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# BRIDGES

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## Paper or Plastic?

### The Potential Impact of Prepaid Cards on Personal Financial Management

By Lesley Morgan

Do you remember the television commercials where customers are dancing through the check-out line and one person stops everything in order to pay with cash? Although those commercials seemed far-fetched, they represent an emerging truth: We are becoming an increasingly cashless economy.

For the unbanked, our booming affinity for “plastic” can exclude them from everyday transactions, including making online purchases and paying bills by phone. Fortunately, stored-value cards, commonly known as

prepaid cards, can help fill the gap between the cash and the cashless segments of society that now exist.

Prepaid cards function similarly to a debit card, but are not linked to a traditional bank account. The majority of prepaid card

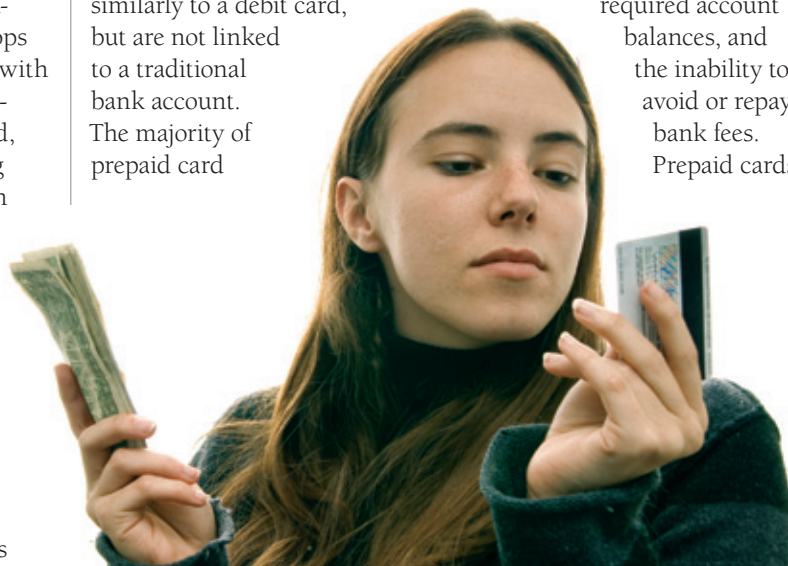
users are unbanked for a variety of reasons, including lack of proximity to bank branches, distrust of financial institutions,

the need to maintain required account balances, and the inability to avoid or repay bank fees.

Prepaid cards

can be purchased from non-bank retailers such as grocery stores, large box retailers and online merchants. Funds can be reloaded at these locations or through direct deposit. Most of the cards are also branded by a major credit card company and are accepted anywhere that company’s card can be used. (For more information on prepaid cards, please refer to [www.stlouisfed.org/publications/itv/articles/?id=2168](http://www.stlouisfed.org/publications/itv/articles/?id=2168).)

According to the 2010 Federal Reserve Payments Study, prepaid card transactions accounted for five percent of all noncash transactions and were the fastest-growing type of noncash payment method,



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continued on Page 2

## Looking Ahead



In the spring of 1997, the St. Louis Fed published the first issue of *Bridges*. In the winter of 2009-2010, we embraced the digital format and included even more information in each issue with the addition of online-only content. Now, 15 years after its launch, we are pleased to announce the transition of the newsletter to an online-only publication, beginning with the Spring 2013 issue.

Over the years, our intention has remained the same—to provide 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. This will not change with the transition from print to digital. In addition to our editorial staff, we also receive input from external advisers and expert contributors, with the goal of delivering the most helpful, useful and accurate content available to a broad range of readers.

By concentrating our efforts on a digital publication, we can take advantage of the many benefits of this electronic format, some of which include:

- **Expanded coverage** — While the length of an article will remain important in terms of overall balance, the amount of coverage we can offer will not be limited by the space constraints of print.
- **Links to external web sites** — Rather than having to physically go to a different source, cross-reference links can be followed effortlessly with a few clicks of a mouse.
- **Supplemental materials** — A digital format allows the addition of supporting materials (e.g., sidebars, primary documents) to any article.
- **Multimedia** — Technology encourages the use of multimedia content (e.g., videos, interactive illustrations) to bring stories to life and to provide greater depth and understanding.

Going digital also means going green—eliminating print offers a more environmentally friendly service to our readers.

In order for you to continue reading *Bridges* in a timely manner, we need to ensure that we have an accurate way to alert you when issues are available. Please take a moment to provide your e-mail address by visiting [www.stlouisfed.org/br/subscribe/](http://www.stlouisfed.org/br/subscribe/) so you won't miss a single issue. You may also provide this information on the enclosed reply card.

We enthusiastically look forward to this next chapter, and thank you very much for your continued support of our newsletter.

Glenda J. Wilson

*Glenda Wilson is managing editor of Bridges and assistant vice president of community development at the Federal Reserve Bank of St. Louis.*

## “Paper or Plastic”

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with a transaction frequency increase of 21.5 percent in three years. The FDIC estimated in 2009 that of the 25.6 percent of U.S. households that were under- or unbanked, more than 35 percent utilized some sort of prepaid card for general spending purposes. The Mercator Advisory Group found that funds loaded onto prepaid cards totaled more than \$42 billion, a 50 percent increase from 2009 to 2010. Usage rates of these cards can only be expected to rise.

### Goodbye Envelopes (Prepaid for Budget Management)

Proponents of prepaid cards laud them as an effective financial management tool. One participant in a 2009 focus group for the Center for Financial Services Innovation explained, “I primarily use reloadable prepaid cards for items like gas, groceries and smaller bills like phone or Internet services. It’s easy to place the money into the account during the month and stay within the confines of the budget I have allotted to spend for these goods and services.” The convenient loading of funds to these cards makes money readily accessible and lowers time spent and costs for basic transactions. (See “Sample Potential Savings Using Prepaid” chart on Page 3). Some cards even feature high-tech “envelope method” management systems through online platforms

that allow users to monitor their spending and create budgets (see sample online tracker on Page 3).

