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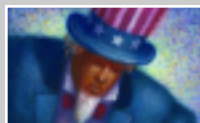
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McMurphy's Grill

It's Successful As a Social Program, It Struggles As a Business

By Linda Fischer
Editor

Each weekday around noon, customers come to McMurphy's Grill in downtown St. Louis to enjoy lunch—a bowl of Irish stew, a corned beef sandwich or other flavorful dishes. Waiters and waitresses hustle to get the crowd fed and back to work in a reasonable amount of time. From all appearances, McMurphy's is a typical cozy eatery.

The truth is, McMurphy's is anything but typical. The restaurant is a job-training program run by St. Patrick Center, a nonprofit provider of services for the homeless or those at risk of becoming homeless. The waiters and waitresses are homeless, as are the cooks and busboys. They are trying to get back on



Waiter Don Shields takes lunch orders at McMurphy's Grill in downtown St. Louis. Shown are, from left: Kristina Alnajjar of Spokane, Wash.; Nunzio Lama, restaurant manager; and Maggie Brown, also of Spokane. (Photo by Dennis Caldwell)

their feet by working for minimum wage while learning the general skills needed for restaurant employment.

One of the waiters, Don Shields, has been in training at McMurphy's for eight months

now. A big smile crosses his face as he describes his work there. "Sometimes it gets hectic," he says. "But I love it!"

As nonprofit organizations search for ways to raise money—

other than through the traditional grants, donations and public subsidies that sometimes come and sometimes don't—many are turning to social enterprises. And for many, it's a venture into uncharted waters: the world of business.

According to the Social Enterprise Alliance, a social enterprise is any earned-income business or strategy undertaken by a nonprofit to generate revenue in support of its charitable mission. Earned income consists of payments received in exchange for a product, service or privilege.

Greg Vogelweid, chief operating officer of St. Patrick Center, says nonprofit organizations wanting to start a social enterprise need to think like a business rather than a nonprofit.

"The first step in setting up a

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Entrepreneurs Thrive in America

Federal, State Policies Make a Difference for Those Facing Risk

By Thomas A. Garrett
Senior Economist
Federal Reserve Bank of St. Louis

The entrepreneurial spirit is alive and well in the United States. A recent study revealed that the U.S. population is quite entrepreneurial when compared with that of other countries: More than 70 percent of Americans would prefer being an entrepreneur to working for someone else. This compares with 46 percent of

adults in Western Europe and 58 percent of adults in Canada.¹ Another study on entrepreneurial activity for 2002 found that, of 36 countries studied, the United States was in the top third in entrepreneurial activity and was the entrepreneurial leader when compared with Japan, Canada and Western Europe.² One can argue that the desire of individuals to create new businesses, develop new technologies and venture into the unknown has propelled the United States

from a small collection of colonies to one of the greatest economic powers in the world. Entrepreneurship means growth. Given the relationship between entrepreneurship and economic growth and development, what policies should government—be it local, state or federal—pursue to foster entrepreneurship? There are many such policies, each of which fits into one of two categories: active policies and passive policies. Active policies include targeted

tax breaks and targeted subsidies. As a result, these policies are often aimed at specific forms of businesses or entrepreneurs. Passive policies, however, include laws and regulations designed to lower the cost of doing business and provide a business atmosphere that encourages entrepreneurship. This article discusses several policies in the United States that influence entrepreneurship and economic growth. These U.S. policies are compared with and

McMurphy's Grill

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social entrepreneurship venture is to write a business plan,” Vogelweid says. “You also need a finance person who knows how to run a business.

“Then you have to decide whether you want a nonprofit, mission-related program that makes money versus a for-profit enterprise that just makes money for the nonprofit. They are very different things,” he says.

McMurphy's Grill is the former. Well, not quite. After 15 years in business, it is not making money.

“We run this as a business, just not a very profitable one,” Vogelweid says.

At this point, funding for the restaurant generally comes from three sources: grants, the public and government contracts.

One of the biggest challenges to making the restaurant profitable is

the mission of the program. The very nature of it conflicts with good business models for restaurants. For example, once an employee is trained, he or she is gently pushed out the door and

Another disadvantage is that, in deference to many of its workers who are alcoholics, McMurphy's does not push the sale of alcoholic beverages. This is one factor that keeps the

SOCIAL ENTREPRENEURSHIP: Any earned-income business or strategy undertaken by a nonprofit to generate revenue in support of its charitable mission. Earned income consists of payments received in exchange for a product, service or privilege.

