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Lofts Seed Downtown Redevelopment

By Linda Fischer
Assistant Editor
Community Affairs

Where can you go to “forget all your troubles, forget all your cares”? Where all the lights are bright, of course. Downtown.

At least that's what the song says. The reality may be different. Ask mayors of many U.S. cities and see if they agree with Petula Clark's assessment.

Revitalizing deteriorating downtowns has been a problem faced by mayors for decades. How to convince existing businesses to stay, how to attract new businesses, what to do with vacant buildings and—maybe more importantly—how to get housing and attract residents to the core of cities are all enormous challenges for city governments.

Ironically, as the migration of residents from cities to suburbs fans out ever farther into outlying areas, city officials are



BEFORE RENOVATION:

The Francis Building in downtown St. Louis.

realizing that persuading people to live in downtown areas may be the key to revitalizing them.

Among the many cities trying to breathe new life into their downtowns, three that have seen varying degrees of success are St. Louis, Little Rock and Louisville.



AFTER RENOVATION:

ArtLoft apartments, consisting of 63 units.

Developers there are resolving two issues—what to do with vacant, deteriorating buildings and how to entice residents to move downtown—by rehabbing historic buildings as loft apartments. While much still needs to be done, these projects are a start.

We talked to those involved in ambitious loft projects in each of these cities about how and why their developments came about.

What incentives are there for a developer to take on a project in a desolate area that has been abandoned by others?

One of the major motivations for renovating old buildings is the availability of federal and state historic preservation tax credits, developers say.

In 1997, a Missouri coalition of urban and rural interests worked to get legislation passed that provides a 25 percent tax credit for the total cost of rehabbing a historic property. The tax credit, which is transferable and has no cap, has been instrumental in spurring development in large cities and small towns.

“Missouri's historic preservation tax credit is so flexible, other

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Contemporary Look, Expanded News Start with This Issue

Dear Readers,

As spring weather splashes the landscape with color, the Community Affairs department is freshening up its newsletter with a bright new design.

The spring issue of *Bridges* sports a brand new cover, redesigned inside pages, four additional pages and a new feature called Have You Heard.

Some of the design changes include a bright-hued masthead that will change colors with the seasons, making it easier for readers to find back issues in their files. Green will signal our spring issue, deep orange the summer issue, warm brown the fall issue and blue the winter issue. In addition, the design of regular features, such as Spanning the Region and the calendar, has been updated.

Our new feature, Have You Heard, will list tidbits about the latest news in community development—practical information that just might be something you need to know for your job.

And, perhaps most importantly, the updated *Bridges* will contain more news and in-depth articles. When we have valuable information to pass along, and not enough room in our traditional eight-page newsletter, we'll increase the size to 12 pages to better serve you. An example is this issue.

That's the scoop on the new *Bridges*.

We hope you enjoy reading it! If you know of others who would like a free subscription to *Bridges*, please sign them up by contacting Linda Aubuchon at (314) 444-8646 or by e-mail at linda.aubuchon@stls.frb.org.

Glenda J. Wilson

Glenda J. Wilson
Community Affairs Officer

HMDA Changes to Enhance Fair-Lending Analysis

Regulatory changes intended to improve the quality and consistency of data collected on home mortgage loans were approved in January by the Federal Reserve Board.

The amendments to Regulation C, which implements the Home Mortgage Disclosure Act (HMDA), require lenders to disclose pricing data on higher-cost loans, expand the number of non-depository institutions subject to HMDA's reporting requirements and revise certain regulatory definitions.

The amendments will take effect for data collection beginning Jan. 1, 2003.

The Board also requested public comment with respect to certain items by April 1, 2002.

Regulation C requires depository and for-profit, non-depository institutions to collect, report and disclose data about applications for, and originations and purchases of, home mortgage loans and home improvement loans. Data reported include the type, purpose, and amount of the loan; the race, ethnicity, sex and income of the loan applicant; and the location of the property.

Data collected under Regulation C help the public and regulatory agencies enforce fair-lending laws and are used to determine whether financial institutions are serving the housing needs of their communities.

The changes to Regulation C will facilitate fair-lending analy-

sis and enhance understanding of the home mortgage market generally and the subprime market in particular. The Board took into account changes in the home mortgage market, including growth in areas such as subprime lending and loan preapproval programs. At the same time, the Board has attempted to minimize

Management and Budget and, consistent with those standards, allows applicants to record more than one race;

- requires lenders to report denials of applications for credit received through certain preapproval programs and to identify originated loans initiated through preapproval programs;

The amendments will take effect for data collection beginning Jan. 1, 2003.

the increase in the data collection and reporting burden by limiting proposed changes to those most likely to have significant benefit.

The final rule:

- requires lenders to report the spread between the annual percentage rate (APR) and the yield on the comparable Treasury security for originated loans with APRs that exceed the yield on the security by a certain threshold. (The Board tentatively set the thresholds at three percentage points for first-lien loans and five percentage points for subordinate-lien loans and seeks comment on the appropriateness of these particular thresholds);
- requires lenders to identify loans subject to the Home Ownership and Equity Protection Act (see article, Page 3);
- conforms the categories for reporting race and ethnicity to government-wide standards established by the Office of

- permits, but does not require, lenders to report requests for preapproval that the lender approves but that applicants do not pursue;
- expands the coverage of non-depository lenders by adding a dollar-volume threshold of \$25 million to the current loan-percentage test;
- modifies the definitions of "refinancing" and "home improvement loan" to generate more consistent, accurate and useful data; and
- requires lenders to report whether the loan involves a manufactured home.