Many prepaid card users view the perceived fee transparency of these cards as a benefit. As a November 2011 National Public Radio segment pointed out, many consumers are frustrated with the penalty fees associated with bank accounts and would prefer to know the true cost of transactions ahead of time. In general, checking accounts are the most cost-effective, but for consumers who are short on funds, one overdraft charge can have a significant financial impact; prepaid card users avoid these fees altogether. Unfortunately, these same per-transaction charges make the true cost of the prepaid card hard to calculate and can reduce the user’s purchasing power. Additionally, non-bank-issued cards are not FDIC-insured, increasing a consumer’s risk to losing loaded funds. Since this industry remains largely unregulated, it is important for consumers to research products prior to purchase.

### Saving for a Rainy Day (Asset Building With Prepaid Cards)

Prepaid cards are an innovative tool providing the unbanked with access to basic financial services. However, these products are far from a panacea. First, few of these cards offer savings vehicles for consumers; in fact, because the funds are readily accessible, they can actually be a disincentive to save. Some

card companies have introduced optional savings features on their cards, like NetSpend's National Savings account, the Approved Card's savings goal funds, and overdraft protection. However, the provision of these services depends on the card issuer, and utilization rates are unclear.

In addition, these cards presently offer no credit-building benefits to consumers who may lack sufficient credit histories. Despite appeals from prepaid card companies, the credit bureaus have been reluctant to create standard data reporting formats for "noncredit" transactions. TransUnion has indicated movement toward these capabilities, but it is unclear whether Equifax and Experian will follow and how prepaid cards will be factored into the FICO score calculation. Until these systems are established, low-credit individuals would benefit more from using secured credit cards for credit-building purposes.

### Taking it to the Bank (Prepaid as an Introduction to Traditional Banking)

Although the safety and cost-effectiveness of these cards are vague, one thing is certain: Prepaid cards are here to stay. With employers and public benefit payers shifting toward electronic payments to reduce costs, utilization rates of these cards will continue to rise. In the future, competition within and regulations of prepaid card providers will increase, making these cards a safer and more affordable product for consumers.

## Sample Potential Savings Using Prepaid

John receives income from six checks per month, totaling \$1,700. He uses cash to pay his rent, and money orders for his phone, cable and car insurance bills. He makes five additional monthly purchases for groceries and eating out. Below is a table showing sample monthly financial services costs utilizing three different options. Note that while a checking account could be the most cost-effective, potential fees could wipe out the savings.

Check Cashing		Prepaid Card		Checking Account	
SERVICES	AVERAGE FEES	SERVICES	AVERAGE FEES	SERVICES	AVERAGE FEES
Six checks cashed	\$51.45	Two direct deposits	\$0.00	Six deposits	\$0.00
Three money orders	4.50	Four checks loaded	21.85	3-6 ATM fees, plus 3 checks	23.90
		Cash withdrawal (rent payment)	4.50	Subtotal	\$23.90
		Three bill payments	1.50	<b>POTENTIAL FEES</b>	
		Eating out and groceries	2.50	Expedited bill pay	9.50
		Monthly fee	6.48	Insufficient funds	19.00
<b>Total Cost</b>	<b>\$55.95</b>	<b>Total Cost</b>	<b>36.83</b>	<b>Total Cost</b>	<b>\$52.40</b>

SOURCE: Adapted from The Nonprofit's Guide to Prepaid Cards, Center for Financial Services Innovation.

## Sample Online Spending Tracker for Prepaid Cards

Some prepaid cards feature management systems that allow users to monitor budgets. In this example, the red part of the line indicates how much of the budgeted amount has been used; green is still available.



SOURCE: Adapted from www.NetSpend.com.

The rapid growth in the use of prepaid cards as "proxies" for checking accounts demonstrates the need for financial products suitable for the lifestyles of under- and unbanked individuals that are appropriate for meeting current banking

needs. It is up to the regulated financial services sector to continue creating safe, affordable and innovative products to fill these gaps—and to see prepaids as one route among many to build access to wealth-building financial services for everyone.

*Lesley Morgan is a graduate student in the George Warren Brown School of Social Work at Washington University in St. Louis and a practicum student in the Community Development Office of the Federal Reserve Bank of St. Louis.*

# Save Energy, Save Money: Making Homeownership More Affordable

By Richard Ockers,  
Adam Roberts and  
Katrina Sommer

For many low- to moderate-income (LMI) households, homeownership remains one of the only avenues to building personal wealth, albeit with limited success due to the ever-present challenge of rising living expenses. Focusing on what can be changed as opposed to what cannot may help homeowners meet this challenge. Although it can be difficult to influence the cost of maintenance, food and transportation, utility costs are a financial strain that can be partially controlled through structural and behavioral modifications.

In an effort to stabilize housing by enhancing affordability, the St. Louis County Office of Community Development (OCD), in partnership with Laclede Gas Company and a private developer, launched an energy study to determine the best combination of green building techniques to control utility costs. The study, which was the first of its kind on a national platform, examined traditional building methods and various Energy Star features by means of a



Left: A typical Patrician Place home. Right: Energy-efficient natural lighting helps lower utility costs.

10-home project known as Patrician Place. Funding for this endeavor was provided by a regional bank and the U.S. Department of Housing and Urban Development.

Patrician Place was designed to provide relevant comparisons. Therefore, all 10 homes share a common floor plan. The goal was to maximize utility savings through smart architectural design, such as strategically placed windows that allow for natural lighting versus costly artificial lighting. The control home was designed to meet the energy efficiency requirements of the 2003 International Residential Code (IRC), as adopted by St. Louis County, and contained standard-efficiency HVAC equipment—a natural gas furnace and water heater, and an electric air conditioner. The

design of the nine green homes incorporated a number of different energy-efficient components, including increased air sealing and insulation, Energy Star windows, and high-efficiency natural gas and electric HVAC systems. The Energy Star ratings for the green homes ranged from 59 to 69, compared to the control home at 150 (lower scores are considered more energy-efficient). Furthermore, all of the green homes were certified to either the National Association of Home Builders' Model Green Home Building Guidelines or LEED for Homes.

