manager

The Earned Income Tax Credit, or EITC, is a federal tax benefit for working people whose incomes fall below an amount specified annually by the Internal Revenue Service (IRS). In 2003, the cutoff was $33,692 for an individual or family with more than one qualifying child, or $34,692 for married couples who file jointly and have more than one qualifying child. Eligible individuals must file federal and state tax returns in order to claim the credit, even if they are not otherwise required to do so because their incomes are low. Those who qualify for and claim the EITC can reduce their federal tax liability. When the credit exceeds the amount of taxes owed, it results in a tax refund.

A major income boost

The EITC was created in 1975 and is the largest federal aid program supporting low-income workers. The Annie E. Casey Foundation found that in 2001, more than 19 million people nationwide claimed the credit, resulting in more than $32 billion in tax reductions or refunds. This was equivalent to a 13 percent boost in the incomes of working families. In 2001, EITC refunds averaged $1,700, but they can be up to $4,200 per year, depending on family size and income. Research suggests that the credit has encouraged welfare recipients to enter and remain in the workforce and continues to lift more working families out of poverty than any other federal program.

Costs of tax prep add up

Despite this favorable information, studies find that up to 25 percent of eligible households fail to claim the credit. A lack of awareness of the EITC is one of the main reasons. Researchers have found that many families, especially those whose first language is not English, do not know the credit exists. Still other families are aware of the credit but do not know how to file for it.

Many families who do file for the credit end up losing a significant portion of their refunds in the process. The complexities of filing federal and state income taxes drive many eligible EITC filers to seek help in preparing their returns. Studies estimate that two-thirds of those who apply for the EITC pay commercial tax preparers for this service. The cost of tax preparation and electronic filing, averaging $100, reduces the amount of benefit to low-income families.

Of more concern are costly refund anticipation loans, or RALs. These short-term loans use the taxpayer's refund as collateral. Many RALs charge high fees and interest rates to provide an advance on a taxpayer's anticipated refund. Often, the advance is available just eight to ten days sooner than the IRS can provide the refund via direct deposit. The cost of a RAL can substantially reduce a family's potential EITC refund. It is not uncommon for more than half of a refund to be lost to finance charges, tax preparation, system administration, electronic filing and other fees. Also, if the IRS does not issue a refund for any reason, a RAL has the potential to leave a family in financial crisis. If an anticipated refund is not received, the family may be unable to pay the RAL, resulting in collection proceedings and a damaged credit rating. It is estimated that 40 percent of families who claimed the EITC in 2001 took out RALs on their refunds.

Commercial tax preparers are not the only option for those who need help filing their taxes. Free tax return preparation is available to taxpayers with incomes of $35,000 or less and those aged 60 and older through the IRS's Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) programs. Most VITA and TCE sites are sponsored by local nonprofit organizations and located in community centers, schools, libraries or churches. Site volunteers are trained to advise taxpayers of the credits and deductions they may be entitled to, including the EITC, child tax credit and credit for the elderly. These sites operate from January through April each year and often provide other free services, such as basic information on saving, investing and money management.

U.S. Bank site offers tax help in Spanish

There were approximately 550 free tax preparation sites in the Ninth District in 2004. Of these, 96 were located in the Twin Cities. Some of these sites were located in neighborhoods with high concentrations of immigrants and ethnic minorities. Recognizing the needs in their communities, volunteers at these sites offered free tax preparation in languages other than English.

One such site was at the U.S. Bank branch at 919 East Lake Street in the Powderhorn Park Neighborhood (Powderhorn) of south-central Minneapolis. Branch Manager Felicia Ravelomanantsoa has a good understanding of the diversity in Powderhorn. Her staff members, many of whom live in the neighborhood, speak a total of 12 languages.