The Board also is seeking comments on requiring lenders to ask telephone applicants their race, ethnicity and sex (lenders already ask these questions in in-person, mail and Internet applications) and on requiring lenders to report lien status for applications and originated loans.

Fed Issues Final Rule Aimed at Curbing Predatory Lending

The Federal Reserve Board will scrutinize more loans for predatory terms under changes to Regulation Z, Truth in Lending, implementing the Home Ownership & Equity Protection Act (HOEPA). The revisions adjust the price triggers that determine coverage under the act.

The rate-based trigger has been lowered by two percentage points for first-lien loans, thus lowering the interest rate trigger from the current 10 percent above Treasury securities to 8 percent. Beginning in October, lenders making first mortgages

credit life and similar kinds of insurance in the mandatory disclosures regarding a loan's cost. Points and fees charged by lenders will be added to the loan amount, which will trigger predatory lending reviews if they cause mortgages to fall under the definition of high-cost loans. HOEPA's protections and reporting requirements will kick in if the loan's points and fees exceed 8 percent of the loan amount or \$400, whichever is higher.

The rule also addresses some loan flipping within the first year of a HOEPA loan. Except in limited circumstances, lenders will be prohibited from refinancing their own high-cost loans for 12 months unless the refinancing is in the borrower's interest.

Lenders also will be required to prove that a borrower can afford a loan. HOEPA's prohibition against extending credit without regard to a consumer's repayment ability is strengthened because creditors will be required to document and verify income for HOEPA-covered loans. Disclosures received by consumers before closing must include the total amount of money borrowed and whether that amount includes optional credit insurance or similar products paid at closing.

Compliance with the amendments becomes mandatory Oct. 1, 2002. More information on the HOEPA final rule is available on the Board's web site at www.federalreserve.gov/regulations.

Thirty-eight percent of first mortgages will fall under the high-cost category, compared with 12 percent now.

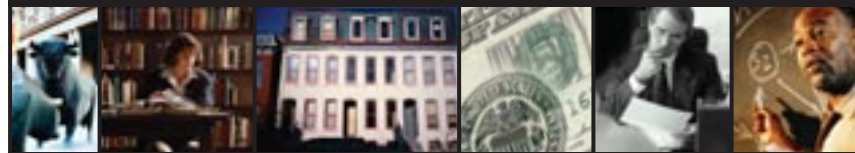
will be required to adhere to stricter consumer protections and disclose more information to borrowers before making these "high-cost" loans. As a result of the change, 38 percent of first mortgages will fall under the high-cost category, compared with 12 percent now.

The Fed kept the existing trigger for second mortgages because nearly half of them are already covered.

The fee-based trigger has been lowered to include the cost of

Federal Reserve System

CALL FOR PAPERS



Sustainable Community Development: What Works, What Doesn't and Why

The Community Affairs Officers of the Federal Reserve System are jointly sponsoring their third research conference. The conference will bring together academia, financial institutions, community organizations, foundations and government to learn about research in the community development arena.

March 27-28, 2003 • Capitol Hilton Hotel • Washington, D.C.

THE PROGRAM COMMITTEE IS ESPECIALLY INTERESTED IN PAPERS AND STUDIES THAT ADDRESS THE FOLLOWING TOPICS, AMONG OTHERS:

- Role of a healthy economy in community development
- Evaluation of the effects of CRA on neighborhoods
- Environment for effective community development
- Impact of community economic development programs on targeted populations
- Role of social and private capital in enticing community development
- Tools and techniques for community development program evaluation
- Counseling and risk intervention strategies
- Links between social capital and economic outcomes
- Demographic trends: implications for rural and urban community development
- Evaluation of the effectiveness of financial literacy programs

Individuals interested in presenting research should submit a completed paper, detailed abstract, or proposal by **April 22, 2002**, to:

WILLIAM C. HUNTER, *Senior Vice President and Director of Research*
Federal Reserve Bank of Chicago • 230 South LaSalle Street • Chicago, IL 60604

E-mail: Academic-Systems-Conference@chi.frb.org • Phone: (312) 322-5810

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states have modeled theirs on it,” said Vihar Sheth of the Downtown St. Louis Partnership.

Because the state’s tax credit wasn’t in place when Tim Boyle of City Property Co. was developing ArtLoft, a warehouse rehabbed as live/work loft apartments in downtown St. Louis, he relied on federal historic tax credits and low-income housing credits to get the job done.

“There was no way to finance \$6 million (the cost of the project) without the low-income credits,” he said.

However, low-income tax credits are extremely complicated and much riskier than historic tax credits, Boyle said.

The ArtLoft project also received a 10-year tax abatement from the city.

In Arkansas, Vanadis Group also took advantage of low-income and historic tax credits to build Block 2 Lofts. This mixed-use redevelopment project consists of three historic buildings that house 145 lofts and six businesses in the heart of Little Rock’s Rivermarket Entertainment District. Developer Paul Esterer said his firm is willing to rehab historic buildings, rather than build new ones, because of the historic tax credit.