#### Data Collection

All 10 homes were sold to LMI persons willing to participate in this study. Each buyer received training on the energy-efficient features

of their home and completed a survey designed to capture their energy-related behaviors. The data tabulated from this survey were supplemented by observations from quarterly visits. Laclede Gas Company employees visited each home regularly to ensure strategically located data loggers were operational and to extract the data stored on each device. The data loggers recorded temperature and humidity readings in five- to 15-minute intervals over the course of one year. Additionally, natural gas and electric utility bills were collected to analyze energy consumption relative to homeowner preference and general home operation.

The results of this study demonstrate that when homeowners correctly operate their home's energy-efficient features,

they can realize a significant cost savings. Compared with the control home, the average green home saved approximately \$200 annually; however, residents of some green homes experienced nearly twice the savings. Not surprisingly, the homeowners with less energy-conscious preferences and those who did not properly utilize their home's energy-efficient features, such as the programmable thermostat, did not experience the full savings potential. This powerful information fuels the following policy recommendations to motivate and educate existing homeowners and future homebuyers about energy-efficient behaviors and habits in the operation of their households.

### Policy Recommendations

The first recommendation gleaned from the evaluation of Patrician Place calls for a shift regarding homebuyer education. All homebuyers receiving federal assistance currently undergo a mandatory eight-hour homebuyer counseling course; unfortunately, this curriculum does not adequately address energy-conservation practices. All homebuyers, especially first-time purchasers, should be exposed to an energy-saving program that is easy to understand and execute. Doing so will help them achieve greater cost savings while simultaneously preserving valuable resources. In response to this data, OCD has created an energy-savings

# The results of this study demonstrate that when homeowners correctly operate their home's energy-efficient features, they can realize a significant cost savings.

curriculum, *Saving Money by Saving Energy*, which will be delivered to all homebuyers benefiting from any federal, state or locally funded grants administered by OCD. The curriculum is also available to other agencies, lenders and residents upon request.

The second recommendation is to examine policies that will promote and expand voluntary green building certification programs in order to integrate the most cost-effective green building procedures into local building practice. Patrician Place findings indicate that these techniques are centered on smart architecture, energy-efficient mechanical systems, Energy Star products and appliances, insulation, air sealing, use of recycled materials, low-flow plumbing, and landscaping. Many of these procedures may already be

integrated into construction practices across the nation; however, failing to promote these elements through green building programs provides incentives for builders to adopt lowest-cost, least-efficient construction techniques.

The final recommendation is to encourage the implementation of energy-saving home features. Currently, homeowners have access to many different resources that have the potential to help them utilize cost-saving measures that will lower their debt-to-income ratios and increase homeownership affordability—for example, federal, state and local tax incentives;

utility rebate programs; low-interest home improvement loans; and the use of Energy Efficient Mortgages.

Improved energy efficiency and the subsequent cost savings are achievable and sustainable by all. The recession and depressed housing market are issues that affect every community. But by continuing to come together to help one another seize opportunities to save money, we will in turn make our communities stronger and more prosperous.

*Richard Ockers is a project engineer at the Laclede Gas Company in St. Louis, and Adam Roberts and Katrina Sommer are senior community development analysts at the St. Louis County Office of Community Development.*



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# Asset Building

## A Means to Ameliorate Intergenerational Poverty in the Mississippi Delta

By Paulette Meikle

The Mississippi Delta (the Delta) is a region of persistent income inequality and pervasive intergenerational poverty. Several counties have sustained a poverty rate of 20 percent or higher for more than five decades. Current data show that more than one-quarter of families and over half of children under the age of 18 live in poverty. (See Table 1 on Page 7.) The Center for Community and Economic Development (CCED) at Delta State University (DSU) engages in development, teaching, outreach and research programs that improve and enhance the quality of life in this region, and advances strategies to use university resources to address poverty in the Delta.

In the Winter 2011 edition of *Bridges*, Ray Boshara, senior advisor and policy officer at the Federal Reserve Bank of St. Louis, presented several surprising findings about the financial and wealth habits of the poor. (See sidebar on Page 7 and [www.stlouisfed.org/publications/br/articles/?id=2058](http://www.stlouisfed.org/publications/br/articles/?id=2058).) Inspired by Boshara's work, leaders at the CCED decided to incorporate asset building into the incisive

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CDAC (Community Development Advisory Council) members are experts in community and economic development and financial education. They complement the information developed through outreach by the District's Community Development staff and suggest ways that the Bank might support local efforts. A list of current members is available at [www.stlouisfed.org/community\\_development](http://www.stlouisfed.org/community_development).



Community leaders and participants celebrate the kick-off of the Center for Community and Economic Development's Children's Savings Account (CSA) program.

poverty-reduction strategies employed by the Center. Building assets among the poor is a promising avenue for breaking the cycle of intergenerational poverty and for creating economic advantages for low-income families. In recognition of this, Asset Building Among Low-Income Families has become the signature undertaking for the CCED for the next three years. Boshara's findings provide the foundational principles for this work. The CCED embraces the asset-building model, particularly strategies that enable low-income families to build personal financial wealth through savings and investments.

The broader vision of the Center addresses wealth disparity in the Delta by mobilizing community, regional and state organizations to engage

aggressively in asset-building activities that stabilize low-income families and improve residents' quality of life.