According to Census 2000, nearly 30 percent of the population in the neighborhood reported their race as Hispanic or Latino. Of those reporting Spanish as the language spoken at home, 64 percent claimed that they speak English "not well" or "not at all." So when the Minnesota Department of Revenue—a partner with the IRS in promoting the VITA program—contacted Ravelomanantsoa about starting a VITA site in her branch, she knew it was crucial to offer the service in Spanish. She also knew there was a strong need for the VITA site. The latest census figures put the median family income in the neighborhood at $29,512, which is well below VITA site qualification and less than half of the $65,450 median income for the Minneapolis-St. Paul metropolitan area.

"Every year during tax season, commercial tax preparers set up shop along East Lake Street. They charge high fees and offer refund anticipation loans, then quickly disappear once the tax season is over," says Ravelomanantsoa. "Setting up a VITA site at our bank allowed us to offer *free*tax preparation to community members." Alternatives to commercial tax preparation and RALs may be especially beneficial in Powderhorn. The IRS estimates that in the 2001 tax year, 41 percent of the EITC claimants in the neighborhood's ZIP Code took out a RAL. This was far above the Minnesota average of 22 percent.

Reaching the unbanked

VITA sites also provide a means of attracting unbanked low-income individuals into the financial mainstream. Through the VITA program, taxpayers are encouraged to open a bank account for electronic deposit of any refunds. The Powderhorn VITA site at U.S. Bank was able to open deposit accounts for community members who did not previously have banking relationships. Mexican immigrants could open bank accounts by providing a *Matricula Consular*—an identification card issued by the Mexican government and recognized by a growing number of U.S. agencies and financial institutions—and an Individual Tax Identification Number (ITIN). A specially trained volunteer at the site helped people apply for ITINs, which were also required for filing returns.

U.S. Bank then offered the new account holders its *Basics of Banking*financial education curriculum, which teaches the fundamentals of budgeting, saving and account management. This training was offered during evening hours in convenient locations, such as the bank branch or local community centers.

In total, the Powderhorn VITA site provided free tax assistance and related financial information to approximately 100 people, and filed close to 50 state and federal returns. This was matched with the opening of new deposit accounts at the branch and an increase in the number of community members who benefited from the bank's financial education program. Taxpayer demand at the VITA site was so strong, the volunteers often had to refer people to other sites operating in nearby neighborhoods. The strong demand has resulted in U.S. Bank's commitment to making the VITA site an annual component of its service in the community.

Savings stay in the neighborhood

It can be estimated that $5,000 in commercial tax preparation fees were saved through the U.S. Bank VITA site. The money can benefit the community through savings and investment, and the spinoff effects of local expenditure. This is especially true in neighborhoods like Powderhorn, where people shop locally and the majority of businesses are small, independent and locally owned.

In the interest of promoting tax assistance, financial education and positive spinoff effects like those seen in Powderhorn, the Minnesota Department of Revenue's Community Outreach Unit (COU) works to promote VITA sites in low-income communities throughout the state. The COU helps organizations launch VITA sites, provides site staffing and trains volunteers. Ravelomanantsoa recognizes the support from the COU.

"They were the catalyst in starting up our VITA site, and their support and volunteer training will help ensure the ongoing existence of the site and its benefits to the community," she says.

Jazmine Garcia, a Department of Revenue representative, sees promise in the partnerships that federal and state revenue services, financial institutions, nonprofit organizations and neighborhood residents have formed around VITA sites.

"There is no problem we cannot solve together, and very few we can solve ourselves," she comments. "VITA sites are a good example of that."

VITA sites not only demonstrate the importance of bankers, volunteers and community members working together. They also show how such an effort can benefit the parties involved. Through VITA sites, low-income workers receive needed tax assistance, lending institutions can strengthen their relationships with community members and volunteers have the opportunity to directly help their communities by providing services and financial education to those who can benefit from them most.

Brad Bly is an independent community development economist who works with Native Americans and other underserved communities.

For more information

Internal Revenue Service
To learn how to create a VITA site in your community or become a program volunteer, call (800) 829-1040, or check the government pages of your community's phone book for the number of your local IRS office.