—Social Enterprise Alliance

into a new job, and an untrained worker comes on board. Hardly a smart business practice.

“We don't want them to be comfortable. We want them to move on and get a better job,” Vogelweid says.

restaurant from making a profit, Vogelweid says.

The restaurant also pays three full-time employees to run the program: a chef, a jobs coach and a manager.

The upside is that last year

business increased 14 percent over the previous year. And, despite its lack of financial success, the restaurant remains true to its mission of getting the homeless job training, jobs and housing, Vogelweid says. At any one time, 11 homeless people are in training. About 50 find jobs each year in local restaurants. Follow-up surveys show that, of those who have completed the program and been placed in restaurants, 60 percent to 70 percent still have their jobs after a year.

In addition, McMurphy's Grill is an excellent public relations tool for St. Patrick Center, Vogelweid says.

As for the future, his vision is for the restaurant to become a profitable, full-service restaurant that is open for lunch and dinner and on weekends.

contrasted to policies in other countries as well as to policies in states across America.³

Why Passive Policies Are Important

Community development leaders and interest groups often focus on active policies for entrepreneurs, such as tax breaks for certain types of small businesses or subsidies from various federal agencies, usually in the form of economic development or small business loans and grants. Government plays a crucial role in promoting entrepreneurship through active policies. However, while small businesses do create economic growth, they are not necessarily entrepreneurial. Only those small businesses that focus on new and sometimes risky opportunities and investments can be considered entrepreneurial. With passive policies, the role of government is to create an environment that is “friendly” to entrepreneurs without regard to specific businesses or groups of individuals. It is this entrepreneurial-friendly environment that will allow any individual or business—regardless of size, location or mission—to expand and to thrive. As will be seen, passive policies in the United States are different from the policies of other countries.

Policies That Influence Entrepreneurship

Four policies that have an impact on entrepreneurship are: tax policy, regulation, start-up costs and access to capital markets, and legal protection and

property rights. Each policy is discussed through the lens of economic analysis.

Tax Policy

Some minimal level of taxation is required to have a functioning government. While few people would disagree with this statement, disagreement does arise over what constitutes “minimal.” Regardless, one fact is clear: A tax on any activity increases the cost of the activity, thereby discouraging the activity.

Entrepreneurship is an activity that requires investment, consumption and income generation to be successful. A sales tax reduces personal consumption, higher personal income taxes reduce the incentive to work, corporate income taxes reduce the incentive to start or expand a business, and capital gains taxes reduce the incentive to invest. A recent study provided estimates on the effect of taxes on economic growth in the United States.⁴ Using data on the United States for the period 1977 to 1992, the authors of the study found a negative and statistically significant relationship between state per capita personal income growth and tax collections (and the size of government relative to personal income).

Various tax policies, both active and passive, are in place across U.S. states to foster entrepreneurship.⁵ In response to a recent survey from the Kauffman Center for Entrepreneurial Leadership, many states said they focus on lowering the overall tax burden through a reduction in



tax rates or by expanding exemptions to promote entrepreneurship. About 10 states have more active tax policies, such as targeted tax credits for business location, research and development, and capital requirements. Several states have also reduced or eliminated their capital gains tax and inheritance tax.

Policy-makers concerned with entrepreneurship should under-

stand that a trade-off exists between entrepreneurial growth and taxes. The benefits of additional government programs funded through taxation must be weighed with the costs of reduced economic growth and entrepreneurial activities. Also, because targeted tax breaks foster only certain types of businesses or businesses in certain locations,

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a more passive tax reduction policy will be less restrictive in terms of the type of entrepreneurial activities that may occur and where these activities occur.

Regulation

Labor market and business regulations can be costly for entrepreneurs. However, when compared with European countries, regulations in the United States are much less restrictive.⁶ For example, many European countries place restrictions on the number of hours a business may be open or how late into the evening the business may be open. In addition, there are laws regulating the maximum length of the work week—35 hours per week. There are also more restrictions on the ability of businesses to hire and fire workers in Europe than in the United States.

A less regulated labor market serves the American entrepreneur well. There are several areas in which states have reduced the costs of regulation on U.S. entrepreneurs, as reported by the Kauffman Center survey. First, nearly all of the states responding to the survey said that reducing the compliance costs of regulation is a goal to help entrepreneurs. Reducing compliance costs is accomplished by providing one-stop service centers where entrepreneurs can find help; by allowing electronic filing and storage, which reduces paperwork; and by making compliance reporting uniform across a state. Many states recognize that while these improvements

might not be large cost reducers, they will have an effect on where a new entrepreneur will locate his or her business.