Current programs at the CCED are geared toward inspiring asset building among children and providing financial education and individual development accounts (IDA) for adults. The Children's Savings Account (CSA) program at the CCED promotes, educates and expands opportunities for students from families who are unbanked or underbanked by allowing them to start educational savings accounts in local banks or credit unions. Program director Lakisha Butler recently noted, "We hope to raise funds to continue the program beyond the preliminary phase and establish more CSA sites statewide." Hope Credit Union and Southern Bancorp

Bank currently house children's accounts for this project.

Another asset-building activity at the CCED is the Developing Personal Wealth program, which provides financial education to underserved adults. Low-income individuals are recruited and assisted in completing the Federal Deposit Insurance Corporation's Money Smart for Adults financial curriculum. Graduates are guided to a path of practical money management and are assisted with matching IDA funds for purposes of homeownership, education or business capitalization.

The Center's approach to asset accumulation in the Delta is encompassing and cooperative, seeking support and building reciprocal partnerships with the Southern Regional Asset-Building Coalition, the Memphis Branch of the Federal Reserve Bank of St. Louis, the

Center for Economic Education and Research at DSU, the Institute for Community-Based Research, the Center for Population Studies at the University of Mississippi and other key strategic partners.

To launch CCED's new development focus, the Memphis Branch of the Federal Reserve Bank of St. Louis recently hosted an asset-building symposium at DSU. The conference informed a diverse group of CCED stakeholders, policymakers and community development practitioners on sound antipoverty measures for low-income communities, including ownership and household asset-building strategies for the poor. The overall emphasis of the symposium was strengthening the balance sheets of Mississippi families for economic growth. A special session allowed community development practitio-

ners, bankers and researchers to discuss regional innovative asset-building strategies. This session provided the CCED and its partners with facts, ideas and possible approaches for effectively implementing asset-building programs in Delta communities, with consideration for contextual social and cultural factors. Regional impediments were isolated and a practical and progressive policy framework to overcome them was offered.

Ray Boshara was a keynote speaker at the symposium. In his concluding remarks, Boshara argued that even in an era of financial austerity, asset building and saving are still the right ideas. For economic mobility, people need to save more. The CCED can help Delta families by designing and implementing effective projects that use creative ways to build assets.

## Surprising Findings from the Asset-Building Field

- The poor save, and the poorest save more.
- Low-income families want short-term, unrestricted savings, not just savings restricted to long-term, productive assets.
- Matches matter less than we thought.
- Assets matter more than we thought.
- Financial education matters, but defaults matter more.
- Our biggest successes thus far have required no government funds.
- Savings and asset building are still the right ideas—even in this economy, and even as asset values have shrunk.

From Boshara, R: "Seven Surprising Findings from the Asset-Building Field," *Bridges*, Winter 2010-2011, [www.stlouisfed.org/publications/br/articles/?id=2058](http://www.stlouisfed.org/publications/br/articles/?id=2058).

TABLE 1

### Poverty Measures in Eleven Alluvial Mississippi Delta Counties—2010

Mississippi Delta Counties	Median Household Income (in 2010 Inflation-adjusted \$)	Percent of Families Below Poverty Level	Percent of Children (<18 years) Below Poverty Level
Bolivar County	\$27,021	28.5	52.7
Coahoma County	\$23,722	34.2	55.6
Humphreys County	\$25,131	34.0	58.0
Issaquena County	\$21,360	33.8	59.3
Leflore County	\$22,438	31.6	52.5
Quitman County	\$24,169	32.1	45.5
Sharkey County	\$30,129	25.5	56.7
Sunflower County	\$26,335	26.3	39.5
Tallahatchie County	\$24,668	10.1	48.7
Tunica County	\$29,994	24.3	35.2
Washington County	\$24,917	31.7	52.7
<b>Average for 11 Counties</b>	<b>\$25,444</b>	<b>28.4</b>	<b>50.6</b>

SOURCE: Data from the 2010 U.S. Census. <http://factfinder2.census.gov>.

# State Small Business Credit Initiative: Big Help for Small Business

By Lisa Locke

Historically, small businesses—defined as enterprises with 500 or fewer employees—have played a significant role in the American economy. According to the U.S. Small Business Administration, these companies represent 99.7 percent of all firms, employ about half of all private-sector employees and generated 65 percent of net new jobs over the past 17 years. During the Great Recession, however, lending to small businesses slowed and the underwriting standards of financial institutions became more conservative. Almost three years after the official end of the recession, small businesses continue to face challenges in access to credit, and there are increased concerns about their ability to survive. Access to credit provides an income stream to businesses and allows them to take advantage of growth opportunities. Without credit, businesses could be forced to cut back on employees and services, or even to close.

In an effort to stimulate small-business lending, investing and job creation, the State Small Business Credit Initiative (SSBCI) was created as part of the 2010 Small Business Jobs Act. The primary objective of the SSBCI is to enhance new or existing state programs that provide access to capital for small businesses and manufacturers. Congress appropriated \$1.5 billion to the Initiative. The expectation is that this funding will generate the minimum bang for the buck of \$10 in private investment for every \$1 in federal funding, totaling \$15 billion in lending.

## Eligible State Programs

Eligible state programs for SSBCI funds include Capital Access Programs

(CAP) and Other Credit Support Programs (OCSP), which include loan participation programs, collateral support programs, loan guarantee programs and venture capital fund programs. Each state has the opportunity to design a program that fits the needs of their communities, assisting business owners start new companies and/or expand existing entities.

### CAP

A CAP is a loan portfolio insurance program in which the lender and borrower pay an up-front premium to a reserve fund held by the participating financial institution. The state matches the premium in the originating lender's reserve fund. To be eligible for the program, the borrower must have 500 or fewer employees. The loan maximum is \$5 million. This program encourages lenders to make loans they may not otherwise make.