Annie E. Casey Foundation
www.aecf.org

Minnesota Department of Revenue Community Outreach Unit
To learn more about Minnesota VITA sites that offer information in Spanish, Vietnamese, Hmong or Somali, call (651) 556-6610.

With support, securitization could boost community development industry

For community economic development lenders, selling loans to a secondary market can be an effective recapitalization strategy.

November 1, 2004

AUTHOR

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Many organizations that lead development and revitalization efforts in low- and moderate-income communities have a deep, ongoing need for funding. They often turn to community economic development (CED) lenders to meet that need.

Broadly speaking, a CED lender is an entity that makes loans to support initiatives that assist low- and moderate-income communities, such as housing rehabilitation, neighborhood reinvestment and small business development. CED lenders include some banks, government agencies and local development commissions, but the category is mainly made up of nonprofit organizations, financing companies and loan funds that developed in response to specific needs in their communities.

CED lenders rely on public and private grants to fund many of the loans they make. In recent years, increased competition and expenses in the public and private sectors have changed the environment, making corporate, philanthropic and government funding sources scarce. To continue making loans, CED lenders must find innovative ways to fill financing gaps.

One avenue that some CED lenders are pursuing is to securitize community development loans and sell them on the secondary market. Securitization, which radically altered the mortgage market in the 1970s and later transformed other consumer loan and lease markets in the mid- to late 1980s, offers some benefits to CED lenders. However, significant barriers remain for CED lenders interested in pursuing securitization. Some entities, such as the Minneapolis-based organization profiled below, are finding innovative ways to overcome those barriers and advance the securitization industry.

Basics and benefits

Securitization involves pooling loans with similar characteristics and selling them to investors. Or, as a 2003 report from the Government Accountability Office (GAO) 1/ explains, it is a process that "packages relatively illiquid individual financial assets, such as loans, leases or receivables with common features, and converts them to interest-bearing, asset-backed securities with characteristics marketable to capital market investors."

The primary benefit of securitizing a pool of loans is the increased liquidity provided to the originator. Lenders who sell loans to a secondary market source do not have to hold the loans on their books, and are able to increase loan activity, thereby increasing the flow of credit to community development organizations and generating more earned income. For CED lenders who have deployed much or all of their available funds, selling loans can be an effective recapitalization strategy.

In an article titled "Will the Securitization Revolution Spread?" 2/ Federal Reserve Bank of Minneapolis Vice President Ron Feldman discusses additional benefits that securitization offers to lenders, borrowers and investors.

According to Feldman, securitization benefits lenders by efficiently reallocating and reducing portfolio risk. For example, lenders who want greater diversification in their loan portfolios can use securitization—either the ability to sell or to purchase loans—as a means to achieve it. Additionally, the ability to sell loans in a securitized form reduces the potential impact of interest rate risk on the institution. Securitization benefits borrowers by increasing the amount of credit that lending institutions make available to the community.

Furthermore, investor interest in the purchase of securities can lead to lower borrowing costs for the original borrower. The ability to purchase particular types of securities benefits investors in two ways. First, securities provide investors choices to better align maturity and risk-return needs. Second, securities provide an option that can help investors diversify their portfolios.

Barriers to CED securitization

To realize the benefits of CED securitization, CED lenders must first overcome certain barriers. The most formidable of these is a lack of standardization in loan performance data, documentation and underwriting procedures.

Investors interested in purchasing securities require accurate and reliable loan documentation and performance data in order to assess and project risks associated with the securities. Most CED lenders emerged to fill credit needs specific to their communities. As a result, they operate independently from one another and offer specialized products. Underwriting criteria, servicing protocol, documentation standards and the quality of loan performance data differ from lender to lender. 3/ The inconsistencies complicate the securitization process and, from the standpoint of potential investors, increase the risk.

