LINKING LENDERS AND COMMUNITIES

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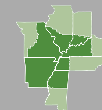

12 Spanning the Region

From Vacant to Vibrant

Communities Find New Uses for "Big Boxes"

By Faith Weekly
Community Affairs Specialist
Federal Reserve Bank of St. Louis

Fast-food chains originated the concept of "super-sized"; however, big-box retailers have taken the term to a whole new level. Today, big-box retailers such as Wal-Mart, Target and Kmart have embraced the trend of bigger is better and continue to develop mega stores that offer the convenience of shopping for a wide range of consumer goods—from groceries to linens and anything in between that a household might use.

The trend of building new super stores has left a trail of vacant big boxes scattered throughout cities and towns. Rural, urban and suburban communities are all struggling with the reuse of vacant, large retail space.

This Save-A-Lot grocery store at 1804 Dixie Hwy. (18th Street) in Louisville, occupies what was once a vacant "big box." (Photo by John Nation)

Julia Christensen, an artist and native of Bardstown, Ky., drove nearly 20,000 miles across the country to learn how communities are reusing these buildings. She discovered that these empty stores have been transformed into a variety of uses—museums, hospitals, churches, restaurants, car dealerships and schools.

The buildings are appealing to businesses, churches and organizations because they are strategically located, with improved roads and plenty of parking, Christensen says. Location is the number one factor, as in any real estate transaction, that increases the appeal of these empty retail spaces, and reusing space presents a more affordable option than building. Even so, the amount of space to be redeveloped can be a costly challenge, and the buyer will plan to develop the space in phases as opposed to all-at-once costs.

In Austin, Minn., an empty Kmart sat vacant for several years, which caused further abandonment of other surrounding small businesses, Christensen says. Today, more than 100,000 visitors come annually to tour what is now the Spam Museum and to learn more about the history of the canned meat. The transformation of the empty Kmart into the Spam Museum

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has also helped revitalize the surrounding commercial district, Christensen says.

Mt. Sterling, Ky., transformed an old Wal-Mart into a comprehensive medical center.

In Arlington, Texas, the public school system has purchased several Food Lion stores that went under with the idea to transform them into schools.

Christensen, currently teaching at Stanford University and the California College of the Arts, became interested in big-box reuse when her hometown Wal-Mart moved in 1991 to a bigger store on the other side of Bardstown. Nelson County, where the original store was located, eventually bought the property, razed the Wal-Mart and built a courthouse on the land. Since then, Wal-Mart has moved again to a Super Wal-Mart outside of town. A group of investors purchased the second Wal-Mart and currently rents it to Peebles Department Store, which opened last November.

Big-box retailers tend not to locate in large urban markets such as Los Angeles, New York City or Chicago due to space limitations for free-standing buildings and parking lots, Christensen says. However, medium-size cities such as Louisville, and rural and suburban communities are markets that have seen a proliferation of big-box retailers relocate to super-sized stores.

Louisville Mayor Jerry Abramson created a strategic approach to retail development after conducting neighborhood meetings with constituents, landowners, small business owners, developers and attorneys during the 2003 mayoral campaign.

As a result, the city established the Retail Development Division to facilitate the development of retail businesses along Louisville's Metro commercial corridors.

Its goal is to identify underutilized or vacant space and convert those areas into vibrant neighborhood assets through the Corridors of Opportunity in Louisville (COOL) program. It also assists business associations in Louisville with startup and expansion issues, which can bring improvements and new businesses to commercial areas.

The program helps targeted neighborhoods expand retail opportunities such as groceries, restaurants, dry cleaners and hardware stores. "These types of retail services are among the core services that improve the quality of life in any neighborhood, providing convenient access to daily necessities," Abramson says.

Retail staff use their knowledge of the Louisville market to identify retail development sites, recruit retail services and developers, provide demographic and other information for site selection, facilitate the approval process and introduce financial and infrastructure incentives like gap financing, facade loans, retail forgivable loans and public improvements (streetscape, landscaping).

The Retail Development Division's main focus is underserved neighborhoods in low- to moderate-income areas where residents feel they do not have enough retail services and restaurants, says John Fischer, assistant director.

In its first three years, the COOL program has facilitated more than 150 projects. Successful examples include the redevelopment of Bashford Manor Mall from an empty enclosed mall to a "power center" (a walkable collection of big-box stores) and identification of a site for a new Wick's Pizza, an independently owned retailer, in southwest Jefferson County. By the end of 2006, the new location's addition will help double the company's annual revenue.

The Retail Development Division also provided a forgivable loan and a facade loan to investors in two Save-A-Lot stores that opened in underserved Louisville neighborhoods.

In April 2004, Steve Kute and his partners opened a Save-A-Lot on 18th Street in a vacant big-box store that became unstable when Kroger moved out several years ago. The city provided a facade loan and funding for concrete and curb work.

The community has welcomed the new grocery store, and the store's performance has been outstanding, Kute says.

The second Save-A-Lot opened in 2005 in Hazelwood Shopping Center, a strip center that received a complete overhaul. The city provided a $100,000 forgivable loan for business assets. Neighborhood residents, especially the elderly, have responded favorably to the new stores, Kute says.

The Retail Development Division's role in guiding businesses to empty big-box space is a pivotal one in providing retail services to underserved neighborhoods. Fischer captured the essence of this division when he said, "The most obvious location is not always the most lucrative."