### OCSP

In a loan participation program, a state uses SSBCI funds to purchase part of a loan and may take a subordinate lien position to the lender. The state may also provide a lower interest rate to the borrower, which allows the small business to qualify for a loan for which it would not normally be eligible. In a collateral support program, the state uses SSBCI funds to deposit cash at a financial institution, which serves as partial collateral for loans. The state guarantees a portion of a loan under loan guarantee programs, and venture capital fund programs are used to attract more private investment for small businesses.

Under the SSBCI, all states may apply for the federal funds. States receive funding based on a statutory formula determined by the portion of local job

losses relative to national losses, with each state receiving a minimum of \$13.2 million. According to the Treasury Department, as of February 2012, 47 states, the District of Columbia, five territories and one municipality have been approved for \$1.43 billion in SSBCI funding. Funds are distributed in thirds: 33 percent, 33 percent and 34 percent. States are required to have committed a minimum of 80 percent of prior funds before a second or third disbursement can be received from the Treasury. To date, all states that were approved for SSBCI funds have received the first disbursement. As of Dec. 31, 2011, states reported payouts of \$60.3 million in SSBCI funds. In meeting the minimum bang for the buck expectations of a 10 to 1 match, this should lead to \$600 million in small-business lending and investing.

## Eighth District Programs

The seven states that comprise the Eighth District of the Federal Reserve Bank of St. Louis have been approved for just over \$211 million in SSBCI funds. (See sidebar for program participation.)

As each state starts to ramp up its SSBCI program, the funding provides an additional tool needed to grow and invest in local business. SSBCI provides much needed access to capital and, in turn, a small business has the ability to take the capital and turn ideas into reality. The Treasury Department will continue to provide technical assistance to states as the funds are disbursed.

For additional information, visit [www.treasury.gov/ssbci](http://www.treasury.gov/ssbci).

*Lisa Locke is a senior community development specialist at the Louisville Branch of the Federal Reserve Bank of St. Louis.*

### ARKANSAS

[www.arkansas.gov/adfa/SSBCI/SSBCI.htm](http://www.arkansas.gov/adfa/SSBCI/SSBCI.htm)

Arkansas Capital Access Program; Bond Guaranty/Loan Participation Program; Risk Capital Matching Fund; Disadvantaged Business Enterprise/Small Business Loan Guaranty Program; Co-investment Fund; Seed and Angel Capital Network

### ILLINOIS

[www.ildceo.net/dceo/Bureaus/Advantage+Illinois](http://www.ildceo.net/dceo/Bureaus/Advantage+Illinois)

Capital Access Program; Collateral Support Program; Participation Loan Program; Invest Illinois Venture Fund. In January 2012 the first investments from the venture capital fund were made in support of two new businesses.

### INDIANA

[iedc.in.gov/assets/files/Docs/Prgms/Initiatives/CAP\\_9-11.pdf](http://iedc.in.gov/assets/files/Docs/Prgms/Initiatives/CAP_9-11.pdf)

Capital Access Program; Indiana 21st Century Research and Technology Fund

### KENTUCKY

[thinkkentucky.com](http://thinkkentucky.com)

Kentucky Capital Access Program; Kentucky Collateral Support Program; Kentucky Loan Participation Program

### MISSISSIPPI

[www.mississippi.org](http://www.mississippi.org)

Mississippi Small Business Loan Guaranty Program

### MISSOURI

[www.missouritechnology.com](http://www.missouritechnology.com)

Missouri IDEA Seed and Venture Capital Funds; Grow Missouri Loan Participation Fund

### TENNESSEE

[www.state.tn.us/ecd](http://www.state.tn.us/ecd)

INCITE Fund



# Building Financial Capability and Balance Sheets Early in Life

By Ted Beck and Ray Boshara

Parents know quite well that early investments in life pay off. Nutrition, music, reading, sports—we know, and research has confirmed, that the earlier in life a child is exposed to these developmental opportunities, the better that child will do.

Well, it's no different with building financial know-how and a stronger balance sheet: The earlier a child starts, the better off he or she will be.

Yet a critical tool is missing to bring this opportunity to millions of children nationwide: a savings product designed with children and their financial futures in mind. A useful model for developing an appropriate child savings account might be the “Roth at Birth” concept recently recommended by the nonpartisan, nongovernmental President’s Advisory Council on Financial Capability.

Here are five reasons why a child savings product makes sense.

## 1. The time value of money

A child whose family makes an initial deposit of \$500 at birth and then a modest \$250 annual contribution will have (assuming a 5 percent annual

return) more than \$131,000 in savings by age 65—nearly \$100,000 more than if they waited until age 25 to start investing. Raise the annual rate of return to 7 percent—historically, a reasonable rate—and the child saving from birth will have nearly \$350,000 by age 65, a stunning \$286,000 more than someone who waits until age 25 to start saving.

## 2. Financial capability

It is not just more money that children will end up with. It’s also, and perhaps more importantly, a greater ability to manage their finances over time. Research by Marianne Hilgert and others shows that financial know-how is the result of regular saving, instead of the source. In fact, research by Christi Baker and Doug Dylla shows that “combining financial education and accounts seems to have a number of positive effects for some consumers, including active use of accounts, enrollment in financial education, demonstrated acquisition of knowledge and changed behaviors.”

## 3. Educational and economic outcomes

The benefits of early saving and investing go beyond building financial capability.

For example, William Elliott and Sondra Beverly found that youths who own an account are nearly seven times more likely to attend college than those lacking accounts—even after controlling for parental education, family income, race, academic achievement and other factors. Also, financial capital, along with family structure and educational attainment, are the three strongest predictors of economic mobility in America, according to researchers at the Heritage Foundation. Other research by Thomas Shapiro shows that the presence of even small amounts of wealth at the right moments can have a transformative effect on the life course. And in the recent SEED Initiative, researchers found that child development accounts instill a sense of security, reduce stress, encourage thrift and provide a sense of hope for the future.