Reducing regulation outright is another means of fostering entrepreneurship. The Kauffman Center survey reported that five states have reduced the regulatory burden in hopes of fostering entrepreneurship. States have also reduced the cost of doing

ing rather than a general desire to help the public or businesses.

Start-Up Costs and Capital Access

The costs of starting a business are certainly a factor one considers before embarking on any entrepreneurial activity. Start-up costs include the number of procedures and days it takes to form a business entity, the fees required to establish a business,

ENTREPRENEURSHIP: The rapid growth of new and innovative business...associated with individuals who create or seize business opportunities and pursue them without regard for resources under their control. They build something from practically nothing and usually reinvest earnings to expand their enterprise or to create new enterprises. Other words that characterize entrepreneurship include innovative, creative, dynamic, risk-tolerant, flexible and growth-oriented.

—State Entrepreneurship Policies and Programs by Jay Kayne
Kauffman Center for Entrepreneurial Leadership, 1999

business through regulatory reform, such as tort reform, utility deregulation and worker compensation adjustments. While some regulation is likely necessary to protect workers and businesses, states should evaluate their regulations to ensure their relevancy. Many regulations are created in a political environment and might be the result of special-interest lobby-

ing and a minimum level of required capital. According to the World Bank, start-up costs in the United States and European countries are quite different.⁷ For example, there are no fee payments in Denmark. In other countries, fees range from \$210 in the United States to \$4,565 in Italy and \$8,115 in Greece. Capital requirements, as a percent of per capita income, vary from none in

the United States and the United Kingdom to 145.3 percent in Greece. The average length of time to form a business entity ranges from four days in Denmark and the United States to 115 days in Spain. Given these large start-up costs in some countries, one should not be surprised at the level of entrepreneurship in the United States.

Entrepreneurs cannot operate or expand their ventures without access to capital markets. Unfettered access to adequate capital markets will provide the greatest opportunities for entrepreneurial expansion. Many states have recognized the importance of capital to entrepreneurs and have implemented policies to ensure access to capital. The Kauffman Center survey reports that most states implement active policies to provide entrepreneurs with adequate capital through loans. These loans usually have modest interest rates and reasonable repayment periods. However, while there appear to be adequate capital resources available to entrepreneurs through state governments, there is little done in the way of planning and management of this capital. So, once entrepreneurs acquire their needed capital, they might not have the experience or education necessary to properly manage it. This is something state and local governments should address.

Legal Protection, Property Rights and Economic Freedom

No entrepreneur can succeed in a society lacking respect for

individual property rights and a legal system that protects these rights. Property rights are defined as the right to control, use and obtain the benefits from a good or service. While this sounds reasonable, think of how little entrepreneurship would occur if individuals did not have the right to their property and the profits that they acquire from using this property in the most valued way. Without property rights, there would be little incentive to invest, expand or create because any gains from such endeavors would be transferred to the state. And granting individual property rights without enforcing them by means of a well-established legal system would be pointless. One of the most significant reasons centralized economies like the former Soviet Union collapsed was the lack of individual property rights and a legal system that advocated for these rights.

Property rights and legal protection of these rights are part of a passive policy environment that promotes entrepreneurship. Other policies, such as moderate

taxation and regulation, also contribute to the entrepreneurial environment. Economists have quantified a country's active and passive policies through a measure called the Economic Freedom of the World (EFW) index. This index, ranging from 0 to 10, evaluates a country based on five general criteria: size and scope of government, legal structure and property rights, access to sound money, freedom to exchange goods and services, and the regulation of credit, labor and businesses.⁸ Not surprisingly, recent research has found that countries with a higher EFW index, such as the United States (8.2), Canada (7.9) and the United Kingdom (8.2), have higher rates of entrepreneurship and growth than more centralized countries, such as Russia (5.0), Ukraine (5.3) and Indonesia (5.8).⁹

While the EFW index allows only cross-country comparisons, it does provide lessons for state and local governments here in the United States. Specifically, the relationship between a country's growth and EFW index sug-

gests that states with greater economic freedom will have higher rates of growth. The earlier discussion of differences across states regarding tax policy, regulation and start-up costs certainly suggests differences across states in terms of growth.

Conclusion

Government can conduct both active and passive policies to encourage entrepreneurship. Although active policies, such as targeted tax breaks and subsidies, are the most commonly discussed, it is passive policy that is important for generating an entrepreneurial-friendly environment. This article has addressed several areas of policy, both active and passive, that encourage entrepreneurship. Evidence was presented here on cross-country and cross-state differences in entrepreneurship as a result of different active and passive policies.