A second major barrier to CED loan securitization is the need to develop and build an infrastructure to support these types of transactions. According to the GAO report cited earlier, "If securitization is to become a viable alternative for lenders, information sharing and securitization mechanisms are needed to provide consistent avenues for lenders to sell loans, achieve the volume of loans needed for a securitization, and achieve quality control." 4/

Another barrier is uncertainty related to borrower demand for community development loans. Low demand could lead to diminished loan volume, which could, in turn, hamper securitization. It may seem that there will always be a strong demand for CED loans, considering the enormous needs in some communities, but the GAO points out that "there are no mechanisms or standards for forecasting future borrower demand for such loans, making it difficult to determine what borrower demand might be across markets." 5/

According to the GAO, additional barriers to securitization include insufficient capacity, which limits lenders' ability to participate in securitization; the belief on the part of many lenders that below-market-rate products will not meet market requirements without substantial discounts; and external requirements that may prevent or serve as a disincentive for securitization.

The Community Reinvestment Fund model

One major player in the securitization of CED loans is Community Reinvestment Fund (CRF), a Minneapolis-based nonprofit organization. Since it began operations in 1988, CRF has purchased 1,500 CED loans totaling $350 million. The organization has purchased loans from more than 110 CED lenders across the country, ranging from small towns like Black Duck, Minn., to large, statewide entities like the Wisconsin Housing and Economic Development Authority.

CRF is developing innovative ways to overcome some of the major barriers to CED securitization. Since its beginnings, the organization has pioneered an effort to purchase and package CED loans. CRF purchases CED loans in one of two ways: they are bought from an existing portfolio, or CRF works with CED lenders on an advance-commitment basis. The latter approach allows CRF to dictate underwriting and documentation standards in advance. By keeping the standards consistent from seller to seller, CRF can avoid the standardization problems that are a major issue for potential investors.

To increase investor confidence and make securitized CED loans more marketable, CRF began delivering rated securities earlier this year. In July, a CRF affiliate called Affordable Housing No. 2 LLC, working through Wells Fargo Brokerage, offered $84.7 million in certificates backed by first mortgages on affordable rental properties. Standard & Poor's issued an "AAA" rating on $63.5 million of the offering. Certificate buyers included banks, mutual funds, insurance companies and pension funds.

Simultaneously, CRF worked with Wall Street Without Walls, a finance-oriented technical assistance organization that helps CED lenders access capital markets, and Piper Jaffray to deliver its first rated debt offering backed by small business loans. This offering, which CRF brought to the market in October, is backed by a $50 million loan pool that contains more than 130 loans originated by 43 CED lenders in 20 states. Standard & Poor's rated more than $46.5 million of the debt offering "AAA."

"Rated securities have allowed us to attract more institutional investors who want to participate in community economic development with the assurance that their investment has been carefully evaluated by a third party," says CRF President and CEO Frank Altman. "It's an important step for both CRF and the industry."

To help develop an infrastructure for CED securitization and enhance the capacity of loan originators, CRF has offered training to CED lenders. As Altman explains, "Selling financial assets is not something that has been done extensively in the community development field. A lot of groups simply did not understand the process."

CED lenders' knowledge of and comfort level with securitization has grown. For example, Altman notes that many of the lenders his organization works with are now using the secondary market as part of their capitalization strategy. When CRF first began operating, many lenders only sold loans on an as-needed basis. Increasingly, CED lenders are selling loans before they run out of loan capital.

"That has led many groups to be repeat sellers," says Altman. "They've developed a schedule."

A strong foundation

By providing standards and supports for the unique, independent organizations that make up the CED lending industry, CRF is overcoming some of the major barriers that have limited CED loan securitization. The organization's issuance of debt certificates and notes with investment-grade ratings is an additional development that could form a strong foundation for growth in the industry.