## 4. Benefits for lower-income children

Structured properly, such accounts could be treated like investments in individual development accounts (IDA)

and would thus likely trigger Community Reinvestment Act (CRA) credit under the investment or service tests. Second, low-income families who make contributions would qualify for the “Savers Credit,” a federal matching deposit designed to

*continued on Page 10*



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## “Building”

continued from Page 9

encourage savings. Third, correctly structured, such accounts would not count against the asset test faced by low-income families who need food stamps, TANF or Medicaid through the child's adolescence, or financial aid once in college.

### 5. Interest among financial institutions and policymakers

Preliminary conversations with financial services providers indicate strong interest in a child savings account. They see the potential of this low-risk method to build customer relationships as early as birth while engaging the entire circle of a child's parents and relatives.

Recent surveys show that most Americans, including most young Americans, lack financial knowledge and skills, which lead to poor financial outcomes later in life. A savings product available as early as birth offers a chance to set generations of children on a different, and more prosperous, path in the years ahead.

*Ted Beck, president and CEO of the National Endowment for Financial Education, is a member of the President's Council on Financial Capability. Ray Boshara, senior advisor and policy officer at the Federal Reserve Bank of St. Louis, is advising the Council.*

# HAVE YOU HEARD

### Deadline Extension for Independent Foreclosure Review Request

People seeking a review of their mortgage foreclosure under the federal banking agencies' Independent Foreclosure Review now have until July 31, 2012, to submit requests. Borrowers may request a review if they believe they suffered financial injury as a result of errors in foreclosure actions on their homes in 2009 or 2010 by one of the mortgage servicers covered by enforcement actions issued in April 2011. If the review finds that financial injury occurred, the borrower may receive compensation or other remedy. There are no costs associated with being included in the review. For more information, including eligibility requirements and participating servicers, call 888-952-9105 or visit <https://independentforeclosurereview.com>.

### USDA Mortgage Refinance Pilot Program

The new Single Family Housing Guaranteed Rural Refinance Pilot Program, launched by the U.S. Department of Agriculture (USDA), is an effort to help rural borrowers refinance their mortgages to reduce their monthly payments. Available for homeowners who have loans that were made or guaranteed by USDA Rural Development, the program is operating in five states within the Eighth Federal Reserve District: Illinois, Indiana, Kentucky, Mississippi and Tennessee. Information is available at [www.rurdev.usda.gov/HSF\\_SFH.html](http://www.rurdev.usda.gov/HSF_SFH.html).

### Rural Economic Development Loan and Grant Program Funds Available

The U.S. Department of Agriculture, Rural Business-Cooperative Service, is inviting applications for the Rural Economic Development Loan and Grant Program for Fiscal Year 2012. Funding to support \$33 million in loans and \$10 million in grants is currently available. The deadline for receipt of applications in the USDA Rural Development State Office is no later than 4:30 p.m. (local time) on the last business day of each month in FY 2012. For more information, go to <http://tinyurl.com/876crhl>.

### Fed Issues Statement Regarding Foreclosure Property Rental, CRA Consideration

The Federal Reserve Board released a policy statement in April reiterating that residential properties acquired in foreclosure as part of an orderly disposition strategy may be rented. The Fed's general policy is that banking organizations should make good faith efforts to dispose of foreclosed properties (other real estate owned, or OREO) at the earliest practicable date. In this context, and in light of current extraordinary market conditions, the statement explains that banking organizations may rent residential OREO properties without demonstrating continuous active marketing of the property for sale. Also, if OREO rental properties meet the definition of community development under Community Reinvestment Act (CRA) regulations, banking organizations may receive favorable CRA consideration. You can find all the details, including the full statement and the 2012 Banking and Consumer Regulatory Policy, at [www.federalreserve.gov/newsevents/press/bcreg/20120405a.htm](http://www.federalreserve.gov/newsevents/press/bcreg/20120405a.htm).

### Gov. Duke Urges a Broad Approach to Community Development

Speaking at the 2012 National Interagency Community Reinvestment Conference in Seattle, Federal Reserve Gov. Elizabeth Duke said that financial institutions must take a broad, entrepreneurial approach to their obligations to serve low-income communities under the Community Reinvestment Act (CRA). She said the CRA rules provide an incentive to help banks and thrifts invest in affordable housing, financial services, economic development and neighborhood revitalization or stabilization. During times when community need is great and resources few, financial institutions should consider partnerships with community stakeholders, setting the stage for stronger credit demand in the future.

Financial institutions need to approach development holistically, relating it to jobs, education, transportation and healthcare. Modern sustainable communities will address not only housing issues, but also the resources needed to support people and create a good business climate.

Duke cited neighborhood stabilization efforts as examples of well-rounded approaches to development in distressed communities. She said land banks are just one example of new approaches to housing issues that have been successful in revitalizing low-value properties, and that the U.S. Department of Housing and Urban Development's (HUD) Neighborhood Stabilization Program (NSP) provides a structure that helps community stakeholders identify the best local approach.

To read the full text of Gov. Duke's keynote address, visit [www.federalreserve.gov/newsevents/speech/duke20120327a.htm](http://www.federalreserve.gov/newsevents/speech/duke20120327a.htm).

