Welcome. You have crossed over to the first issue of Bridges, a quarterly newsletter aimed to encourage greater participation and cooperation in public/private partnerships that support community development lending. Bridges replaces the Community Affairs newsletter, which was launched by the St. Louis Fed’s Community Affairs Office six years ago. Our staff actively seeks to promote community investment in the Eighth Federal Reserve District and provides information and education on community reinvestment and the role it plays in banking today.

In addition to giving the newsletter a new name, we expanded and updated the design and format. Bridges is intended to serve as an informational tool for bankers, community development organizations, representatives of state and local government agencies, and others interested in community and economic development issues and initiatives. Bridges will contain news of interest, regulatory changes affecting community development activities, and a calendar announcing upcoming community affairs conferences or events.

The Community Affairs Officer and staff coordinate the Bank’s educational efforts in the area of community reinvestment. Our goal is to promote the development of local partnerships to address local community needs. We accomplish this by creating opportunities for bankers to meet representatives of community organizations, neighborhood groups and government agencies at all levels.

Looking ahead, we intend to meet our goals by hosting and participating in conferences, workshops and meetings; giving public speeches; publishing community profiles which focus on an area’s lending, service and investment opportunities and identify local, state and national organizations active in community development; distributing publications; and fielding informational requests. If you have requests for information, materials or speakers, our staff is available to assist you.

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LAWRENCE LINDSEY RESIGNS FROM BOARD OF GOVERNORS

Lawrence B. Lindsey resigned from the Federal Reserve System's Board of Governors effective Feb. 5, 1997. Lindsey will be joining the American Enterprise Institute as a resident scholar and will hold the Arthur F. Burns Chair in Economics. He also will be managing director of Economic Strategies, an economic advisory service based in New York City.

Lindsey spent more than five years as chairman of the Board's Consumer and Community Affairs Committee and chairman of the Neighborhood Reinvestment Corporation, where he became actively involved in the areas of community development and affordable housing.

While at the American Enterprise Institute, Lindsey plans to write a book on what he has learned during his tenure at the Board in the areas of community development and low- and moderate-income housing.

Sparks Named to Fed's Consumer Advisory Council

Yvonne Sparks, executive director of Neighborhood Housing Services (NHS) in St. Louis, was one of eight new members named to the Federal Reserve Board's Consumer Advisory Council.

NHS-St. Louis works in four urban neighborhoods, two in the city and two in nearby suburbs. The 20-year-old agency operates lending, home repair, home buyer training, home inspection, resident leadership, property insurance education and counseling programs. Agency partners and supporters include neighborhood residents and organizations, lenders, insurers, Fannie Mae and local governments. Sparks has been a manager and executive in nonprofit and local government organizations for 20 years. She joined NHS-St. Louis in 1993.

At the suggestion of the Board, the Consumer Advisory Council was established by Congress in 1976 to advise the Board on the exercise of its duties under the Consumer Credit Protection Act and on other consumer-related matters. Members of the 30-member council serve three-year terms that are staggered to ensure continuity. They meet three times a year at the Board's offices in Washington, D.C.
Although a variety of programs have been developed to benefit people in rural areas, many of these programs are not well coordinated and sometimes have had cross-purposes. Policies designed at the state and federal level that assume one-size-fits-all are generally based on an urban model that makes little sense for rural communities. To address these issues, the U.S. Department of Agriculture implemented the National Initiative on Rural America in 1990, which is now the National Rural Development Partnership (NRDP).

Through rural development councils at the national and state level, the NRDP brings together federal, state, local and tribal governments, as well as the private for-profit and nonprofit sectors to address rural conditions that make development efforts particularly complicated. These underlying realities include the diversity among rural areas, the complexity of rural issues, the need of a holistic approach to laying out alternatives, and the fragmentation of the organizations involved.

State Rural Development Councils have been formed in 39 states, including four in the Eighth District. They creatively address issues, analyze ways to use scarce resources more effectively, and promote strategic development activities.

The following is a list of the State Rural Development Councils in this District:

- Rural Partners of Illinois, Paul Galligos, (217) 585-9242
- Indiana Rural Development Council, John Riemke, (317) 232-8776
- Missouri Rural Opportunities Commission, Dee Ann Ducote, (573) 751-1238
- Mississippi Rural Development Council, Joe Schmidt, (800) 291-4502

HUD Funds Community Empowerment Bank in Mississippi

The Department of Housing and Urban Development (HUD) has awarded six rural Mississippi counties a $3.5-million grant and a $5-million loan guarantee to create a community empowerment bank. It will serve low-income areas designated by HUD as an Enterprise Community in portions of Bolivar, Holmes, Humphreys, Leflore, Sunflower and Washington counties.