Julia Christensen's research is captured in her ongoing project, How Communities are Reusing the Big Box. *Christensen uses digital photography, digital video and audio, along with live presentations, to publicize her findings. Find out more at her web site, www.bigboxreuse.com.*

A Commentary:

Immigrant and Refugee Entrepreneurs

By Eileen Wolfington
Community Affairs Specialist
Federal Reserve Bank of St. Louis

The world of entrepreneurship is filled with tragic events and glorious achievements with varying degrees of success and failure. Some people struggle throughout their life toward small business success while others hit a successful venture almost immediately. Immigrants, especially refugees, have much higher success rates than others. Perhaps one of the reasons is their strong will to survive.

Often, employment is out of the question due to language, cultural and religious barriers. Consequently, they enter the world of entrepreneurship, even though they may be unfamiliar with the mechanics of starting a business in mainstream USA. According to a report from the Ewing Marion Kauffman Foundation in Kansas City, Mo., immigrants become entrepreneurs at a rate 30 percent higher than native-born Americans.

Profile

Immigrants tend to be risk-takers. They have a strong sense of self-reliance. If an individual decides to start a business, family members usually play a role in the business, either as an employee or as a partner. It is not unusual for them to work 16 hours a day, including weekends.

Most, especially new arrivals or those who have been here less than two years, do not rely on financial institutions or government programs to start their first business. They do not necessarily seek business development advice. If they need financing, they rely on family members and friends who have confidence in their success.

Morees and Luna Alyatim, owners of Page Auto Sales in St. Louis, received technical assistance from the International Institute when they started their business. Through the institute's Business Links program, they learned about writing a business plan and loan packaging.

Immigrants have a solid sense of autonomy and confidence. They become very connected to their community. Owners with successful startups become more venturesome, and they may become involved in more business transactions. For example, they may access a formal banking institution to buy new equipment, remodel their building or expand into a new business. Sometimes, they may even consider purchasing commercial property. Unfortunately, there continues to be a disconnect between this population and the assistance programs that are available to them.

Challenges

Some immigrants and refugees are simply not aware of the services available to them unless they are associated with a refugee resettlement agency or other type of social service agency that offers small business development. And, the service providers need to be aware of the subtle discrimination against certain groups and view it as a challenge for minority entrepreneurs.

While some potential entrepreneurs held professional positions in their home country or perhaps owned their own businesses, it may be difficult for them to join established business associations in this country because of language and cultural barriers. Traditional business

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A Place for Foreign-Born Business Owners to Find Help

The International Institute of St. Louis created a microenterprise development program in 1999. Known today as Business Links, its success is clear, says Matt Schindler, program coordinator.

"Immigrant entrepreneurship has continued at a steady pace," he says. "Our businesses are providing tax revenue, creating jobs, renovating buildings and energizing communities."

The majority are service businesses (e.g., cleaning), but there are a "fair amount" of restaurants, bakeries, grocery stores and other retail businesses, he says. Most of the entrepreneurs start out with their business serving their own community and then expand to the greater American market.

Clients take advantage of Business Link's technical assistance, such as help with licensing, permits, business plans, marketing, human resources, legal issues, accounting issues and taxes.

"Most of our clients use self-finance through family and

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Foreign-Born

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friends, but there is a growing number who seek commercial financing," Schindler says. "The biggest challenge our clients face is learning the legalities of doing business in the United States."

Two major challenges are that everything must be in writing and that owners need to understand what they are signing. "In other cultures, the oral word is equivalent to a written document in the United States," he says.

What effect do cultural issues have on how his clients think about business?

"Our clients do have a tendency toward creating family businesses," Schindler says. "It would be interesting to compare the rate of immigrant family-owned businesses with those that exist in the greater American community."

To date, the Business Links program has helped:

- start or expand about 170 businesses
- create or retain more than 240 jobs
- create $24 million in client revenue
- 77 percent of business owners remain successful after three years
- leverage $289,000 in microloans

For more information, visit www.iistl.org/services/businessLinks.asp.

One person who has found a niche helping immigrants and refugees enter the business world is Carl Trautmann. A business mentor and teacher of entrepreneurship, Trautmann has been a volunteer with the Service Corps of Retired Executives (SCORE) in St. Louis for more than 18 years. He has worked with the International Institute of St. Louis and the Hispanic Chamber of Commerce of St. Louis to reach out to immigrants.

Trautmann says one of his most rewarding experiences was working with a bilingual Hispanic immigrant who teamed up with him to present a lecture course in Spanish called "How to Start and Manage Your Own Small Business." The early results indicate that three times the percentage of the course's students actually begins a business compared with other groups.

"So far, high-dollar sales volume for successes are rare, but the number of successes is very good," Trautmann says.

Those interested in more information can call Trautmann at (636) 256-3331, send him an e-mail at info@stlscore.org or visit www.stlscore.org.

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and service associations might think of creative ways to forge relationships with immigrant businesses. It takes time, but if an association familiarizes itself with a foreign language and culture, it increases comfort and trust for both groups.

Immigrant entrepreneurs must be seen as fulfilling critical roles in the economic and social lives of the neighborhood. A community can help by working to eliminate change-resistant ways. They can integrate the police force, zone a special district to showcase immigrant businesses and capitalize on the demographic changes.

Additional barriers to using support and credit programs may include a lack of education and overly complex paperwork and documentation. New arrivals start with little or no resources. Many immigrants work hard to reach financial stability. Their success pays off once they are able to open their own business or invest in real estate.