One point should be clear: Institutions matter. Institutions that lower the cost of doing business, either through tax policy, start-up costs or regulation will encourage entrepreneurship. More broadly, a complete respect for private property rights and a well-functioning legal system that recognizes and protects these rights is vital. States and countries that respect and enforce these institutions will encourage entrepreneurship and be rewarded with greater economic growth.

ENDNOTES

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The Community Affairs Office at the Federal Reserve Bank of St. Louis has focused much of its work in 2004 and 2005 on small business and entrepreneurship. This is one of several Bridges articles on those topics.

To Market, To Market...Or Not?

Communities Need to Think Through Issues Surrounding Public Markets

By Jean Morisseau-Kuni
Community Affairs Analyst
Federal Reserve Bank of St. Louis

Public markets have been a part of the American landscape since trading began on this continent. From those early beginnings, when they were a place where people went to buy life's necessities, public markets have evolved into specialty markets.

Farmers, crafters, restaurant owners, antique retailers and specialty foods vendors are among the small business operators who have embraced the concept of a public market as an inexpensive place to sell goods. Community leaders also see a public market as another venue they can support to help boost local sales and provide a space for small businesses to grow.

Establishing a new public market can be a winning situation for a community, existing businesses and vendors. A well-placed market can increase foot traffic to nearby businesses and keep money that would have been spent outside of the community in the community.

While community leaders might agree that a public market can be an economic boost to any streetscape, a market that is ill-placed or not well-regulated and well-managed can become a hornet's nest of unhappy customers and vendors.



Jody Hardin displays some of the naturally grown fruits and vegetables he sells at the River Market in Little Rock, Ark.

Before allocating funds to support a new market, community leaders need to ensure that a market will be a welcome addition. Some questions they should ask include: Are there enough vendors interested? Will the market be for local products or will it include vendors and products from outside the community? Will the community support a market? Where is the best place to establish the market? Are businesses located near the proposed market site in favor of it? What regulations do they want to apply to the market?

A community that has an existing public market needs to ensure that the market is fulfill-

ing the needs of the vendors, nearby businesses and the community. And market regulations must be enforced.

Communities need to investigate the availability of both government funding and local financial assistance for a public market. Funding assistance varies from state to state.

In addition, there are several federal programs, such as the Farmers' Market Nutrition Program and the Seniors Farmers' Market Nutrition Program, that help low-income families and senior citizens who want to purchase fresh produce at a farmers' market.

Examples of public markets

throughout the country abound. The three featured here were all created to address a different set of community needs, operate under different governmental regulations and have had different levels of success.

Soulard Farmers Market in St. Louis: A Tradition

In the St. Louis area, Soulard Farmers Market is the oldest and largest public market. Located near downtown St. Louis in the historic Soulard neighborhood, the market opened in the early 1800s. Today, up to 70 vendors sell everything from produce to pets.

A walk through the buildings at the year-round market gives customers the feel of an international bazaar with a diverse group of vendors and customers, including many immigrants to St. Louis.

Arlene and Earl Kruse and their son, Steve, operate Kruse Gardens at Soulard Market. At their stand, customers can find organically grown fruit and vegetables, along with flowering plants and herbs. Arlene is the third generation of her family to operate a stand at the market.

"It's not easy to make a living selling at a market, but I have customers that I have been selling produce to my entire life. When you're that involved with both the customer and the pro-

duce, you want to give your best," Arlene says.

The American public is turning to farmers' markets for better quality produce, Arlene says. "They are tired of hothouse produce sold at the grocery stores. We pick everything the day before it's sold at market," she says. "You just can't compare the quality of a product that has been cultivated by hand to a product that was commercially produced."

The Kruses have made a niche for themselves by organically growing specialty foods that are not available at a grocery chain.

"I take a seed, plant it, nurture it, watch it grow, harvest it and sell it," Arlene says. "I guess you could say that this is my Rembrandt."

Old Town Market in Belleville, Ill.: Four Years Old and Going Strong

Old Town Market in Belleville, Ill., was developed four years ago as a way to provide local growers an inexpensive space to sell produce. The developers also hoped that the market would draw foot traffic to existing businesses in the downtown business district. Open every weekend from May through October, the open-air market is located on Main Street in a pocket park.

"It's been growing every year since we started," says Norm Geolat, market director. "We're always on the lookout for new vendors and activities. We want people to come, get some great deals on produce and see that

Belleville is still a place to go."