In addition, the city of Little Rock was supportive and provided money in the form of funds from the Targeted Neighborhood Enhancement Program. The program was designed at the time to provide up to 20 percent of the cost of building or rehabbing

apartments or houses in the downtown and other designated areas.

In Louisville, developers were able to take advantage of a little more than \$2 million in historic tax credits to convert the old Snead Manufacturing Co. into Glassworks Lofts. The building has been transformed into a

In addition to the historic tax credits, incentives included:

- zero sales taxes on building materials because the building is located in an Enterprise Zone;
- Downtown Housing Fund money, a combination of city and private loans with zero

Why are lenders willing to invest in such projects?

Although downtown lofts are fairly new ventures in St. Louis, Little Rock and Louisville, lenders know such projects have proven track records in other cities. Lenders also don’t go it alone—they are part of a group

“There was no way to finance \$6 million (the cost of the project) without the low-income credits,” said Tim Boyle of City Property Co.



The Glassworks Lofts offer space for businesses as well as residences.

combination of offices, loft apartments, glassmaking studios and galleries, and a cafe where customers can dine and watch glassmakers work.

The project was the brainchild of architect Bill Weyland and architectural art glass designer Ken von Roenn. A collaboration of public and private entities injected the project with local, state and federal incentives that allowed the developers to compete with suburban developers, Weyland said.

interest on the city portion and a below-market rate on the private loan, with an average rate of about 4 percent;

- a five-year tax abatement and infrastructure improvements from the city; and
- \$3.8 million in tax credits from the Kentucky Tourism Development Cabinet, of which 25 percent of the cost (\$970,000) will be returned to developers through tax refunds over a 10-year period.

of investors, all taking a portion of the risk.

For example, ArtLoft in St. Louis was modeled after a similar project in St. Paul, Minn., and many financing experts were involved, Boyle said.

The St. Louis project “did not work financially without a lot of mechanisms to make it work,” Boyle said. “We had a large team of very sophisticated real estate people and finance people.”

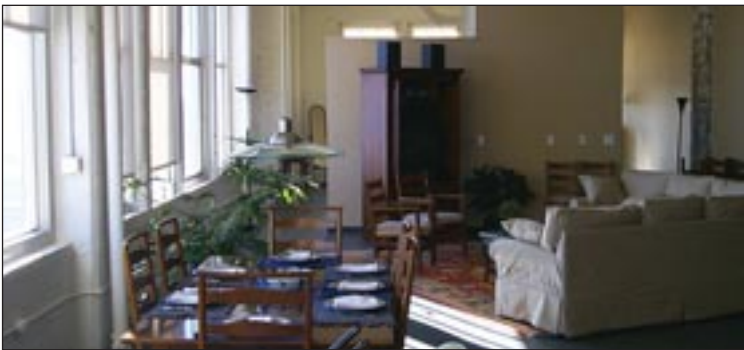
One of those finance people was Kathy Bader of Mark Twain Bank (now U.S. Bank), which provided the construction/lease-up loan on the project. Since that time, the bank has been very involved (both in terms of loans and equity investments) in many of the projects in the St. Louis loft district.

“We view the success of the loft area as critical to the further development of the downtown community at large,” she said.

“Our reasons for investing are that there seems to be strong demand for the units generated

from the development (both rental and for-sale), the rehab of the buildings has made a huge difference in the neighborhood by providing quality housing (both market rate and affordable) and the residential development is attracting other investments to the area.”

In Louisville, the Downtown Housing Fund participated in the Glassworks Lofts for several reasons, said Kelly Downard, who was chairman of the fund at the time. Although this was the first mixed-use development the fund had participated in, Downard



Plenty of windows brighten an apartment in the Glassworks Lofts.

ArtLoft Rent: \$435-\$595 Units: 63 Size: 1,200-2,100 square feet Amenities: stove, refrigerator, rooftop patio, community room and laundry room
Block 2 Lofts Rent: \$436-\$1,100 Units: 145 Size: 735-1,227 square feet Amenities: pets allowed, disability access, furnished available, covered parking, dishwasher, view, on-site laundry, fully equipped kitchens
Glassworks Lofts Rent: \$750-\$2,300 Units: 36 Size: 782-1,400 square feet Amenities: internal, high-speed telecommunications system providing Internet and telephone connections; 24-hour security; stove, microwave oven, refrigerator and dishwasher; painted walls and floors; triple-glazed windows

said several other downtown housing projects had already proved highly successful. “Across the country, downtown housing has been a critical ingredient in revitalizing cities,” he said. “Lofts and condos in downtown areas are well-accepted and have a proven track record. In the future, as the success of downtown housing grows, the need for the Downtown Housing Fund...will become less and less.” Other reasons they participated were: the pre-leasing of apartments, the commitment of an established design and engineering firm as a commercial tenant, and the location of the building. Zack Boyers, vice president of Firststar (now U.S. Bank) Community Development Corp. (CDC), said the strength, vision and expertise of Weyland, the archi-

tect, was one reason the CDC invested in Glassworks. Also, the bank CDC has increased its participation in historic tax credit deals. This allows the CDC to expand the development of market-rate housing as opposed to low-income tax credit deals, which create affordable housing units. He said downtown areas need a mixture of retail and other businesses and a critical mass of housing to support those businesses, all of which the Glassworks contains.