Neighborhood Impact

Immigrant small-scale businesses are often located in low-income, urban neighborhoods. So how have immigrant businesses made an impact in strengthening the sense of community?

These entrepreneurs support the vibrancy of older urban areas through their presence and investment in revitalization projects. Immigrants provide needed goods and services, often for distinct ethnic niches. They strengthen the economic base of the neighborhood by rehabilitating houses and commercial real estate. New Americans also have a positive impact on the city's population retention and add diversity to the community.

Emina Rahmanovic, owner of Mina's Beauty Salon in St. Louis, received technical assistance from the International Institute's Business Links program when she decided to start her business.

After the Storm

Banks Respond to Katrina's Punch

By Dena Owens
Community Affairs Specialist
Federal Reserve Bank of St. Louis

Of all the problems facing victims of Hurricane Katrina, finances are among the most serious, close behind physical and emotional well-being. As individuals try to recover from the storm's devastating blow, financial institutions have been scrambling to help customers regain their financial standing. Banks and other lenders find themselves in unusual circumstances, requiring a new way of thinking.

Resourceful banks have designed creative ways to resume business, incorporating "flexibility" and "customization" into their vocabulary, engaging in recovery area investment projects and forming alliances with community partners. Examples of innovative programs abound.

Customized Programs for Special Customers

Just before Hurricane Katrina struck, one credit union erected a new branch in New Orleans. The branch was destroyed yet was committed to offering hope to its customers. Sponsored by Enterprise Corporation of the Delta based in Jackson, Miss., Hope Credit Union lost its new location, but continues serving evacuees through flexible banking options.

Determining their customers' needs, acquiring funds and developing customized options were Hope's more pressing challenges, says Richard Campbell, chief financial officer. Hope interviewed victims to identify needs, looked to their socially responsible investors (financial institutions, community and faith-based groups, and individuals) for funding and then tailored options to fit the needs.

Through these actions, Hope developed an array of loan options and services. Loan options include a six-month, interest-free housing recovery loan that can be extended for 12 or 24 months with low interest; a 90-day, interest-free consumer loan; a low-interest auto loan with no payments for 60 days; and loans adapted for small business recovery and other needs. Services include opening no-fee checking accounts for one year. For details, see www.hopecu.org.

One of many homes destroyed by Hurricane Katrina. (Photos by Wayne Smith)

In Memphis, the Bank of Bartlett is helping hurricane victims buy homes in the area through the New Neighbors Homeownership program. So far, 36 evacuees have been approved for mortgages, 10 have closed or are in the process of closing and the remainder are looking for homes.

The mortgage program, initiated by Federal Home Loan Bank of Cincinnati, provides up to a $20,000 down-payment grant to victims who want to purchase homes in Tennessee, Kentucky or Ohio on a first-come, first-served basis. Storm victims must be registered with the Federal Emergency Management Agency (FEMA). They are required to keep homes they purchase for five years. House values can be up to $175,000.

The Memphis and Shelby County Community Services Agency, an organization working with partners to provide services for families, ran information about the program through Bank of Bartlett in a recent newsletter. In the first few days after the newsletter was distributed, more than 100 people inquired about the program.

The initiative also is offered in Memphis through the Memphis Area Teachers Credit Union.

To review the program, visit the Federal Home Loan Bank of Cincinnati's web site, www.fhlbcin.com.

Partnerships with Nonprofits

Banks in Arkansas, Mississippi and Tennessee were challenged to assist the tens of thousands who fled into these nearby areas for refuge. In response, joint ventures have formed on both corporate and local levels to expand access to aid. The alliances have generated monetary donations, housing stock, supplies, food

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Disasters Put Poverty in Spotlight

Following hurricanes Katrina and Rita, several hundred thousand people were displaced from their Gulf Coast homes. Never have we seen the large-scale problems caused by these natural disasters.

Many evacuees were relocated to the St. Louis Fed's District—most notably, to Arkansas and parts of Tennessee and Mississippi. Many governmental agencies and private businesses are working with community organizations to provide jobs, housing, education and financial assistance to help the evacuees rebuild their lives.

However, the news coverage of the aftermath from New Orleans forced the nation to look at the disparate effect the flooding had overwhelmingly on low-income and minority individuals and families.

As the Metropolitan Policy Program of The Brookings Institution reported in its October 2005 study, *Katrina's Window: Confronting Concentrated Poverty Across America,* areas of concentrated poverty are not confined to New Orleans. "Despite improvements in the 1990s, nearly every major American city still contains a collection of extremely poor, racially segregated neighborhoods."

Of particular significance for our District is that out of the 50 largest cities in the country, Louisville and Memphis rank among the highest with percentages of populations living in extreme-poverty neighborhoods—census tracts in which at least 40 percent of the population lives in families with incomes below the federal poverty threshold. Louisville ranked third and Memphis 12th, according to Appendix A in the study.

Authors of The Brookings Institution study, Alan Berube and Bruce Katz, contend that "the impacts of concentrated poverty go far beyond those relevant in the context of a natural disaster."

Berube and Katz suggest that the way forward is to create neighborhoods of choice and connection. "Neighborhoods of *choice* are communities in which people of lower incomes can find a place to start, and as their incomes rise, a place to stay. They are also communities to which people of higher incomes can move, for their amenities, location and housing value. Neighborhoods of *connection* link families to opportunity, wherever it may be located. They offer connections to good schools, and recognize that the shifting geography of employment demands improved mobility for workers to access good jobs."