## CALENDAR

### APRIL

#### 21-28

##### **Money Smart Week—Metro St. Louis—Greater St. Louis**

Sponsor: Multiple  
[www.moneysmartstl.org](http://www.moneysmartstl.org)

#### 25

##### **Money Habitudes: Money Smart Week 2012—Louisville, Ky.**

Sponsor: Louisville Branch of the Federal Reserve Bank of St. Louis  
[www.stlouisfed.org/event/431B](http://www.stlouisfed.org/event/431B)

#### 26

##### **The New American Challenge: Learning to Save to Build Wealth – A St. Louis Fed Household Financial Stability Project Event—St. Louis, Mo.**

Sponsors: Federal Reserve Bank of St. Louis, Center for Social Development at Washington University in St. Louis  
[www.stlouisfed.org/community\\_development/events/?id=355](http://www.stlouisfed.org/community_development/events/?id=355)

#### 26

##### **Community Reinvestment Roundtable: Banking and CDC Relationships in the New Housing Environment—Memphis, Tenn.**

Sponsors: Memphis Branch of the Federal Reserve Bank of St. Louis, FDIC, Community Development Council of Greater Memphis, Barret School of Banking  
[www.stlouisfed.org/event/440A](http://www.stlouisfed.org/event/440A)

#### 30-May3

##### **Tennessee Basic Economic Development Course—Nashville, Tenn.**

Sponsor: University of Tennessee institute for Public Service  
<https://cis.tennessee.edu/train/programtraining/Pages/TBEDC.aspx>

### MAY

#### 1-2

##### **Assets@21: Lessons from the Past, Directions for the Future—Washington, D.C.**

Sponsor: New America Foundation  
<http://newamerica.net/events/2012/assets21>

#### 3

##### **CRA for Community-Based Organizations Workshop—St. Louis**

Sponsors: Federal Reserve Bank of St. Louis, FDIC, OCC  
[www.stlouisfed.org/event/43FA](http://www.stlouisfed.org/event/43FA)

#### 3

##### **Tennessee Affordable Housing Coalition—West Regional Meeting—Jackson, Tenn.**

Sponsors: Memphis Branch of the Federal Reserve Bank of St. Louis; Tennessee Affordable Housing Coalition; Southwest Tennessee Development District; Health, Educational Housing Facility Board of the City of Memphis  
[www.stlouisfed.org/community\\_development/events/?id=363](http://www.stlouisfed.org/community_development/events/?id=363)

#### 8-9

##### **Innovation Finance WebCourse—Online**

Sponsor: Council of Development Finance Agencies  
[www.cdfa.net](http://www.cdfa.net), then look under “CDFA Upcoming Events” in the left sidebar

#### 9-11

##### **Reinventing Older Communities: Building Resilient Cities—Philadelphia, Pa.**

Sponsors: Federal Reserve Banks of St. Louis, Boston, Chicago, Cleveland, New York, Philadelphia and Richmond; William Penn Foundation; Penn Institute for Urban Research; Ford Foundation; HUD’s Office of Policy Development and Research; FHL Bank Pittsburgh  
[www.philadelphiafed.org/community-development/events/2012/reinventing-older-communities](http://www.philadelphiafed.org/community-development/events/2012/reinventing-older-communities)

#### 16

##### **Mississippi Gulf Coast/Delta AEI Small Business Conference—Jackson, Miss.**

Sponsors: Alliance for Economic Inclusion, Jackson State University  
<http://msaeismallbusinessconference2012.eventbrite.com>

### JUNE

#### 13-15

##### **7th Annual Underbanked Financial Services Forum—San Francisco**

Sponsor: Center for Financial Services Innovation  
[www.americanbanker.com/conferences/cfsi](http://www.americanbanker.com/conferences/cfsi)

#### 19

##### **CRA Officers Roundtable—St. Louis**

Sponsors: Federal Reserve Bank of St. Louis, FDIC, OCC  
[communitydevelopment@stls.frb.org](mailto:communitydevelopment@stls.frb.org)

#### 19

##### **West Tennessee Regional Entrepreneur Conference—Jackson, Tenn.**

Sponsors: WestStar, Federal Reserve Bank of St. Louis  
[www.utm.edu/departments/weststar/events.php](http://www.utm.edu/departments/weststar/events.php)

#### 20-22

##### **2012 Reclaiming Vacant Properties Conference: Remaking America for the 21st Century—New Orleans, La.**

Sponsor: Center for Community Progress  
[www.communityprogress.net/2012-conferences-pages-119.php?id=124](http://www.communityprogress.net/2012-conferences-pages-119.php?id=124)

#### 25-26

##### **Southern Growth’s 2012 Chairman’s Conference—Chattanooga, Tenn.**

Sponsor: Southern Growth Policies Board  
[www.southerngrowth.com/conference/conf.html](http://www.southerngrowth.com/conference/conf.html)

#### 28-29

##### **Policy Summit: Housing, Human Capital, and Inequality—Cleveland, Ohio**

Sponsor: Federal Reserve Bank of Cleveland  
[www.clevelandfed.org/Community\\_Development/events/PS2012/index.cfm](http://www.clevelandfed.org/Community_Development/events/PS2012/index.cfm)

## BRIDGES

*Bridges* is a publication of the Community Development Office 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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## RESOURCES

### **Financial Education Information Available Free of Charge from the St. Louis Fed**

The Economic Education department at the St. Louis Fed offers materials for use in K-8 social studies classrooms that align with the common core standards. Also available are materials for use in economics, history, government and personal finance classes in grades 9 through 12, as well as resources for adults. You may also search a glossary of economics and personal finance terms. All of these materials are available free of charge. Visit [stlouisfed.org/education\\_resources](http://stlouisfed.org/education_resources) or contact Mary Suiter, manager of economic education at the St. Louis Fed, at [mary.c.suiter@stls.frb.org](mailto:mary.c.suiter@stls.frb.org).

### **Three New Podcasts on Job Creation Available from the Atlanta Fed**

#### ***Retrofitting Institutions: Feeding Job Growth with Energy Hogs***

Satya Rhodes-Conway and James Irwin, senior associates at the Center on Wisconsin Strategy, discuss how retrofitting public and institutional buildings spurs job creation in the real estate sector.

#### ***Trash to Treasure: Turning Waste into Jobs***

Nancey Green Leigh, a professor of city and regional planning at Georgia Tech, discusses how to design a program that can create jobs from the waste diversion process.

#### ***Can the Jobs Gap Be Filled Through Temporary Public-sector Positions?***

Philip Harvey, professor of law and economics at Rutgers University, discusses how his proposed direct job creation program would create temporary public-sector jobs and, in the process, help reduce unemployment.