Old Town Market has 12 vendors selling fruit, vegetables, homemade jellies and jams. Local artisans also sell quality handmade crafts and artwork. Each weekend, the market has live music and activities for children and provides space for community groups to promote their programs. "We want the market to be an event for the entire family, something for everybody," Geolat says.

A nearby business owner attests to the fact that the market has met its original goal of increasing foot traffic in the downtown area.

"Every weekend the market is open, new people visit our shop," says Gloria Smith, who along with her husband, Rod, owns the Crystal and Spice Shoppe in downtown Belleville.

"The market has been a really good catalyst to bring people downtown and spend money locally," she says. "People are now coming downtown and finding it's a great place to shop. Once they see the variety of unique shops and restaurants, they keep coming back."

River Market in Little Rock, Ark.: A Market District Development

The River Market concept was created to take advantage of the scenic charm of the Arkansas River, a public park and historic structures along Little Rock's riverfront. This example of a market district reflects the growth and variety of public markets throughout the United

States. Both an indoor specialty shop market and an outdoor farmers' market, River Market marries existing elements with new structures, including an amphitheater, water park and event space.

The indoor market is a medley of 17 permanent shops and restaurants that are open year-round. The outdoor market is

open May through October and features more than 100 farmers selling in-season fresh produce. On Fridays while the outdoor market is open, local artists and craftsmen sell their creations at an event called "Art at the Market."

Shannon Light, the River Market's manager, says she is work-

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Market on Lake Pine Bluff Part of Revitalization Plan

A pavilion under construction at Lake Pine Bluff will be the new home of a farmers' market currently located in the adjacent downtown area of Pine Bluff, Ark. The Pavilion at the Landings is taking shape on a pier that juts out into the lake. It is part of a new development expected to stimulate activity in the downtown area and bring jobs to southeast Arkansas.

The project was initiated with a \$100,000 gift to the city from Simmons First National Bank in honor of the bank's 100th anniversary. A combination of public and private funds is being used to complete the project. Last fall, Pine Bluff received a \$1.5 million grant from the U.S. Economic Development Administration to attract economic development to the area. The state, county and two private foundations have also pledged financial and in-kind support totaling more than \$350,000.

The total cost of the project is estimated at about \$2 million.

The 10,800-square-foot pavilion will include community rooms and stadium-style seating to accommodate arts and nature activities and festivals.

Phase I is scheduled to be completed by January, 2006. Plans for additional phases include a walking trail, a bike trail and a bridge to connect the lakefront area to the University of Arkansas at Pine Bluff campus.



An artist's rendering of the proposed farmers' market pavilion at Lake Pine Bluff.

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ing to improve the market and overall is pleased with the market's growth.

Light says she would like to attract a more diverse group of vendors. "It would be nice to have a fish monger and a poultry vendor who, along with our current vendors, would help build a well-rounded market," she says. "I hope to see our market grow as it becomes better established. Like most markets, we perform best in the nice weather, but our foot traffic has continued to increase since we opened."

Two permanent vendors at River Market, Steve Brown and Jody Hardin, are working to make a go of it. Hardin also has been involved in planning a new

market in Pine Bluff. (See related story on page 7.)

Brown runs a gourmet butcher shop, V.K. Brown's, which has been a part of the market since it opened. Hardin operates Hardin's River Mercantile, a farm stand that sells naturally grown fruit and vegetables.

"We opened our shop when the market opened in 1996 to celebrate 100 years in business for V.K. Brown Packing Co., a company founded by my grandfather," Brown says. The first three years the market was open, his shop enjoyed good sales, he says. However, sales have been declining every year since.

He says the decline in business is due to people tiring of traveling downtown to shop at

the market. "The first couple years, the market was the place to be seen in Little Rock on Saturday, but now it's just another place," Brown says.

Hardin sees the market from the perspective of a new vendor.

"I waited five years to get this space and opened my indoor stand four months ago," he says. "I have a seasonal stand, but wanted to expand and offer naturally grown fruit and vegetables all year."

Hardin is meeting his low estimate of income earnings from his stand and is hopeful his business will improve. That could come to pass if the indoor market featured competing vendors, he says. Competition would give shoppers another reason to

come to the market throughout the year.

Both vendors agree that they would like to see more publicity to attract vendors and customers to the market.