What difficulties might developers need to overcome besides finding financing?

For Weyland, the mixed-use Glassworks development presented its own kind of difficulties. Working out parking for tenants was one problem. Tenants now park in an underground garage. Mechanical and electrical necessities for the mixed-use design had to be met while preserving the historic nature of the building. At times, the process was slowed as a result of being the first project in Jefferson County to participate in Kentucky’s Tourism Tax Credit Fund and Louisville’s Downtown Housing Fund. The boards of directors involved had to be educated regarding the unique issues this type of mixed-use project entailed. After ArtLoft in St. Louis was occupied, there were some initial problems with the renovated building. Boyle was able to get those resolved early on, he said. One challenge common to many of these projects is dealing with lead-based paint and

asbestos in the old buildings. But those problems don’t slow down Little Rock’s Vanadis Group. “We love revitalization of historic buildings,” said Esterer, the developer. “By using the low-income and historic tax credits, we are able to absorb any extra cost associated with lead paint and asbestos abatement.”

Considering the complex nature of this type of development, are there other incentives to do them in addition to tax credits and profits?

An important ingredient for success with such developments is a commitment to improve a neighborhood, Boyle said. If all the developer worries about is the bottom line, the project won’t work. “You have to be committed beyond the finances,” he said. “I expected to make some money on this project and own it, but the primary reason I was driven to do it was I felt like somebody had to be first, and I thought I had the formula to do it,” he said. “This building was about economic development and doing something new and different and breaking the barrier for downtown,” he said. “Fortunately, the majority of the people that were key and got involved understood that, and so they persevered.”

Who are the lofts marketed to? Artists, young professionals and empty nesters have shown great interest in living in downtown buildings.

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ArtLoft was marketed specifically to artists. “They bring a willingness to colonize an area that others don’t find acceptable,” Boyle said. “They also bring a character and a passion to a neighborhood. They help bring an area back to life by just living there and doing what artists do.”

Artists typically don’t have a lot of money, but need large rooms for studios, he said. A number of artists with this dilemma were already living illegally in vacated downtown buildings with the blessings of the owners, he said. Part of the market for the loft apartments was already in place.

“These are the artists’ living quarters,” Boyle said. “The fact that they can use their living quarters as a place to practice their artistry allows them to combine two rents into one.”

Esterer said his project in Little Rock targets young professionals between the ages of 22 and 35. However, “young professionals” means a range of incomes. “Some young professionals may be free-lance photographers or reporters for the local paper working for around \$10,000 per year,” he said. “Therefore, the property was set up as mixed-use and mixed-income lofts. One-half of the lofts are market rate and one-half are affordable. We have investment bankers, bartenders, free-lance photographers and reporters living in the lofts.”

In Louisville, the Glassworks Lofts has attracted empty nesters, young married couples and young

urban professionals who want to live close to work.

Are these projects successful?

Developers in all three cities agree that their loft apartment projects have been successful. ArtLoft, Block 2 and Glassworks are all 100 percent leased. Even more important than their indi-

Together with the commercial property, the project has created 200 jobs, produces \$6 million in sales revenue and has increased property tax revenue by \$70,000 annually, he said.

Vanadis Group is continuing its work downtown with Phase II of the Argenta Lofts, which will have 56 units. Leasing of the \$5

Weyland will use the same mixed-use development strategy in Louisville when he builds Glassworks II, which will redevelop the old River City Corrections property across Market Street into 36 rental units. Future plans include extending the project south for two blocks of mixed-use retail, commercial and residential development that could ultimately provide 500 additional housing units.

Since Boyle broke the ice and opened ArtLoft in 1996, there has been a flurry of activity in downtown St. Louis by other developers. There are currently 150 market-rate loft apartments ranging in rent from \$900 to \$3,000 a month. This does not include affordable or low-income lofts. All are full. Most have waiting lists.

“If it’s a loft rental, it’s completely full,” said Sheth, of the Downtown St. Louis Partnership. “There’s not one residential unit open in any building.”

Twenty-five buildings are in some state of renovation for designated housing uses, including loft condominiums that sell for \$150,000 to \$500,000.

Maybe something Boyle said sums up what all these developers have done:

“This project was very much a seed project,” he said. “My mission was to create an interest in downtown living—and it worked.”

Community Affairs analysts Faith Weekly and Lyn Haralson contributed information for this article.

Financial Packages: What It Cost			
PROJECT	ArtLoft, St. Louis	Block 2, Little Rock	Glassworks, Louisville
Year completed	1996	2000	2001
Number of units	63	145	36
Financing (in millions)			
Borrower's/ developer's equity		\$2.8	\$3.20
Permanent loan	\$1.8		\$7.50
Low-income housing tax credits	\$2.4		
Historic tax credits	\$0.9	*\$5.0	\$2.20
Tax-exempt bonds		\$12.0	
City block grant/TNEP** funds	\$0.3	\$0.3	
Missouri AHAP*** credit	\$0.6		
Deferred fees to developer	\$0.3		
Downtown Housing Fund			\$0.55
Tenant Improvement Loan			\$0.30
Letters of Credit		\$0.4	
TOTAL	\$6.3	\$20.5	\$13.75
*Combination of historic and low-income housing tax credits			
**Targeted Neighborhood Enhancement Program			
***Affordable Housing Assistance Program			

vidual successes may be the impact their projects have had on economic development in their respective downtowns.