It is likely that developments and advances will continue if more CED lenders, intermediaries and investors recognize that, in Altman's words, "the mechanism works." Industry leaders are hopeful that there will be collaboration among major CED lenders that will encourage more widespread use of the secondary market as a recapitalization tool. If those hopes are realized, it could mean more resources and a brighter future for low- and moderate-income communities.

Devon Pohlman is a housing program professional with the Minnesota Housing Finance Agency.

1/ *Community and Economic Development Loans: Securitization Faces Significant Barriers.* General Accounting Office, GAO-04-21, October 2003, p. 6. The name "General Accounting Office" was in place at the time of the report's publication, but the agency changed its name to "Government Accountability Office" on July 7, 2004.

2/ *The Region,* Federal Reserve Bank of Minneapolis, September 1995.

3/ GAO, p. 41.

4/ *Ibid.,* p. 42.

5/ *Ibid.,* p. 35.

Housing organizations create new insurance company

November 1, 2004

Central Community Housing Trust of Minneapolis has partnered with 14 other nonprofit affordable housing organizations nationwide to create a new insurance provider for the affordable housing industry. Housing Partnership Insurance (HPI) will use a variety of means to offer reduced rates, such as pooling risks and negotiating with national insurance carriers. The organizations HPI insures will pass their savings on to low- and moderate-income families in the form of reduced rents, property improvements or other reinvestments.

HPI is the first captive insurance company owned by nonprofit affordable housing organizations. (A captive insurer provides coverage to the businesses or organizations that establish and own the company.) HPI's initial policies will provide coverage to 15 nonprofit organizations for more than 30,000 apartments nationwide. The insurer plans to expand coverage to 25 organizations and 50,000 apartments by the end of 2005.

FEDERAL RESERVE BANK OF MINNEAPOLIS

Census says poverty down, incomes up in North Dakota

November 1, 2004

Figures released by the U.S. Census Bureau in August reveal that North Dakota was the only state in the nation that saw a decline in poverty and in increase in median household income from 2001 to 2003.

Data published in the report *Income, Poverty and Health Insurance Coverage in the United States: 2003*show that North Dakota's poverty rate, expressed in two-year averages, declined from 12.7 percent in 2001-2002 to 10.6 percent in 2002-2003. Based on two-year averages over the same period, the state's median household income increased from $37,112 to $38,720. Of the other five Ninth District states, none showed a decline in poverty and only Montana showed an increase in household income.

To access the report, visit www.census.gov/prod/2004pubs/p60-226.pdf.

Minnesota launches minority homeownership initiative

November 1, 2004

In late June, the State of Minnesota announced a new initiative to promote parity in homeownership rates. The goal of the Minnesota Emerging Markets Homeownership Initiative (EMHI) is to close the large homeownership gap between Minnesota's general population and the state's minority groups. Currently, Minnesota's overall homeownership rate is nearly 80 percent, while the homeownership rate for African Americans, Hispanics and other minority groups is only 41 percent. According to its organizers, the EMHI will help more minority families experience the benefits associated with homeownership, such as wealth building and neighborhood stability.

The EMHI was convened by the Minnesota Housing Finance Agency, Fannie Mae and the Federal Reserve Bank of Minneapolis. Fifty additional organizations, including financial institutions, Realtors' associations and community development groups, will participate in advisory committees related to the EMHI. The June announcement marked the start of the initiative's first phase, which involves drafting a business plan that will identify strategies for addressing the homeownership disparity. The plan will be submitted to Minnesota Governor Tim Pawlenty in March 2005.

FedACH lowers rates, expands services in Mexico

November 1, 2004

The Federal Reserve System recently announced two developments that are designed to make electronic payments to Mexico more affordable and accessible.

In August, the Federal Reserve System's Automated Clearinghouse (FedACH) International[SM] Mexico Service reduced the spread, or commission, on the exchange rate for payments from the U.S. to Mexico. The reduced spread is available to any depository institution in the U.S. that wants to send electronic payments to Mexico via FedACH.