Resources for communities interested in developing a public market:

USDA Farmers' Market web site provides information on farmers' markets and USDA programs and regulations. www.ams.usda.gov/farmersmarkets

Resources for Farmers' Markets web site provides a variety of information, including links to programs at federal and state web sites and contact information. www.nemw.org/farmersmarkets/index.html

Farmer's Markets Marketing and Business Guide web site offers a variety of information on starting and sustaining a public market. www.attra.org/attra-pub/farmmrkt.html

Public Markets and Community Revitalization textbook is published by the Urban Land Institute and provides a variety of information on public markets and economic growth opportunities. www.pps.org/PublicMarkets/

Start-Up Issues for Farmers' Markets

- Start-up costs
- Publicity and marketing
- Location and existence of other nearby farmers' markets
- Market charter issues: i.e., who can be a vendor, membership fees, products offered
- Space assignments
- Leadership and management—board members and market manager
- Local and state regulations, such as standards for food handling
- Licensing
- Competitive pricing among vendors
- Production and marketing experience of potential growers
- Expectations, interest and support of the community, government officials, and commercial business people



Little Rock's River Market District is located downtown along the Arkansas River.

Free Credit Reports Available in Midwest

Consumers in three states served by the Federal Reserve Bank of St. Louis can now obtain their credit reports free of charge on an annual basis.

As of March 1, 2005, residents of Missouri, Illinois and Indiana can order the reports from each of the three major credit bureaus: Experian, Equifax and Trans Union. And residents of the remaining states served by the Bank—Arkansas, Mississippi, Kentucky and

Tennessee—will be able to order their free reports beginning June 1, 2005.

The free reports are mandated by the Fair and Accurate Credit Transactions Act, which was enacted in December 2004. The government is phasing in the law over a nine-month period, beginning with Western states last December, Midwestern states last month, Southern states June 1 and Eastern states Sept. 1.

There are three ways consumers can order the reports:

- Visit www.annualcreditreport.com
- Call 1-877-322-8228
- Print and complete the Annual Credit Report Request Form, available at www.ftc.gov/credit, and mail it to:
Annual Credit Report Request Service
P.O. Box 105281
Atlanta, GA 30348-5281

Wal-Mart Exec Tapped for Fed Advisory Council



Cook

Michael Cook, vice president and assistant treasurer for Wal-Mart Stores, Inc., in Bentonville, Ark., has been appointed to a three-year

term on the Federal Reserve Board's Consumer Advisory Council.

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

At Wal-Mart, Cook is responsible for domestic payment services and financial operations. His work supports global strategies for electronic payments and financial services. A 12-year veteran with Wal-Mart, Cook has been instrumental in numerous company initiatives, including the formation of its Financial Services Division.

Entrepreneurship Focus of Memphis Conference

There is still time to register for *Striking the Right Notes on Entrepreneurship*, scheduled April 18 to 20 in Memphis, Tenn.

This is a national conference sponsored by the Federal Reserve Bank of St. Louis in partnership with the Ewing Marion Kauffman Foundation, the American Bankers Association, CFED and the Federal Reserve Bank of Kansas City.

Speakers include Bill Poole, president of the Federal Reserve Bank of St. Louis; Debbi Fields, founder of Mrs. Fields Cookies; and Richard Florida, author of the 2002 best-seller *The Rise of the Creative Class*.

Conference attendees will have an opportunity to boost support for entrepreneurship, contribute to economic development policy decisions, and increase their understanding about the impact of small business and entrepreneurship on economic growth.

The event will be of interest to commercial lenders, CRA officers, CEOs of financial institutions, venture capitalists and representatives of foundations, governments, higher education policy centers, community and economic development organizations, and associations representing small business owners.

For more information or to register, visit www.stlouisfed.org.



HAVE YOU HEARD

HUD Raises Limits for FHA Home Loans

The Federal Housing Administration (FHA) has increased home mortgage limits for single-family homes by more than 7 percent. The increase is part of an annual adjustment the Department of Housing and Urban Development makes to accommodate rising home prices.

As of Jan. 1, 2005, FHA is insuring home mortgages for up to \$172,632 in low-cost areas and up to \$312,895 in high-cost areas. The 2004 loan limits were \$160,176 in low-cost areas and \$290,319 in high-cost areas.

Senior citizens who qualify for FHA-insured reverse mortgages also will benefit from the increase. With reverse mortgages, homeowners aged 62 and older can borrow money against the value of their homes without selling them.

More information is available at www.hud.gov and espanol.hud.gov.

\$34 Million New Threshold for HMDA Exemption

The Federal Reserve Board recently raised the asset-size exemption threshold for depository institutions under Regulation C, which implements the Home Mortgage Disclosure Act (HMDA), by \$1 million.