“We have been extremely pleased with the success (of Block 2),” Esterer said. “We were able to save three historic buildings, housing almost 200 folks who did not previously live downtown.”

million project will begin in 2003. The building will be strictly lofts and will be new construction, but will mirror the historic buildings in the area. In January, the developers opened Eastside Lofts, a \$3.6 million renovation of a school building into 41 loft apartments for people with and without disabilities.

New Markets Tax Credits

The Next Tool for Community Development Financing

By Benson F. "Buzz" Roberts
Vice President, Local Initiatives
Support Corp.

What is potentially the most significant federal economic development incentive in a generation is ready to debut. The Treasury Department's Community Development Financial Institutions (CDFI) Fund plans to open the competition for New Markets Tax Credits on \$2.5 billion in investments this spring. The CDFI Fund will allocate the tax credits on a total of \$15 billion by 2007.

Enacted in December 2000 as new tax code section 45D, the New Markets Tax Credit promises to bridge financing gaps; create new partnerships among investors, communities, businesses and government; and generate jobs, services and physical revitalization in distressed urban and rural areas.

How New Markets Tax Credits Will Work

New Markets Tax Credits are available to individual and corporate taxpayers who make qualified equity investments in community development entities (CDEs), which in turn will use the proceeds for at least seven years to make loans and investments in businesses located in low-income communities.

Essential components of the new tax code are:

1. Community Development Entities (CDEs). The CDFI Fund has already started certifying CDEs to participate in the program. A CDE must have a primary mission of serving or providing investment capital for low-income communities or persons. It must maintain accountability to residents of low-income communities through representation on a governing or advisory board. The CDFI Fund must certify all CDEs. However, certified CDFIs and specialized Small Business Investment Cos. will automatically qualify. CDEs can be corporations or partnerships. For example, a nonprofit organization could form a subsidiary, partnership or limited liability company to act as a CDE. A CDE can meet the community accountability requirement through its controlling parent organization.

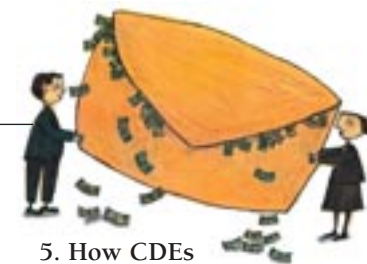
2. Allocation of tax credit authority. The CDFI Fund will allocate New Markets Tax Credits. The volume of New Markets investment starts at \$2.5 billion this year, \$1.5 billion in 2003, \$2 billion annually in 2004-05 and \$3.5 billion annually in 2006-07. Unallocated authority may be carried over through 2014.

Priority for allocations will go to CDEs either: (a) with a successful community development

track record (directly or through a controlling parent); or (b) intending to invest in unrelated businesses. The fund also may add other allocation preferences and will probably ask CDE applicants for a comprehensive business plan.

3. Tax credit amounts. Investors will receive tax credits on the basis of the amount of their equity investment in a CDE. Tax credits are claimed during a seven-year period, starting on the date of the investment and on each anniversary: 5 percent for each of the first three years and 6 percent for each of the next four years. This stream of credits totals 39 percent, with a present value of about 30 percent. The investor's basis is reduced by the tax credits claimed. Investors may carry back unused credits to years ending after Dec. 31, 2000.

4. Qualified equity investments in CDEs. Equity investments can take the form of stock or any capital interest in a partnership and must be paid in cash. The investor cannot acquire a previous investment, except to replace a previous New Markets investor. Equity investments must be made within five years of the tax credit allocation to the CDE. The CDE may designate certain investors to receive the tax credits.



5. How CDEs will finance economic development. A CDE can use New Markets investment proceeds to provide loans and equity investments to eligible businesses or other CDEs, to purchase from other CDEs loans made to eligible businesses, to provide financial counseling and other services to eligible businesses and to finance its own eligible businesses. For example, a CDE could develop and operate commercial real estate, such as a shopping center, or finance an independent business. A CDE must use 85 percent of the New Markets investment proceeds for these purposes.

6. Eligible businesses and communities. A wide range of businesses is eligible for assistance, including nonresidential real estate and nonprofit businesses. Several tests are designed to ensure that they operate primarily in eligible communities. However, some businesses are explicitly excluded, among them the operation of rental housing. Eligible communities are census tracts with either a poverty rate higher than 20 percent or a median income below 80 percent of the metropolitan area (if applicable) or state median, whichever is greater. The fund can also approve smaller areas.

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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.

Arkansas Program Gets High Marks

The Workforce Alliance for Growth in the Economy (WAGE) is an award-winning literacy program under the umbrella of the Pulaski County Special School District in central Arkansas.

WAGE clients, who must have a high school diploma or GED certificate to participate, take additional classes in reading, language and math. When they reach a certain performance level in those subjects, they enter one of two paths for certification: clerical or industrial. Clerical students are guided through a curriculum that results in proficiency in Windows 98 and Microsoft Office 2000 applications, office administration, typing, faxing, filing and telephone etiquette. The industrial curriculum focuses on mechanical aptitude, spatial relations, dexterity and computer literacy.