Several policy options were recommended by the authors "to put the nation back on track toward alleviating concentrated poverty, by supporting choice and opportunity for lower-income residents in distressed neighborhoods. Options include: restoring funding to the HOPE VI program; increasing support for housing vouchers; piloting a 'housing-to-school' voucher initiative; adopting President Bush's proposed home ownership tax credit; targeting affordable housing to low-poverty areas with the assistance of regional housing corporations; and expanding the EITC to help working families afford housing in better neighborhoods."

To read the complete report, go to www.brookings.edu/metro/pubs/20051012_concentratedpoverty.pdf.

—By Glenda Wilson
Community Affairs Officer
Federal Reserve Bank of St. Louis

More destruction in Louisiana.

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and water. Such partnering lessens the amount of government funding needed and may qualify for Community Reinvestment Act consideration during bank examinations.

FEMA estimates 30,000 to 50,000 evacuees fled into Arkansas, and banks with Arkansas branches responded.

For example, Regions Bank, with about 1,600 locations in its multistate footprint—including many in the disaster area and in Arkansas—opened an account to collect donations at all branches. Regions partnered with the American Red Cross and the Salvation Army to distribute aid to evacuees, who included bank associates. The bank also formed local partnerships such as in Little Rock, where Regions' banks donated $10,000 to the Water Shed Human Development Agency. The nonprofit entity helped Little Rock evacuees get back on their feet. On a corporate level, the bank is considering a partnership investment with three agencies that propose building thousands of affordable housing units across the Gulf area.

In Mississippi, FEMA estimates there are more than 200,000 remaining evacuees in its metropolitan areas and an undetermined number in rural areas. BankPlus, a state bank with 56 branches throughout Mississippi, was directly impacted by the hurricane and partnered with the Central Mississippi Chapter of the American Red Cross to ensure that funds directly aided Mississippi residents.

"Our goal was to help displaced Mississippians," says David Dumeyer, spokesman for BankPlus. The bank accepted donations at all branches and matched $250,000 of the total collected. About $800,000 has been collected, and the bank expects that figure to rise through its continued efforts to raise funds.

Memphis is among the top five cities in the number of evacuees it received. An esti-

mated 15,000 to 18,000 remain, according to the Louisiana Recovery Authority. SunTrust Bank, with more than 1,600 branches nationally, including about 40 in Memphis, has no locations on the Gulf Coast. Nevertheless, it delivered a corporate plan to aid Katrina victims. The plan included local projects: SunTrust's Memphis banks partnered with the Memphis Chamber Foundation. SunTrust donated $50,000 for the foundation's efforts to help local churches and charitable agencies that requested assistance for victims.

Challenges to Lenders, Customers

Federal financial regulating agencies are encouraging banks, thrifts and credit unions to continue providing flexible options to customers affected by Hurricane Katrina. At the same time, regulators stress balancing investments and flexible options with sound measures.

In cities with high concentrations of evacuees, such as Baton Rouge, Little Rock and Memphis, lenders have attended workshops conducted by the Federal Deposit Insurance Corp. (FDIC) to discuss their concerns and possible solutions to problems they have encountered. Ideas that lenders would like to see implemented include:

- development of loan pools to minimize risks and increase loan capacity at smaller banks;
- definitions by regulators of *forbearance* vs. *forgiveness* and descriptions of acceptable forms of identification for accessing or opening accounts;
- coordinated disaster scenario exercises involving key agencies;
- development of a disaster area investment projects list;
- development of an alternative funding resources list, including national and regional intermediaries, such as NeighborWorks America, the Local Initiatives Support Corp. and Enterprise Community Partners;
- development of land trusts to preserve affordable housing options and land banking opportunities so developers can hold land for future development;
- acquisition of flood maps from FEMA when local planning offices are inoperable and of building codes from city or county web sites, if available, as codes are updated for underwriting requirements;
- utilization by lenders of the new SBA Gulf Opportunity Pilot Loan program, "Go Loans," which offers a streamlined loan process for evacuees seeking small business recovery (www.sba.gov/financing/goloans);
- a list of Katrina-related web sites with updated resources and information.

Katrina Information and Resources

(Limited list: Search under "hurricane" and/or "Katrina" for specific information.)

Federal Services and Assistance

Citizen and Immigration Services
www.uscis.gov
Department of Agriculture
www.usda.gov
Department of Health and Human Services
www.os.dhhs.gov
Department of Housing and Urban Development
www.hud.gov
Department of Labor
www.dol.gov
Department of Transportation
www.dot.gov
Department of Treasury
www.ustreas.gov
Federal Emergency Management Agency
www.fema.gov
Federal Financial Institutions Examinations Council
www.ffiec.gov
Federal government information web site
www.firstgov.gov
Internal Revenue Service
www.irs.gov
Medicare and Medicaid Services
www.cms.hhs.gov
Small Business Administration
www.sba.gov
Social Security Administration
www.socialsecurity.gov

Financial Information

Federal Deposit Insurance Corp.
www.fdic.gov
Federal Home Loan Bank
www.fhlb.com
Federal Reserve System
www.federalreserve.gov
Office of the Comptroller of the Currency
www.occ.treas.gov
Office of Thrift Supervision
www.ots.treas.gov
National Credit Union Administration
www.ncua.gov
SRI informational web site
www.socialfunds.com