The community empowerment bank will make loans to help entrepreneurs create jobs by starting and expanding small businesses. The bank will provide mortgages for home purchases and loans for home improvements in poor neighborhoods. Only residents and small businesses investing in the community bank will be allowed to borrow from it.

Area residents and businesses will be the owners of the bank, controlling it through shares of stock they purchase for $10 a share. By becoming part of the decision-making within the bank, residents have more control over what happens in their neighborhoods. They also will control the bank's investment decisions as shareholders.

Apply now for Rural Housing Funds

Last December, the Department of Agriculture’s Rural Housing Service (RHS) announced that state and rural development offices of RHS are now accepting applications for housing funds made available under the Rural Housing Assistance Program (RHAP). The total amount of funds available for fiscal year 1997 is more than $96.5 million.

The programs included in the RHAP are: Direct Community Facility loans; Guaranteed Community Facility loans; Community Facility grants; Rural Housing Preservation grants; Compensation for Construction Deficits; Supervisory and Technical Assistance grants; Section 515 Guaranteed Multi-Family Housing loans for new construction; Section 521 Rental Assistance for new construction for the Section 515 program; and Section 516 Farm Labor Housing grants. Up to $1.2 million of the RHAP budget can be allocated to empowerment zone/enterprise community programs.

Contact your state or local rural development office for eligibility requirements and application information. For general information or for the address of your local rural development office, contact Cynthia Reese-Foxworth, Multi-Family Housing Processing Division, Department of Agriculture, at (202) 720-1604 or Gloria Denson, Single Family Housing Processing Division, at (202) 720-1474.
Unconventional Banking Channels Replacing Brick and Mortar Branches

Ten years ago, the typical bank customer would have to duck out of work early or wait in long lines on Saturday mornings in order to make a financial transaction. Besides the friendly, but not always convenient, neighborhood branch, there were really few other options. So much has changed since then, however. Now, at the same place people buy their groceries, they also can complete a loan application, purchase a certificate of deposit or cash a check. And if customers don’t want to leave home, they can perform certain transactions by phone or online through a personal computer. This trend will continue, as the role of the stand-alone branch as a channel of distribution for mainstream financial services becomes less and less important. Following are descriptions of some of the outlets taking the place of the traditional brick and mortar branch.

IN-STORE BANKING

National Commerce Bankcorporation (NCBC) of Memphis is a leader in the industry for placing bank branches in supermarkets and other retail establishments. In-store banking has proven so popular, in fact, that National Commerce Bank Services Inc.—an in-store consultant and NCBC affiliate—has helped more than 250 banks in the United States and abroad establish and market themselves inside supermarkets and other retailers. The bank itself has 94 of the company’s 111 branches in stores.

The loan-to-deposit ratio at 47 NCBC in-store branches that are at least three years old is nearly twice that of the company’s 17 traditional branches. In-store lending has helped transform the company’s loan portfolio from 76 percent commercial at the end of 1985 to 65 percent retail at the end of 1996. In-store loan volume at NCBC topped $343 million in 1995, more than 12 times the amount in 1986.

In a recent consumer survey commissioned by NCBC, an overwhelming majority of 800 supermarket shoppers across the country said they use the bank in their supermarket and consider it an important part of the store.

“Banks need to increase the convenience and efficiency of their delivery systems, but they also need to maintain face-to-face human contact with their customers,” Thomas M. Garrott, chairman of NCBC, indicated on the bank’s Internet web page. “These are people who will need credit and other financial services for housing, education and transportation. They work hard, they have families, and they don’t have much free time, so they will use banking systems that are convenient and efficient. In-store is one of those systems.”

NationsBank ended 1996 with 128 in-store branches located throughout 16 states and the District of Columbia, and it plans to have more than 300 by the end of 1997. In the St. Louis region, Boatmen’s National Bank, recently purchased by NationsBank, is opening 20 in-store branches. The key is customer convenience—

BRANCHING OUT

<table>
<thead>
<tr>
<th>Stand Alone Branch</th>
<th>In-Store Branch</th>
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<tr>
<td>Costs at least $1 million to build</td>
<td>Costs about $250,000 to open</td>
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<tr>
<td>Needs approximately $15 million in deposits to become profitable</td>
<td>Can become profitable with as little as $4 million in deposits</td>
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<tr>
<td>Has access only to those customers who enter the branch</td>
<td>Has access to about 30,000 grocery shoppers per week</td>
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Experts estimate that the number of in-store bank branches nationwide will grow 150 percent by the year 2000 from 3,000 to 7,500.
INTERNET BANKING

Internet banking, which may seem out of reach for many customers, also is becoming more accessible through public libraries that offer Internet access to patrons. One of the first Internet banks, Security First Network Bank, boasts a total of $10 million in Internet deposits from 2,600 depositors. Its services include bill payment, transfer of money, the ability to download account information (and images of canceled checks) and open accounts—just about everything but make deposits—all with free, 24-hour-a-day customer service and a user-friendly screen.