The exemption will increase to a level of \$34 million, based on the annual percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers for the 12-month period ending in November 2004. As a result, depository institutions with assets of \$34 million or less as of Dec. 31, 2004, are exempt from data collection in 2005. An institution's exemption from collecting data in 2005 does not affect its responsibility to report the data it was required to collect in 2004.

The adjustment became effective Jan. 1, 2005.

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.

St. Louis Businesses Eligible for Neighborhood Loan Program

Eight neighborhoods in St. Louis and one in East St. Louis, Ill., could benefit from a new program designed to spark economic development in impoverished areas.

The Sustainable Neighborhoods Small Business Loan and Gap Financing Program provides loans of up to \$10,000 to small start-up businesses and existing small businesses wanting to expand in the nine neighborhoods. Gap financing—up to \$7,500 and no more than 43 percent of the total financing package—is also available.

The Sustainable Neighborhoods Development Office, part of a grassroots effort to revitalize the St. Louis area, is offering the program with help from the Justine Petersen Housing & Reinvestment Corp., a local non-profit organization.

The loans have an average interest rate of 9.5 percent to 11 percent over a maximum of five years.

The nine neighborhoods are: Covenant Blu/Grand Center, Vandeventer; Walnut Park West, Walnut Park East, Mark Twain; Carr Square, St. Louis Place, Old North St. Louis, Columbus Square; Gravois Park, Benton Park West, Fox Park, McKinley Heights; Forest Park Southeast; Lemay; Jennings; Wellston; and Emerson Park in East St. Louis.

For information, call Sherri Flanigan-Vasquez, economic development director for Justine Petersen, at (314) 664-5051.

Seniors Find Help Interpreting Contracts from Louisville BBB

Scam artists trying to separate senior citizens from their hard-earned money will have a rougher go of it in Louisville, Ky. The Better Business Bureau there has developed Elder Contract Review Services, a program to assist senior citizens who are asked to sign a contract.

The program provides senior citizens with free legal advice before they sign a mortgage, home improvement contract and other similar documents. The program is meant to deter those who would financially exploit senior citizens. It will also provide a way to report scam artists to law enforcement agencies.

If confronted with a questionable contract, a senior citizen may request a legal interpretation through the Better Business Bureau hotline at (502) 588-0035. The call will then be logged and screened.

Situations requiring help from legal resources will be routed to the legal team, which will provide an explanation of the risks, content and implications surrounding the contract within 24 hours.

The legal professional will then inform the Better Business Bureau of any case of fraud or abuse, after which authorities will be notified.

Indiana Organizations Provide Homeownership Counseling

With an increasing number of homeowners in Indiana facing foreclosure, three organizations are working together to reverse the trend.

Indiana Legal Services, Momentive Credit Counseling Services (formerly Consumer Credit Counseling Services of Central Indiana) and the Indiana Housing Finance Authority (IHFA) are providing homeownership counseling to low-income Hoosiers in the form of a new program, the Post-Purchase Counseling Initiative.

The program is available to homeowners who have received IHFA down-payment assistance.

The organizations are working together to educate those eligible about fair housing laws, money management, homeownership responsibilities, predatory lending practices and energy-efficient products. The Post-Purchase Counseling Initiative also offers legal representation to preserve homeownership, decrease predatory lending practices, and economically

strengthen communities.

For additional information, visit IHFA's web site, www.in.gov/ihfa, or call toll-free in Indiana 1-800-872-0371.

Web Site Links Workers in Memphis to Benefits

Low-wage workers in Memphis, Tenn., can increase their annual income by an average of \$4,000 by using a new web site to learn about money-saving government and non-government benefits.

Seedco, a national community development intermediary, developed EarnBenefits Online as a one-stop shop to help eligible people connect to benefits such as food stamps, the Earned Income Tax Credit and Individual Development Accounts. The web address is www.earnbenefits.org.

Faith-based and community nonprofit organizations are working to spread the word about the program.

EarnBenefits is funded by the Ford Foundation, the City of Memphis, the Community Foundation of Greater Memphis, the Department of Health and Human Services, and other stakeholders.

Kentucky Rents—A new web site offers information on affordable rental housing in Kentucky. By visiting www.kyrents.org, individuals can look for rental housing using criteria such as size, price, location and move-in date. The site is a service of the Kentucky Housing Corp. For additional information about Kentucky Rents, contact Doug Wade at (502) 564-7630, ext. 258, or at dwade@kyhousing.org.