General Hurricane Relief Services

American Red Cross
www.redcross.org
Arkansas Hurricane Relief
www.arkansas.gov/dfa/dfa_emergency.html
Enterprise Community Partners
www.enterprisecommunity.org
Enterprise Corporation of the Delta
www.ecd.org
Habitat for Humanity
www.habitat.org
Local Initiatives Support Corp.
www.lisc.org
Louisana Recovery Authority
www.lra.louisiana.gov
Hurricane Relief Organizations List
www.give.org
Mississippi Emergency Management Agency
www.msema.org
NeighborWorks America
www.nw.org
Salvation Army
www.salvationarmyusa.org
Tennessee Hurricane Relief
www.tnanytime.org
United Way International
www.uwint.org

100 Years of Bankruptcy

Why More Americans Than Ever Are Filing

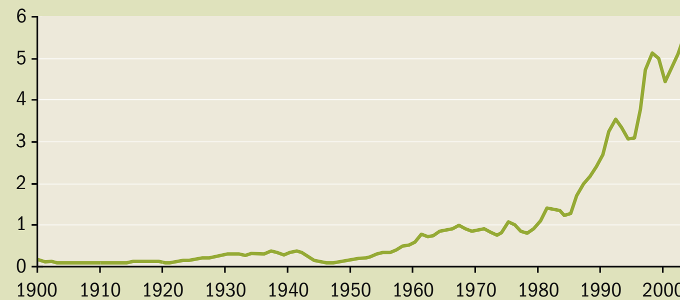
By Thomas A. Garrett
Research Officer
Federal Reserve Bank of St. Louis

Personal bankruptcies in the United States have had a dynamic history over the past 100 years. Bankruptcy filings in the first half of the 20th century averaged 0.15 per 1,000 people and grew at an average annual rate of 2.4 percent. Bankruptcies began to increase during the 1960s and have grown dramatically since 1980. Between 1980 and 2004, bankruptcies grew at an annual average rate of 7.6 percent a year. As of 2004, the filing rate was 5.3 per 1,000 people, more than four times the 1980 rate and nearly 80 times the 1920 rate.[1]

These statistics, however, disguise the fact that personal bankruptcy filings are not equal across the country. For example, at the state level, Tennessee had the highest rate of personal bankruptcy filings in the nation in 2004, with more than 10 filings per 1,000 people (nearly twice the U.S. rate) whereas Massachusetts ranked last with 2.8 filings per 1,000 people. States in the Eighth Federal Reserve District had an average filing rate of 7.7 per 1,000 people in 2004, which is greater than the U.S. average, but the growth in bankruptcy filings in Eighth District states between 1980 and 2004 averaged 7.2 percent a year, slightly below the U.S. average growth of 7.6 percent a year.[2]

The typical person who files for bankruptcy is a blue collar, high school graduate who heads a lower middle-income class household and who makes heavy use of credit.[3] Research has found that the primary cause of personal bankruptcy is a high level of consumer debt often coupled with an unexpected insolvency event, such as divorce, job loss, death of a spouse or a major medical expense not covered by insurance.[4]

Although negative income shocks (including recessions) are the predominant cause of bankruptcy filings, various economic, legal and institutional factors over the past 100 years are likely contributors to the rise in personal bankruptcy filings. These factors—such as the increased availability of credit, lower costs to file for bankruptcy and decreased consumer savings—do not cause most bankruptcies, but have made individuals more susceptible to negative income shocks, thus increasing their chance of filing for bankruptcy.[5]



Personal bankruptcy filing rates varied greatly throughout the 20th century. The record level we see today is a result of a marked increase beginning roughly 25 years ago.

Economic Factors

Personal bankruptcy filings per 1,000 people in the United States from 1900 to 2004 are shown in the figure. Bankruptcy filings were relatively low and steady from about 1900 to 1920. Filings increased slightly during the 1920s and 1930s, both as a result of increased economic activity and the Great Depression. Bankruptcy may increase during periods of economic growth as people become more confident in the future and are willing to take on a greater debt burden and finance their increasing obligations based on current income.[6] However, as the supply of credit begins to tighten and interest rates and loan payments begin to rise, the financial strain can become quite large.

World War II saw a marked drop in filings, likely the result of increased employment in support of the war effort. Filings continued to rise at a somewhat greater rate during the 1960s. Two reasons for this rise were an increase in economic activity following World War II and the rise in federal and state transfer programs (i.e., Medicare, welfare and disability programs) that created an incentive for individuals to be less financially responsible given a government safety net.[7]

A marked decrease in consumer saving and an increase in consumer debt correspond with the dramatic change in bankruptcy filings since the 1980s. For example, total saving as a percent of income averaged nearly 10 percent in 1980 compared with 0.1 percent in the second quarter of 2005. These figures include traditional retirement accounts like 401(k)s.

Although rising property values have likely led to a portfolio shift from traditional savings to investing in one's home, this latter option offers much less diversity, and thus higher risk, than traditional portfolio savings like 401(k)s.

Consumer debt as a percent of income increased from about 15 percent of personal income in 1980 to more than 20 percent of income in the second quarter of 2005. These statistics, combined with the saving statistics, reveal that Americans have been saving less and spending more (through debt) over the past 25 years. Both of these facts have made individuals more susceptible to income shocks and thus more likely to file for bankruptcy.

Legal and Institutional Factors

Bankruptcy law during the first part of the 20th century was established by the 1898 Bankruptcy Act, the first permanent bankruptcy law in the United States.[8] Although this law dealt primarily with corporate bankruptcies, the legal provisions for personal bankruptcies, which were arguably weak, were of little concern because of the extremely low rate of personal bankruptcies during the first part of the century.