Mark Twain Bank in St. Louis has since followed suit with its own Internet bank with electronic cash (e-cash).

AUTOMATIC LOAN MACHINES

Another delivery system that is gaining popularity is the automated loan machine (ALM). An ALM enables a customer to make an unsecured, personal loan without ever entering a bank branch. The ALM looks and operates much like an automatic teller machine.

Union Planters National Bank of Memphis is one of the first banks to utilize this technology and has 11 of these machines scattered throughout the Memphis area. The machines were installed in the summer of 1996 and have been well received, said Marsh Campbell, senior vice president. “We tried to place the machines in high traffic areas, including malls and large retail outlets throughout Memphis.”

In the fall of 1996, Magna Bank placed ALMs in two locations—the Galleria Mall in St. Louis County and Wal-Mart in Carbondale, Ill.—and intends to roll out three more this year. So far, this has been a trial period for Magna Bank to see the response to the loan machine in a rural community compared to a suburban area.

The maximum amount that can be borrowed through Magna’s ALM is $7,500, and the average loan is about $4,000. For customers whose loan requests are not approved when the ALM’s credit scoring system processes the application, the bank conducts a second review to determine whether there is another loan product that would meet their needs.

Any applicant can apply for a loan through one of these machines by answering a series of questions. Once an application is submitted, an approval takes less than five minutes. Loan documents are printed on the spot and either a check will be cut or the proceeds can be deposited into the customer’s account for immediate use. The entire transaction can be completed in about 10 minutes.

CRA AND THE DELIVERY OF BANK SERVICES

One of the key issues in the use of these alternative service delivery systems is whether these services are accessible to all customers across income lines? In some cases, depending on the type, they are more accessible than traditional branches. In the case of supermarket branches, they are more accessible because of hours, public transportation and convenience.

The Community Reinvestment Act requires financial institutions to help meet the needs of their communities, including those of low- and moderate-income neighborhoods. The new regulation recognizes that branches continue to play a key role in a bank’s ability to deliver services to the community. It gives considerable weight to services delivered through full-service branches, but it also acknowledges the importance of technological advances in banking.
HUD Offers Guidance For Set-aside Use

The Department of Housing and Urban Development (HUD) has ruled that states can devote up to one percent of each CDBG grant for technical assistance activities. This amount will not count against the state's 20 percent administrative cap and does not require a match. There have been case-by-case interpretations in the past of whether activities are eligible under the set-aside. According to HUD's Notice 96-08, however, states may now distribute the set-aside to:

- provide technical assistance directly with state staff;
- hire a contractor to provide the assistance;
- use subrecipients, such as regional planning organizations, as providers or securers of the assistance;
- directly allocate funds to non-profits and local governments to secure or contract for the assistance;
- pay for tuition, training and/or travel fees for specific trainees from local governments and nonprofits;
- transfer funds to another state agency to provide assistance; and
- contract with academic institutions, including Historically Black Colleges and Universities, to provide the assistance.

Eligible activities include:

- funding peer assistance, offering workshops on applying for and implementing CDBG programs, and writing technical assistance guides. The set-aside may not be used to pay for local administrative expenses not related to community development or activities that do not meet technical assistance needs. Also ineligible for funding are general state administrative tasks, such as monitoring state grantees, and any training of state staff to perform administrative functions, rather than training of state staff of local governments and nonprofits.

Eligibility questions can be directed to the Community Planning and Development representative at your HUD field office.

FLEXIBLE CAR LOANS FOR ‘FUTURES’ PARTICIPANTS

Mercantile Bank of Southeast Missouri, located in Farmington, Leadington and Potosi, is offering a special car loan product for participants in the State of Missouri’s FUTURES program. The program aims to assist recipients of Aid to Families with Dependent Children (AFDC) in obtaining the education and training needed to increase their prospects for obtaining employment and becoming self-supporting. Loan applicants will be referred by a FUTURES representative.