All instruction is free of charge and includes 64 hours of on-the-job training for clients who are being considered for a position with a company. The company doesn't spend any money, yet it benefits from the job-specific training and has

time to evaluate the person's potential before making a commitment to hire. Businesses that do not have permanent-position vacancies can still participate as a provider of on-the-job training.

Who are WAGE clients? Typically, they are:

- dislocated workers,
- single mothers,
- women who have never worked outside the home but suddenly must enter the job market because of a change in circumstances,
- persons re-entering the job market without adequate marketable skills, or
- persons in the job market who wish to acquire more marketable skills.

The Little Rock Branch of the Federal Reserve Bank of St. Louis is one organization that has

benefited from this literacy program.

To date, the Little Rock Branch has provided on-the-job training for two WAGE clients. Both have become permanent hires.

One client shared her story. She had worked

for a major retailer for 18 years. When the company closed several stores, the client faced a serious

life decision. The company was willing to transfer her to a store out of state, but that was not an option for her. She found herself without a job and in need of some new marketable skills. She completed training through the WAGE clerical program and began on-the-job training at the Fed. She was then hired for a permanent position.

For more information on the program, contact Jolla Robinson, WAGE coordinator, at (501) 945-6055 or Vallie Wilkerson, WAGE job development specialist, at (501) 370-9100.

Cape Girardeau Enjoys Main Street Status

Cape Girardeau, Mo., formed a Downtown Special Business District in 1983 when downtown businesses along the riverfront agreed to tax themselves to pay for street and lighting improvements. Since then, the downtown has changed its focus from traditional stores and five-and-dimes to specialty stores and restaurants. Boats on the Mississippi River frequently dock along the riverfront so that passengers can explore the shops and culture.

In 2000, a historic preservation plan recommended the use of

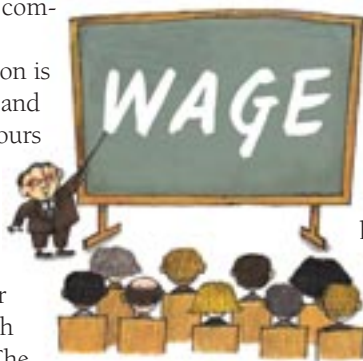
history and heritage to enhance economic growth and quality of life and to revitalize older business districts. After applying to become a Missouri Main Street community, Cape Girardeau was approved in 2000. Financial institutions that contributed between \$1,500 and \$2,500 each include Bank of America, Bank of Missouri, Capaha Bank, Commerce Bank, First Bank (now U.S. Bank), First National Bank, Union Planters Bank and Wood and Huston Bank. Each contributor is listed in the Lenders of Choice brochure as a source for financial services in the downtown historic district.

For more information, call Catherine Dunlap, executive director of Old Town Cape, at (573) 334-8085.

Memphis Partnership Creates Home Loan Fund

Memphis Community Development Partnership (MCDP), in partnership with Seedco, AmSouth Bank, InSouth Bank and EFS National Bank, has established a loan fund to promote the development of affordable housing in the Memphis area.

This fund will make short-term loans at below-market rates to nonprofit developers



of affordable housing. The loans will be for the construction or rehabilitation of single-family homes for low- and moderate-income homebuyers. Ten percent of the fund is also set aside for the development of rental housing. The fund's assets are currently at \$900,000.

Only nonprofit developers or for-profit developers partnering with a nonprofit organization are eligible. A nine-person loan committee will make the lending decisions with MCDP staff providing administrative duties.

For information, contact Glenn Cox of MCDP at (901) 722-0037.

Sweeping Tax Breaks Aid Mississippi, Tennessee Economy

Thousands of businesses and employees in distressed areas of rural Mississippi and Memphis, Tenn., are expected to benefit from substantive federal tax breaks announced earlier this year.

The Mississippi cities and Memphis have been designated Renewal Communities by the Department of Housing and Urban Development. The designation makes them eligible to share in an estimated \$17 billion in tax incentives, which in turn are expected to promote job growth.

These new Renewal Communities can take advantage of wage credits, tax deductions, capital gains exclusions and bond financing to stimulate economic development and create jobs.

About 50 percent of residents in the Memphis Renewal Community live in poverty. City officials hope the tax breaks will attract businesses into the 40-square mile area. In addition, Memphis will establish the Renaissance Business Center as a "one-stop shop" to encourage small and minority businesses to locate or expand within the Renewal Community.

The cities in Mississippi, located in the west-central part of the state, have plans to improve federally funded services for residents, including job support, child care, rental assistance, mental health services, small business loans, employment training and transportation services.

Renewal Community incentives for businesses are extensive.

A sampling includes:

- a \$1,500 credit for every employee who lives and works in the area,
- an \$8,500 credit over two years if an employer hires a long-term welfare recipient, and
- a zero percent capital gains rate on assets acquired in the community after Jan. 1 and held for at least five years.

Renewal Communities use public and private partnerships to work on economic revitalization in areas that experience high unemployment and shortages of affordable housing.

An estimated \$6 billion in tax incentives are available exclusively for Renewal Communities across the country. As distressed areas, Renewal Communities will

also be eligible to share in an additional \$11 billion in Low-Income Housing and New Market Tax Credits.