To view the transcript or play the MP3 file of any of these podcasts, visit [www.frbatlanta.org/podcasts/transcripts/economicdevelopment](http://www.frbatlanta.org/podcasts/transcripts/economicdevelopment) and scroll to the individual podcast title.

## Only Online

[www.stlouisfed.org/publications/br](http://www.stlouisfed.org/publications/br)

In addition to the print version, each issue of *Bridges* offers content that is exclusively online. Online content for the spring issue of *Bridges* is:

### **The Partnership for the Green Dividend: Bridging the Gap**

*By Fred Winter and Andre Pettigrew*



BRIDGES | SPRING 2012

<https://www.stlouisfed.org/publications/bridges/spring-2012/the-partnership-for-the-green-dividend-bridging-the-gap>

## The Partnership for the Green Dividend: Bridging the Gap

Fred Winter, Andre Pettigrew

There is a wave of change moving across the nation to act and live in a sustainable manner. More and more individuals, businesses and communities are including green practices (e.g., recycling) in their daily routines in an effort to be more energy-efficient. This movement within our national consciousness makes economic sense and has the added benefit of being good for the planet.

The rising cost and volatile nature of gasoline prices affect every household, especially low- and moderate-income (LMI) families. Increasing transportation costs are impacting businesses large and small as they try to compete in a highly competitive global marketplace. Communities are trying to revive their regional economy by efficiently connecting workers with jobs in the region, and by effectively utilizing mass transit. All of these factors have forced everyone to think in terms of sustainability: how we live, work and compete.

Acutely aware of the impacts that economic vitality has on social mobility, equity and quality-of-life concerns, Partners for Livable Communities (PLC) launched a new agenda in 2009—*The Economics of Sustainability*—to incorporate sustainability into the ever-evolving definition of a livable community. Today, PLC seeks to explore how community leaders, faced with the challenge of ensuring the future strength of their local economies and quality of life, can employ creative new agendas that not only help reverse the effects of environmental degradation, but leverage the occasion for valuable economic and social gain.

PLC has discovered that a growing national environmental concern is catalyzing emerging economic opportunities in areas of energy efficiency, waste management and alternative energy. The potential of a regional green economy is still being defined and understood by communities for its impact on innovation, entrepreneurship, investment and job creation.

In June 2009, PLC began working with Climate Prosperity Inc. to help communities understand the connection between economic and environmental issues. Climate Prosperity's focus is on advancing regional approaches to address the challenges of climate change from the perspective of economic development. PLC and Climate Prosperity will work together toward developing opportunities in the green economy by encouraging support of that sector and by engaging community and business participation in green economic strategies.

Climate Prosperity's approach rests on engaging key stakeholders in regional economic development—including business groups, civic groups, entrepreneurs and educators—to create regional "climate prosperity" (economic) strategies based on measureable outcomes. In 2010, for example, Climate Prosperity completed a *St. Louis Green Economy Profile*, which provides solid analytic information based on trends in the region's emerging green economy. The report highlights the wide range of green-industry sectors in the St. Louis region and prospects for development in green manufacturing as well as agricultural and building activities.

The study also provides greater insight into the St. Louis green economy. The findings show that employment in this sector grew by 11 percent in 2007-2008, compared to a two percent decline in overall employment that same year. The profile identified 9,000 core green-economy jobs in the St. Louis area, as well as the regional strengths being used to accelerate economic growth and enhance the environment. This pioneering work has made St. Louis a national model for economic revitalization and environmental sustainability.

Given their combined economic development and sustainability focus, PLC and Climate Prosperity formed “The Partnership for the Green Dividend” (The Partnership). The goal of The Partnership is to demonstrate the applicability of green practices to all American communities and to better document the opportunities emerging from within the green economy. The Partnership intends to match Community Reinvestment Act (CRA) work with essential environmental initiatives, both of which share a common purpose—to reinvigorate communities and revitalize places in need. By combining these elements, The Partnership serves both people and place, improving the overall quality of life through economic revitalization and environmental sustainability.

This intersection of economic opportunity and environmental concerns is not yet fully defined. Both sectors are engaged as never before, thereby creating new opportunities to better leverage traditional community reinvestment programs with emerging environmental initiatives, all of which serve communities. For more than 30 years, the CRA has sought to provide financial resources to LMI communities. Now there is a growing interest in sustainability and environmental programs in these communities because of their potential to improve quality of life through small-business opportunities, job creation, affordable housing and transit-oriented development. The Partnership’s approach combines the efforts of both community reinvestment and environmental affairs programs as a catalyst for social and environmental renewal. Using resources more efficiently is practical for both saving and boosting profits. Therefore, sustainability is a tool for economic success in addition to environmental stewardship.

By providing an accessible path to implement sustainable strategies, The Partnership will help communities more effectively maximize their opportunities in the green economy. Through this work, green economic strategies that are place-based will be recognized as a common sense approach to achieving social equity and regional prosperity.



BRIDGES | SPRING 2012

<https://www.stlouisfed.org/publications/bridges/spring-2012/keynote-address-building-savings-and-financial-capability>

# Money Smart Week—St. Louis Metro 2012 Kick-off Breakfast: Keynote Address: Building Savings and Financial Capability

Ray Boshara

The Money Smart Week Kick-off Breakfast served as the inaugural event for 2012 Money Smart Week—St. Louis Metro events. Ray Boshara, community development policy officer at the Federal Reserve Bank of St. Louis, was the keynote speaker. The video of his presentation about the importance of financial literacy in fostering household economic stability, as well as the accompanying slides, are available here.

## ABOUT THE AUTHOR



### Ray Boshara

Ray Boshara is a senior adviser and assistant vice president of the Institute for Economic Equity at the Federal Reserve Bank of St. Louis. He is also a senior fellow in the Financial Security Program at the Aspen Institute. Read more about Ray's publications.