The loan product offers flexible criteria, including:

- term six months longer than the normal term based on the age of the car;
- interest rate 50 basis points below current rate;
- minimum loan size of $750 and maximum of $4000;
- debt-to-income ratio—40 percent rather than normal 36 percent;
- all government-assisted income considered;
- waiving of the $25 small loan fee, financing of the first six months of full-coverage insurance; and
- loan value based on trade-in value instead of National Automotive Dealer’s Association (NADA) value.

The bank began offering these loans in January 1994 to help welfare recipients afford automobiles, and the program was expanded later to cover school or job requirement needs, such as supplies, equipment, clothing and auto repairs. So far, the bank has made 18 loans, and all have been of good quality with no charge-offs.

The Mercantile Bank located in Sikeston has a similar lending program for FUTURES participants. For more information, call Jan Schmidt of Mercantile at (573) 438-2177.
LITTLE ROCK SCHOOL TO BECOME APARTMENTS

On Feb. 10, a ground-breaking ceremony was held at the Kramer school in downtown Little Rock’s historic district. The 37,000 square-foot school will be transformed into 22 artists’ studio apartments for low-income tenants. More than 100 people gathered to celebrate the beginning of this $3.2 million renovation. The project is being sponsored by a partnership between a two-man private development team called Historic Investments Solution Team and the nonprofit Downtown Little Rock CDC.

Financing for the project comes from a variety of sources including: First Commercial Bank, the Federal Home Loan Bank, the Arkansas Development Finance Authority, the City of Little Rock, the National Equity Fund and historic tax credits.

The project’s completion is scheduled for the end of this year, with many units ready for occupancy by the end of October.

ILLINOIS COUNTY OFFERS HOUSING INCENTIVE PROGRAM

In southeast, rural Illinois, a group of organizations joined together to offer an incentive to residents who are buying a new home in the area. The First National Bank of Sumner, The First National Bank of Bridgeport, Heritage Bank of Lawrenceville and the Lawrence County Chamber of Commerce offered $1,000 to the first 25 people who qualified when purchasing or building a new home in Lawrence County.

To qualify for the cash gift, the home had to be worth at least $50,000 under roof (almost completed) and have a permanent foundation. The program ran from April through December 1996, and 21 people received the $1,000.

While the program didn’t attract new residents to the county, it provided an incentive for current residents to buy or build new homes, which helped increase the tax base. The homeowners used the funds for a variety of things, including finishing touches to the houses, landscaping and new furnishings. Norma Perrott of the First National Bank of Sumner said that they are hoping to fund a similar project in 1997.

GLIESSNER NAMED TO FRB ST. LOUIS BOARD OF DIRECTORS

Joseph E. Gliessner, Jr., executive director of New Directions Housing Corporation in Louisville, has been elected to the board of directors of the Federal Reserve Bank of St. Louis for a three-year term. New Directions is the largest private, nonprofit community development corporation in Kentucky.
Community Development Investments—The Board of Governors of the Federal Reserve System has issued its annual directory of community development investments. In addition to descriptive profiles of existing community development corporations and investments made by bank holding companies, this updated directory now includes a section featuring community development investments by state member banks.

Community Investment Opportunities—Two new community profiles, one for Fayetteville-Springdale-Rogers, Ark., and one for Springfield, Mo., are now available from the St. Louis Fed’s Community Affairs Office. The profiles address lending, service and investment opportunities in these areas and identify many of the local, state and national organizations active in community development.

A Practical Strategy for Building Development Partnerships with Banks—The Philadelphia Fed’s pamphlet provides basic guidance for prospective borrowers from the community sector on approaching lenders about a collaborative economic development effort.

To obtain copies of the materials listed above, call Judy Armstrong of the St. Louis Fed’s Community Affairs Office, (314) 444-8646.

Community Development Finance: Tools and Techniques for National Banks—The Office of the Comptroller of the Currency (OCC) has released a revised edition which has examples of strategies used by national banks to cultivate lending and investment opportunities. Copies are $15 from the OCC, P.O. Box 70004, Chicago, IL 60673-0004.

30  Mortgage Credit Partnership (MCP) Conference—St. Louis
   Sponsor: Federal Reserve Bank of St. Louis, (314) 444-8761, and The Institute for Policy Leadership

7   Brownfields Meeting—Louisville
    Sponsor: Federal Reserve Bank of St. Louis, (502) 568-9216

8-9  Fair Housing Conference—Jackson, Miss.
     Sponsor: Housing Education and Economic Development (HEED), (601) 981-1960

       Sponsor: Consumer Bankers Association, (703) 276-1750

8-11  ACB/ABA National Real Estate Lending Conference—Chicago
      Sponsor: American Bankers Association, (800) 338-0626


Bridges is also available on the Internet at www.stls.frb.org.