In addition, the Fed has entered into an agreement with Mexico's Banco del Ahorro Nacional y Servicios Financieros (Bansefi) to provide an enlarged distribution channel for bank-to-bank account transfers from the U.S. to Mexico. Using an existing network of more than 750 branch locations of Mexico's savings and credit unions, Bansefi will open a low-cost account for any Mexican who wants to receive remittances in Mexico. The agreement is expected to make it easier for Mexicans living in the U.S. to send money home through formal channels.

For more information, contact Larry Schulz, vice president of the Federal Reserve Retail Payments Office, at (404) 498-8792.

Montana Financial Education Coalition gains momentum

A coalition formed by a diverse group of organizations is quickly gaining momentum in its efforts to promote financial education in Montana.

November 1, 2004

AUTHOR

Sue Woodrow

Assistant Vice President and Branch Executive, Helena

A coalition formed by a diverse group of organizations is quickly gaining momentum in its efforts to promote financial education in Montana. The Montana Financial Education Coalition (MFEC)—a recently established nonprofit corporation and an affiliate of the National Jump$tart Coalition for Personal Financial Literacy (Jump$tart)—has grown dramatically in a short time. Just a year and a half ago, a handful of people sat around a table in Bozeman discussing a shared belief that all Montanans should have access to the training and resources they need to make informed choices about their finances. That discussion has since blossomed into an initiative that currently involves more than 20 organizations and counting, with the goal of bringing all financial education providers in Montana together as MFEC partners.

One year ago, the participants from that original discussion convened representatives of nearly 40 organizations from all corners of Montana for a financial education focus group. They talked about the critical need to promote financial education in the state and discussed potential solutions for meeting the need. Members were unanimous in support of forming a statewide coalition to help organizations across Montana promote financial education programs of all kinds, such as K-12 curricula, financial counseling for adults, first-time homebuyer education and retirement planning.

A collaborative effort

In the months that followed, the steering committee took the necessary steps to get the coalition going. It defined the organization's vision and mission, completed a comprehensive strategic plan, formed several teams to address the various key objectives identified by the focus group, filed articles of incorporation and drafted bylaws, elected a board of directors and officers, formalized its affiliation with Jump$tart and issued three newsletters that were each distributed to nearly 1,000 individuals and organizations across Montana. The collaborative efforts of the 20-plus organizations involved to date were crucial.

"Without an organized, collaborative effort, change will not take place," says Kelly Bruggeman, executive director of First Interstate Foundation and MFEC board member. "Only by everyone working together can a state our size, with a small population and limited resources, effectively address an issue as important as financial education."

Statistics underscore the importance of helping Montanans manage, save and invest more of what they earn. According to the Montana Department of Commerce, Montana's 2003 per capita income ranked 47th in the nation, at $25,920, and the state ranked 4th in the percentage of residents holding multiple jobs. Nearly 14 percent of Montana's population falls within federal poverty guidelines. In addition, personal bankruptcies in the state exceeded 4,200 in 2003, according to the Administrative Office of U.S. Courts.

A broad mission

The vision of the MFEC is simple but significant: *Montana citizens will achieve long-term personal financial health.*To support this, the MFEC has articulated a mission that encompasses a broad and diverse constituency, with a focus on capacity building and creating a unified message:

The Montana Financial Education Coalition strives to improve the personal financial knowledge and decision-making ability of Montana citizens by promoting public awareness of the need for personal financial education, and by uniting and building capacity of financial education programs.

"MFEC's scope and impact are directed to help all Montanans, from students to retirees, take charge of their financial futures," notes Garth Ferro, programs outreach coordinator for the Student Assistance Foundation and MFEC board member. "Through addressing each target group, we will be able to craft messages they will understand, and then take action."

That action, the coalition envisions, will include statewide initiatives, such as annual conferences, quarterly newsletters and a Web site listing financial education news, resources and other pertinent information. The coalition will also feature support for grassroots efforts at the local level.