Home Repair Loans Available in St. Louis

Homeowners in the city of St. Louis and parts of St. Louis County may be eligible for below-market interest rate home improvement loans offered by four local banks.

The banks—First Bank, Firstar, Commerce Bank and UMB Bank—took the lead and teamed up with the Missouri Housing Development Commission, St. Louis City, St. Louis County and the Regional Housing and Community Development Alliance in this community effort.

The loans are designed to encourage homeowners to make repairs and improvements, with a priority given to correcting building code violations and

safety concerns. The loans will be available to those whose household income does not exceed 150 percent (\$79,200 as of March 1, 2002) of the

statewide median. The maximum loan amount, from a \$2 million pool, is \$25,000 with a 10-year maximum term.

Applications are available at the banks.

North Little Rock Home to New Center

Arkansas' first NeighborWorks Home Ownership Center opened in North Little Rock in the fall of 2001 with a celebration at the Argenta Community Development Corp. office.

The center, housed in the CDC office, is one of 55 in the United States. Homebuyers in Pulaski County can receive services and training in how to buy and maintain a home. For more information, call (501) 372-6936.

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7. Recapture. Investors risk losing the tax credit if: (a) substantially all of the cash proceeds are not used for eligible purposes; (b) the investor cashes out the equity investment in the CDE within seven years; or (c) the CDE ceases to be a qualified CDE. The fund has written rules for curing violations within a reasonable period to prevent unwarranted recaptures.

What New Markets Can (and Cannot) Do

Understanding what the New Markets Tax Credit can and cannot do is the first step to making the most of this new tool.

New Markets can provide a significant boost to rates of return for economic development investors. The tax credits should work to bridge moderate gaps in financing businesses and commercial and industrial real estate development. This can make the critical difference for the many ventures that can generate significant cash flow and repayment of capital, but not enough to get off the ground without some initial help.

However, the tax credits will not directly reduce investment risks substantially. Moreover, New Markets offers a much shallower subsidy than housing credits. The New Markets Tax Credit is worth about 30 percent of the investment made, in present value terms. By comparison, the housing credit generally has a present value of up to 70 percent and up to 91 percent in

distressed and high-cost areas. In addition, the housing credit is based on the cost of building the housing, not on the amount invested. That means the housing credit alone can drive an investment. In contrast, New Markets Tax Credits are based on the amount invested in a CDE. Further, unlike housing credits, the New Markets credits claimed will reduce the investors' basis, exposing investors to additional capital gains liability when they terminate their investments.

That means that New Markets investors will need substantial cash flow and capital recovery/appreciation, in addition to the tax credits, to generate a reasonable return. The New Markets Tax Credits will not turn a bad business into a good investment, but they can make the difference for many economic development activities that would otherwise be only marginally profitable.

Additional Information

More information, including guidance on how to qualify to participate in New Markets and temporary IRS tax regulations, is available from the CDFI Fund at www.cdfifund.gov/programs/nmtc/index.asp. A more detailed description and analysis of how the New Markets Tax Credit will work is available from LISC at www.liscnet.org/resources/.

Have you HEARD

Threshold for HMDA Exemption Increases for 2002

The Federal Reserve Board recently increased the asset-size exemption threshold for depository institutions under the Home Mortgage Disclosure Act (HMDA) to \$32 million from \$31 million. Depository institutions with assets of \$32 million or less as of Dec. 31, 2001, are exempt from data collection in 2002.

2002 Income Limits Set

FY 2002 income limits are available from the Department of Housing and Urban Development. County-level data from throughout the country can be downloaded from the HUD User web site.

The types of information available include:

- a nationwide copy of Section 8 income limits in PDF format,
- median family income calculations and state median family incomes,
- information about how HUD income limits are calculated,
- a national data file with all counties and county subparts in PDF format,
- an .exe file containing the files in Microsoft Word and
- income limit area definitions.

To download the FY 2002 Income Limits, visit the HUD User web site at www.huduser.org/datasets/il/fmr02/index.html.

KnowledgePlex Lets You Find, Exchange Information Online

www.knowledgeplex.org is a 6-month-old web site that not only has a wealth of information on affordable housing and community development, but also allows users to participate in online discussions with other professionals.

Launched last year, KnowledgePlex was created by a group of leaders in the affordable housing and community development field with funding from the Fannie Mae Foundation.

The web site features news about leading organizations in the field. Virtual communities involve members from around the world who contribute new ideas about housing and development.

You can become a member of KnowledgePlex by completing the registration form. Among other services, members receive e-mail updates on the site's special features, including:

- Hot Topics, scholarly coverage of pressing issues;
- daily newsfeeds with links to the latest regional and national coverage of housing issues;
- new content in the Knowledge Library; and
- studies and analyses, case studies and how-to's, and academic and government reports on current and emerging housing issues.

The web site is specifically designed for practitioners, scholars and policy-makers.