The rise in personal bankruptcies in the 1920s and 1930s, along with growing corruption and legal challenges regarding corporate bankruptcy filings during the Great Depression, prompted passage of the Chandler Act in 1938. The Chandler Act created a host of new options for those filing for personal bankruptcy, such as alternatives to complete liquidation (e.g., a repayment plan) and a greater ability to file voluntary petitions.

The increased availability of consumer credit, especially in the form of credit cards, has occurred since the 1950s.[9] Although proprietary charge cards were available in the early 1900s, the use of these cards was traditionally limited to a single store. Also, many of these cards did not have the feature of revolving credit.[10] The first general purpose credit card (BankAmericard, now known as VISA) was introduced in 1966. In 1970, only 16 percent of households had a credit card compared with over 70 percent of households in 2000.

The late 1970s saw numerous legal changes that likely had an impact on bankruptcy filings. First, the Bankruptcy Reform Act of 1978 revamped bankruptcy practices set forth under the 1898 act and the Chandler Act. Although the act was passed in response to the rise in personal bankruptcies during the 1960s, many provisions in the act made it easier for both businesses and individuals to file for bankruptcy.

A second legal change in the late 1970s was a Supreme Court ruling in 1978 called the Marquette decision.[11] Prior to this time, many states had usury ceilings on credit card interest rates. The high inflation and interest rates of the late 1970s significantly reduced the earnings of credit card companies. As a result, credit card companies in relatively high-interest-rate states attempted to solicit their credit cards to people living in lower-interest-rate states, but charge the higher rate. Controversy over this practice culminated in the Supreme Court, which ruled that lenders in states with high-interest-rate ceilings could export those rates to consumers residing in states with more restrictive interest rate ceilings. The result of this ruling was a massive expansion in credit card availability and a reduction

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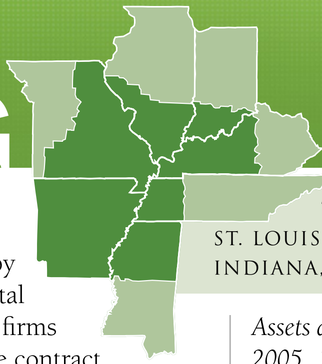
ENDNOTES

1. Bankruptcy data are from the Administrative Office of the U.S. Courts.
2. Data sources are from the Administrative Office of the U.S. Courts and Garrett, Thomas A. and Ott, Lesli S. "Up, Up and Away: Personal Bankruptcies Soar." *The Regional Economist,* October 2005, pp. 10-11.
3. Shephard, Lawrence. "Accounting for the Rise in Consumer Bankruptcy Rates in the United States: A Preliminary Analysis of Aggregate Data (1945-1981)." *Journal of Consumer Affairs,* Winter 1984, vol. 18, pp. 213-30.
4. Gropp, Reint; Scholz, John K.; and White, Michelle J. "Personal Bankruptcy and Credit Supply and Demand." *Quarterly Journal of Economics,* February 1997, vol. 112, pp. 217-51.
5. For a further discussion of personal bankruptcies, see Marcuss, Maimie. "A Look at Household Bankruptcies." *Communities and Banking,* Federal Reserve Bank of Boston, Spring 2004, pp. 15-20 and Hansen, Bradley and Hansen, Mary. "The Transformation of Bankruptcy in the United States." Working Paper, University of Mary Washington.
6. Ekstein, Otto and Sinai, Alan. "The Mechanisms of the Business Cycle in the Postwar Era." *The American Business Cycle.* Chicago: University of Chicago Press, 1986,: pp. 39-105
7. "Consumer Bankruptcy: Causes and Implications." Visa Consumer Bankruptcy Reports, Visa USA, Inc., July 1996.
8. Visit http://eh.net/encyclopedia/article/hansen.bankruptcy.law.us for an overview of all bankruptcy legislation in the United States since 1789.
9. Sienkiewicz, Stan. "Credit Cards and Payment Efficiency." Discussion Paper, Federal Reserve Bank of Philadelphia, August 2001.
10. Revolving credit is an agreement to lend a specific amount to a borrower and to allow that amount to be borrowed again once it has been repaid.
11. The actual case is Marquette National Bank of Minneapolis v. First of Omaha Service Corp. For a detailed discussion, see Ellis, Diane. "The Effect of Consumer Interest Rate Deregulation on Credit Card Volumes, Charge-Offs, and the Personal Bankruptcy Rate." FDIC, Bank Trends, March 1998.
12. See www.stlouisfed.org/community/about_cra.html for a discussion of the Community Reinvestment Act.
13. See "A Policy in Lampman's Tradition: The Community Reinvestment Act." Remarks by Governor Edward M. Gramlich, Federal Reserve Board, June 16, 1999. Available at www.federalreserve.gov/BoardDocs/speeches/1999/19990616.htm.
14. "Bankruptcy Filers Rush to Meet Deadline." *USA Today,* Oct. 14, 2005, p. B.1.

SPANNING THE REGION



THE REGION SERVED BY THE FEDERAL RESERVE BANK OF ST. LOUIS ENCOMPASSES ALL OF ARKANSAS AND PARTS OF ILLINOIS, INDIANA, KENTUCKY, MISSISSIPPI, MISSOURI AND TENNESSEE.