One local collaborative effort is a Missoula-based initiative called "Financial Fitness"—a financial education course for adults that has been in development over the last year. Initiated and coordinated by *homeWORD*, a Missoula nonprofit organization that develops affordable housing and offers homebuyer education, the program has become a model of community partnership. It includes participation by Montana Credit Unions for Community Development, Consumer Credit Counseling Service of Montana (CCSM), the YWCA of Missoula, Habitat for Humanity of Missoula and the Missoula Housing Authority, with grants and other financial support from the Montana HomeOwnership Network, Allstate Foundation and several local credit unions. The program was created to help families develop financial self-sufficiency to purchase and maintain their homes. To date, 32 individuals have completed the course, with another class scheduled to begin in mid-October.

Tom Jacobson, executive director of CCSM and an MFEC board member, has spearheaded a local financial literacy collaborative in Great Falls, and anticipates that the MFEC will be a source of support and resources, noting that "the MFEC will help local coalitions develop the capacity to deliver financial education that truly meets the needs of individual communities."

Board members believe the influence of the MFEC's efforts in this regard will ultimately extend beyond realizing improvements in the financial well-being of individuals and families. Norm Millikin, executive director of the Montana Council on Economic Education and MFEC board member, believes that the fundamentals of personal money management have a broader economic impact.

"Financial and economic education both play important roles in personal and economic development. Any economy, including Montana's, will suffer when individuals are ill-prepared to manage their personal finances," he says. "Individuals must understand the importance of personal financial management and the basics of how an economy operates. Individuals who are adept at budgeting and managing credit and see the importance of saving will become better consumers, producers and citizens. At the same time, they must understand the key factors in creating an economy that provides jobs, profits and incentives for business growth and investment."

The recent formalization of MFEC's affiliation agreement with Jump$tart will enable the MFEC and its partners across the state to tap into a wide range of services and other benefits to support their common mission. Although Jump$tart's focus is on financial education for children and young adults, the affiliation will not narrow MFEC's scope of addressing the financial education needs of Montanans of every age and description. The affiliation will, however, offer some advantages.

"Affiliating with the National Jump$tart Coalition will provide our state coalition with a variety of support services, from public awareness materials to instructional support and technology services," notes Karen Dunn, director of financial education for Montana Credit Unions for Community Development and MFEC board member. "The MFEC will have the flexibility to incorporate these services to enhance the efficiency and effectiveness of our ongoing efforts to fulfill our statewide cooperative mission."

Education is paramount

Collaboration has been the hallmark of the MFEC since its inception, and coalition members continue to reach out to additional organizations. Annie Goodwin, commissioner of the Montana Division of Banking and Financial Institutions, is just one board member who is helping to spread the word.

"It's been a privilege to be a member of the Montana Financial Education Coalition," she says. "I've met with the Montana Bankers Association, the Montana Independent Bankers Association and the Montana Credit Union Network at their summer conventions and spoken of the valuable membership and the work of the coalition. Financial education is paramount in protecting Montanans. We need to continue to educate borrowers and give them the tools to make wise financial decisions."

MFEC board members

As of October, 2004

- Kelly Bruggeman, *First Interstate Foundation*
- Keith Carparelli, *Student Assistance Foundation*
- Keith Colbo, *Montana Independent Bankers*
- Karen Dunn, *Montana Credit Unions for Community Development*
- Garth Ferro, *Student Assistance Foundation*
- Diana Fiedler, *Montana Office of Public Instruction*
- Marsha Goetting, *Montana State University Extension Service*
- Annie Goodwin, *Montana Division of Banking and Financial Institutions*
- Janet Harper, *Montana State Auditor's Office*
- Laura Henton, *Smith Barney*
- Margaret Herriges, *Montana Society of CPAs*
- Tom Jacobson, *Consumer Credit Counseling Service of Montana*
- Jessica Lundberg, *homeWORD*
- Norm Millikin, *Montana Council on Economic Education*
- Scott Morrison, *MontanaCredit Union Network*
- Karen Nebel, *Neighborhood Housing Services Homeownership Center of Great Falls*
- Bob Pyfer, *Montana Credit Union Network*
- Yvonneda Thompson, *Chief Dull Knife College*
- Steve Turkiewicz, *Montana Bankers Association*
- Maria Valandra, *First Interstate BancSystem*
- Bob Vogel, *Montana School Boards Association*
- Al Ward, *AARP*
- Sue Woodrow, *Federal Reserve Bank of Minneapolis, Helena Branch*