APRIL

2-6**Neighborhood Reinvestment Training Institute—Chicago.**

Sponsor: Neighborhood Reinvestment Corp.
www.nw.org/training
1-800-438-5547

25-26**Tools for Building Sustainable Rural Communities—Wilkes-Barre, Pa.**

Sponsor: Federal Reserve Banks of Cleveland, New York and Philadelphia and Rural Local Initiatives Support Corp.
(215) 574-6037

29**Annual Policy Conference—Washington, D.C.**

Sponsor: National Low Income Housing Coalition, www.info@nlihc.org
(202) 662-1530

MAY

8**“Wealth Creation or Wealth Stripping: What Our Community Should Know”—Memphis, Tenn.**

Sponsor: Memphis Credit and Bankruptcy Collaborative
(901) 579-2421

29-31**MEDC Spring Conference & Governor's Conference on Economic Development—Lake of the Ozarks, Mo.**

Sponsor: Missouri Economic Development Council (573) 636-7383

29-31**Arkansas Rural Development Conference—Eureka Springs, Ark.**

Sponsor: Arkansas Department of Rural Services and Arkansas Rural Development Commission (501) 682-6011

JUNE

10-14**Community Development Academy, Course 1—St. Louis.**

Topic: Building Communities from the Grassroots.
Sponsor: University of Missouri-Columbia, Community Development Extension Program (573) 882-8320

Community Development Academy, Course 2—St. Louis.

Topic: Empowering Communities for the Future.
Sponsor: University of Missouri-Columbia, Community Development Extension Program (573) 882-8320

14-19**NAHRO regional conference—Lexington, Ky.**

Sponsor: National Association of Housing and Redevelopment Officials, Southeastern Regional Council (859) 281-5060

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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Free subscriptions and additional copies are available on request by contacting Linda Aubuchon at (314) 444-8646 or by e-mail to linda.aubuchon@stls.frb.org.

Community Development: How To Pay for It—Got a great idea for community development but feel overwhelmed by the prospect of finding financing? A new self-study guide from the Community Affairs department of the St. Louis Fed walks readers through the basics of designing a project, developing a budget and a business plan and assembling a financial package. *Community Development Financing: Coming up with the Money* is available free of charge by calling (314) 444-8646 or by sending an e-mail to linda.aubuchon@stls.frb.org.

Federal Reserve Conference Proceedings—

The proceedings of a conference presented last spring in Washington, D.C., by the Community Affairs Officers of the Federal Reserve System are available from the St. Louis Fed. This collection of research papers and discussions by economists and scholars provides an in-depth look at trends in community development lending and how these trends affect low- and moderate-income groups. To order a free copy, call (314) 444-8646 or send an e-mail to linda.aubuchon@stls.frb.org.

“How to” CD-ROMs for Small Businesses—

The Bloomington, Ind., Small Business Development Center has two CD-ROMs available for those interested in learning how to start

and fund a small business. ActiveVentures is the start-up disk for small business. ActiveMoney lists more than 400 public and private sources of capital, loan amortization calculators, business planning guides, financial projection spreadsheets, loan applications, financial worksheets and a process checklist. They can be ordered by calling the development center at (812) 339-8937. The cost is \$19 each.

Your Privacy: What You Do and Don't Need to Disclose—

A new guide to help consumers make informed choices about whether to allow their personal financial information to be shared is now available. *Privacy Choices for Your Personal Financial Information*, a collaboration of several federal agencies, presents consumers with the choices they face as a result of the privacy provisions of the Gramm-Leach-Bliley Act of 1999. The new information can be found on the Federal Reserve Board's web site at www.federalreserve.gov/pubs/privacy.

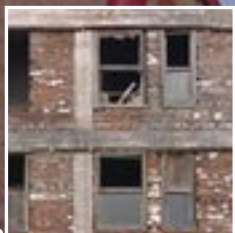
Stolen Identities, Stolen Lives—

Identity theft is the focus of a 34-page publication on the Federal Trade Commission's (FTC) web site. *ID Theft: When Bad Things Happen to Your Good Name* explains what identity theft is, how to minimize the risk of becoming a victim and what to do if you do become a victim.

It also includes the FTC's ID Theft Affidavit, a form victims can use to alert companies when an unauthorized account has been opened in their name. The company can then investigate the fraud and decide the outcome of the claim. The publication can be downloaded from the FTC's web site at www.consumer.gov/idtheft.

Based on Faith—What role do faith-based organizations play in community development and what does their future hold? A report from the Department of Housing and Urban Development, *Faith-Based Organizations in Community Development*, incorporates a review of literature and interviews with activists to find out. The report is available for \$5 by calling 1-800-245-2691 or by using HUD's online ordering service at www.huduser.org/publications/pdrpubli.html.

Causes of Defaults on FHA loans—A HUD study evaluates the impact of neighborhood characteristics on Federal Housing Administration defaults. *Neighborhood Effects in Mortgage Default Risk* distinguishes the effects of neighborhood race, ethnicity and income from the effects of the individual borrower's status. The report can be downloaded or ordered from the HUD User web site at www.huduser.org/publications/hsgfin/defaultrisk.html. It can also be ordered by calling 1-800-245-2691.



Rays of Hope

A New Day for America's Distressed Urban Areas

The Community Affairs Office of the Federal Reserve Bank of St. Louis invites you to **SAVE THE DATE** to attend its fall conference on community development:

OCTOBER 22 AND 23, 2002

Jackie Joyner-Kersey Center

East St. Louis, Illinois

Registration materials will be sent this summer. For more information, call Matt Ashby at (314) 444-8891.



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