New Tax Credit Program Open to Tennessee Lenders

The state of Tennessee has developed a new program that offers flexibility to lenders seeking tax credits.

The Community Investment Tax Credit is an incentive that gives lenders tax credits for loans and grants to housing organizations involved in a variety of eligible activities. The loans and grants can support programs that create affordable housing, help Tennesseans obtain affordable housing mortgages or help nonprofit agencies finance affordable housing projects or affordable housing activities, such as certified home-buyer education services.

The program is administered by the Tennessee Housing Development Agency (THDA) and the Department of Revenue.

For more information about THDA or the tax credit program, call (615) 741-2400 or visit the THDA web site at www.state.tn.us/thda.

Missouri DNR Offers Environmental Assessments

Local governments and nonprofit organizations in Missouri considering the purchase of property that may have environmental problems can get help from the state.

The Missouri Department of Natural Resources provides free environmental assessments performed by environmental engineering firms under a state contract. Applicants do not have to own the property or intend to purchase it.

Potential contaminants include lead-based paint, asbestos, petroleum and hazardous materials, such as chemicals, pesticides and herbicides.

For information, contact Christine O'Keefe at (573) 751-7538, christine.o'keefe@dnr.mo.gov; or Jim Gilstrap at (573) 522-8139, jim.gilstrap@dnr.mo.gov

Identity Theft Victims Can Call Illinois Hotline

Identity theft victims in Illinois who are navigating their way through the credit repair process can call a new state hotline for help. The hotline number is 1-866-999-5630. Those who are hearing-impaired can call 1-877-844-5461 (TTY). Callers will receive one-on-one assistance, including advice on how to work with police and creditors.

For more information on the Illinois Identity Theft Hotline, visit the Illinois attorney general's web site at www.illinoisattorneygeneral.gov/consumers.

Arkansas Nonprofit Releases State Scorecard

The Southern Good Faith Fund recently released the *Arkansas Assets and Opportunity Scorecard 2005*. The report examines outcomes, measures and public policies associated with asset-building opportunities.

The *Scorecard* is organized into the categories of education, business development, home ownership and financial security.

The report makes specific recommendations for Arkansas policies affecting asset development. It includes a regional comparison of Arkansas' outcomes and policies with six neighboring states: Louisiana, Mississippi, Oklahoma, Tennessee, Missouri and Texas. In addition, Arkansas' national ranking is listed for each of the categories highlighted in the report.

A complete listing of the data can be found at www.southerngoodfaithfund.org/pub/pub_policy.html. To obtain a copy of the report or to learn more about the recommendations, contact Matt Price at (501) 372-1141.

$300,000 in Tax Credits Awarded to St. Louis Program

Great Rivers Community Reinvestment, a subsidiary organization of the Justine Petersen Housing and Reinvestment Corp. in St. Louis, has received $300,000 in state tax credits from the Missouri Department of Economic Development.

The tax credits were issued through the state's Family Development Account Program, a matched-savings program in which money leveraged by state tax credits is used to match money saved by individuals, up to a three-to-one match. The 50 percent state tax credits are expected to attract up to $600,000 in donations during a 12-month period.

Great Rivers Community Reinvestment plans to help hundreds of low-income individuals and families in the St. Louis area save money toward a home, home repairs, educational advancement or the operation of a small business. The organization will also offer economic education classes and help participants improve their credit scores.

Banks interested in purchasing the tax credits should contact Sheri Flanigan-Vazquez at Justine Petersen: (314) 664-5051, ext. 117, or sflanigan@justinepetersen.org.

Bankruptcy

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in the average credit quality of card holders.

The third legal change in the late 1970s was the Community Reinvestment Act (CRA), which was enacted in 1977. The purpose of this act is to encourage depository institutions to help meet the credit and financing needs of the community, especially low- to moderate-income communities.[12] Because the act has increased credit flows to disadvantaged communities, is it possible that it also increased the number of bankruptcy filings by lower-income individuals? Research has suggested that the number of bankruptcies that result from CRA loans is much smaller than the aforementioned legal factors—at most, 3 percent to 4 percent of overall bankruptcy filings are a result of CRA loans.[13]

Although some minor legal changes to the Bankruptcy Code did occur in the 1980s, the next significant change was the Bankruptcy Reform Act of 1994. Despite the rise in bankruptcies up to this time, the act actually encouraged bankruptcy by increasing personal property federal exemptions. Indeed, filings increased roughly 17 percent between 1994 and 1995 in the states affected by the higher federal exemptions. States with their own higher exemption rates were not affected by the act.

Conclusion

Personal bankruptcy filing rates have increased dramatically over the past 25 years. An unexpected shock to income is the predominant cause of bankruptcy filing. However, over the past 100 years, economic, legal and institutional factors—increased consumer debt, lower savings, lower costs to file for bankruptcy and increased access to credit—have likely contributed to the pattern of bankruptcy rates.

The Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 is designed to decrease the growth in personal bankruptcies by increasing the costs of filing for bankruptcy, using income means testing in regards to liquidation and repayment, and requiring credit counseling. It is too early to tell whether the act has had its intended effects, but the number of bankruptcy filings soared several days *prior* to the act's effective date of Oct. 17, 2005.[14]

CALENDAR

APRIL

27

Hispanic Banking: Improving Your Bank's Bottom Line—Fort Smith, Ark.
Sponsor: Federal Reserve Bank of St. Louis
www.stlouisfed.org/community

MAY

3-5

Mountain-Midwest States Economic Development Peer Learning Conference—Kansas City, Mo.
Sponsor: National Association of Development Organizations
www.nado.org

17-19

MEDC Spring Conference—Osage Beach, Mo.
Sponsor: Missouri Economic Development Council
www.showme.org

JUNE

6-7

2006 Symposium on Small Towns and Rural Summit—Morris, Minn.
Sponsor: Minnesota Rural Partners and the Center for Small Towns
www.minnesotaruralpartners.org

22-23

Community Development Policy Summit—Cleveland, Ohio
Sponsor: Federal Reserve Bank of Cleveland
www.clevelandfed.org/commaffairs/index.cfm

25-28

Communities That Click: Individuals, Families and Organizations Working Together—St. Louis
Sponsor: Community Development Society
www.comm-dev.org/

26-30

NeighborWorks Training Institute—Kansas City, Mo.
Sponsor: NeighborWorks
www.nw.org

JULY

19

Neighborhood Characteristics Matter... When Businesses Look for a Location—St. Louis
Sponsor: Federal Reserve Bank of St. Louis
www.stlouisfed.org

BRIDGES

Bridges is a publication of the Community Affairs department of the Federal Reserve Bank of St. Louis. It is intended to inform bankers, community development organizations, representatives of state and local government agencies and others in the Eighth District about current issues and initiatives in community and economic development. The Eighth District includes the state of Arkansas and parts of Illinois, Indiana, Kentucky, Mississippi, Missouri and Tennessee.

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If you have an interesting community development program or idea for an article, we would like to hear from you. Please contact the editor.

Free subscriptions and additional copies are available by calling (314) 444-8761 or by e-mail to communityaffairs@stls.frb.org.

Missourian Named to Fed Council

Anna McDonald Rentschler of Mexico, Mo., is one of 10 new members appointed to the Federal Reserve Board's Consumer Advisory Council.

The council, which meets three times a year in Washington, D.C., advises the Board on its responsibilities under the Consumer Credit Protection Act and on other matters relating to consumer financial services.

Rentschler is the newly appointed Bank Secrecy Act and anti-money laundering officer for Central Bancompany in Jefferson City, Mo. Her division will consolidate the bank secrecy and anti-money laundering functions of 13 banks. Until recently, she served as vice president and compliance officer for First National Bank of Audrain County, where she was responsible for federal and state compliance supervision and conducting oversight for all mortgage loan activity and sales in the secondary mortgage market.

Anna McDonald Rentschler

St. Louis Fed Appoints First Vice President

David A. Sapenaro has been named first vice president and chief operating officer of the Federal Reserve Bank of St. Louis.

Sapenaro joined the St. Louis Fed in 1995, following 10 years with the Federal Reserve Bank of Kansas City, where he held a variety of managerial and official positions in the Operations Division. In St. Louis, he most recently managed and led various Federal Reserve operations and initiatives in support of the U.S. Treasury.

Customer service is one of Sapenaro's top priorities.

"Whether you interact with the Federal Reserve Bank of St. Louis through our public programs, our financial services or our bank examiners, you can count on receiving exceptional service from this organization," Sapenaro says. "When you do, we'd like to hear from you. And if you don't, we definitely want to hear from you."

Sapenaro succeeds LeGrande Rives, who retired in January.

David Sapenaro

David Sapenaro can be reached at (314) 444-8721.

Federal Regulators Finalize CRA Changes

Federal regulators announced in March final guidance implementing changes to Community Reinvestment Act (CRA) regulations.

Among other things, the changes clarify that regulators will consider bank activities in designated disaster areas for CRA credit. Bank loans, investments and services that help attract new, or retain existing, businesses or residents to a designated disaster area will receive CRA "community development" consideration for a 36-month period after designation of the area. This time period can be extended in unusual cases, and the agencies indicated they plan to substantially extend the time periods in the Gulf Coast areas hit by hurricanes Rita and Katrina.

The changes also address the availability of CRA "community development" consideration for bank activities that revitalize or stabilize underserved or distressed middle-income rural areas. The other major issue it addresses is implementation of the new community development test for banks with assets between $250 million and $1 billion.

The guidance is being issued by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corp. and the Office of the Comptroller of the Currency. The guidance implements changes to the agencies' CRA regulations that took effect on Sept. 1, 2005.

Have you HEARD

NCCA: A New Name, A New Mission

The 20-year-old National Community Capital Association became Opportunity Finance Network at the beginning of 2006.

The name change reflects a major shift in the organization's focus, says president and chief executive officer Mark Pinsky. A network of 167 financial institutions, Opportunity Finance Network will move beyond traditional community development strategies based in government funding and into a commitment to attract private capital to "opportunity markets."

The organization's new strategies include a multi-billion dollar "Fair Mortgage" strategy to combat predatory lending and plans for $100 million or more in financing to preserve affordable housing for low- and moderate-income home owners residing in manufactured home parks.

For more information, visit www.opportunityfinance.net.

Fed Raises Reg C Exemption Threshold

The Federal Reserve Board recently published its annual notice of the asset-size exemption threshold for depository institutions under Regulation C, which implements the Home Mortgage Disclosure Act (HMDA). The exemption will increase to $35 million, based on the annual percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers for the 12-month period ending November 2005. As a result, depository institutions with assets of $35 million or less as of Dec. 31, 2005, are exempt from data collection in 2006. The adjustment was effective Jan. 1, 2006.