Minnesota Rural Partners president receives SBA awards

November 1, 2004

Jane Leonard, president of Minnesota Rural Partners, Inc., recently received the Minnesota and Midwest Region Small Business Champion Award from the U.S. Small Business Administration. She was also named the Home-Based Small Business Advocate of the Year for her ongoing work on the Virtual Entrepreneurial Network, now called BizPathways. The annual business advocate award recognizes those whose work improves conditions in which small businesses can advance.

BizPathways, at www.bizpathways.org, is an online tool that matches business resource providers with entrepreneurs. The service was designed to provide assistance and training opportunities to rural small business owners, but is available to anyone with Internet access. The site's features include development plan templates, reminders of upcoming seminars and an "Ask for Advice" function.

Federal development funding lower in rural areas, study finds

November 1, 2004

During the late 1990s, the federal government spent more than twice as much per capita on metropolitan community development as it did on rural community development, according to a W.K. Kellogg Foundation report titled *Federal Investment in Rural America Falls Behind.*

The report is based on data compiled by the U.S. Department of Agriculture (USDA) for the period 1994-2002. The USDA used information from the U.S. Census Bureau to track all federal funding that fell into six broad categories, such as agriculture and natural resources, community resources and income security.

According to the report, overall funding for both urban and rural areas increased in 1994-2001, but in each year the federal government spent more dollars per capita in metropolitan areas than it did in rural areas. Only one-tenth of 1 percent of federal funding during that period went to rural community development, and the per capita urban-rural spending gap related to community resources like business assistance, transportation and housing widened from $15 to $286. The gap in overall funding narrowed between 1996 and 2001, but the narrowing was largely due to increased Social Security payments, farm supports, and other spending that was not directed toward community development projects.

To access the report, visit the "Knowledgebase" section of the foundation's Web site at www.wkkf.org.

FEDERAL RESERVE BANK of MINNEAPOLIS

Homeownership becoming less affordable for middle class, report says

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Homes are becoming less affordable for many middle-class Americans, according to a recent special report from the Fannie Mae Foundation.

The report, titled *Homeownership Affordability in Urban America: Past and Future,*gauges home affordability trends for median-income Americans, nationally and in 11 selected metropolitan areas. Findings are based on data and projections covering the period 1990-2008.

On a national level, the report predicts that beginning this year, a median-income first-time homebuyer will no longer qualify for a mortgage on a median-priced home. By 2007, median-income repeat homebuyers will experience affordability challenges when attempting to purchase median-priced homes. Examining trends in the 11 selected metropolitan areas, the report predicts that only in Atlanta, Houston and Philadelphia will median-priced homes continue to be affordable to median-income buyers. Of the other eight selected markets, median-priced homes in four (Chicago, Denver, Seattle and Washington, D.C.) are projected to shift from affordable to unaffordable for median-income families. Median-priced homes in the remaining four markets (Boston, Los Angeles, New York and San Francisco) have been unaffordable for median-income families for some time. In most of the 11 metropolitan areas, the report states that an average-wage schoolteacher, nurse, police officer or firefighter lacks sufficient income to purchase a median-priced home.

To access the full report, visit www.fanniemaefoundation.org/programs/pdf/ 042904_housing_affordability.pdf.