A Support Strategy for Small Businesses: Implications of Seedco's Technical Assistance Initiative in Lower Manhattan after Sept. 11, 2001—Lessons learned in the aftermath of the attack on the World Trade Center can be useful in helping small businesses in economically distressed communities, a report by Seedco states. The organization, a national community development operating intermediary, provided financial and technical support to small businesses in lower Manhattan devastated by the attack. The report is available online at www.seedco.org/publications.

Practice Guides for Planners, Policy-makers—The Center for Environmental Policy and Management at the University of Louisville has developed a series of practice guides for urban and regional planners and policy-makers. Written in easy-to-understand language, the guides provide practical information on economic development and environmental planning issues. The guides are available online at <http://cepm.louisville.edu/publications/publications.htm>.

Accounting and Financial Operations for Nonprofits in Rural Housing—This guidebook, published by the Housing Assistance Council, provides basic accounting and financial management information for small nonprofits. It is available online at www.ruralhome.org. (Click on "Recent Publications.") A print copy also is available for \$4.

Entrepreneurial 1-Stop Directory—Louisville entrepreneurs and small business owners can access vital resources at www.GreaterLouisville.com/1stop. The web site includes links to 42 government and business organizations in Louisville, South-

ern Indiana and the surrounding region. It was created by the Louisville Metro government and Greater Louisville, Inc., the city's chamber of commerce.

Development Report Card for States—CFED's 2004 report is available online at <http://drc.cfed.org>. The 18th annual report uses 68 measures to assess economic development in each state and assigns grades in three main areas: performance, business vitality and development capacity.

www.mymoney.gov—The Financial Literacy and Education Commission has developed a financial literacy web site to help consumers understand more about money. The commission is made up of representatives from the Federal Reserve Board and other government agencies. The web site contains links to resources on topics such as taxes, financial planning, home ownership and starting a small business. Consumers also can call a hotline, 1-888-696-6639, to order a free My Money tool kit.

BRIDGES

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

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

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MAY

4-6

Loan Fund Management Training—Memphis, Tenn.

Sponsor: National Association of Development Organizations (NADO) Research Foundation
(202) 624-8467
www.nado.org/meetings/index.html

19

Investments in Progress in the Urban Core of St. Louis and St. Louis Urban Marketplace—St. Louis

Sponsor: Urban Land Institute
<http://stlouis.uli.org/programs.html>

23-25

Advancing Regional Equity and Smart Growth: The Second National Summit—Philadelphia

Sponsor: Funders' Network for Smart Growth and Livable Communities
www.fundersnetwork.org (Click on "Smart Growth Calendar.")

JUNE

1-2

MEDC Spring Conference—Lake Ozark, Mo.

Sponsor: Missouri Economic Development Council
www.showme.org

2-3

Governor's Conference on Business Development—Lake Ozark, Mo.

Sponsor: Missouri Economic Development Council
www.showme.org

12-14

Rising Together: Summit on the Rural South—Point Clear, Ala.

Sponsor: Southern Growth Policies Board
www.southern.org

JUNE

16-17

National Value-Added Ag Conference—Indianapolis

Co-chaired by the Indiana Cooperative Development Center and the Purdue University Extension New Ventures Team; managed by the Agricultural Innovation and Commercialization Center
(765) 496-3099
e-mail: jane1@purdue.edu

JULY

June 27-July 2

Emerging Latino Communities:

Strengthening America

Sponsor: League of United Latin American Citizens
www.lulac.org

Fed Seeks Comments on CRA Revisions

The public is invited to comment on proposed revisions to the Community Reinvestment Act (CRA). Enacted in 1977, the CRA encourages depository institutions to help meet the credit needs of the communities they serve, including low- and moderate-income neighborhoods.

The revisions are intended to reduce regulatory burden on community banks and make CRA evaluations more effective. Comments are due by May 10.

The Board's notice of proposed rulemaking is identical to proposals approved by the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corp.

The proposal would:

- exempt banks with assets between \$250 million and \$1 billion, referred to as "intermediate small banks," from the data-reporting obligations currently required for

banks with assets larger than \$250 million.

- subject intermediate small banks to a two-part test on retail lending and community development instead of the current three-part test on lending, investment and service. (The community development test would provide greater flexibility to intermediate small banks than under the large bank tests applicable to them currently, by enabling them to allocate their resources for CRA purposes among community development loans, investments and services based on the needs of their community. For intermediate small banks, a satisfactory community development rating and a satisfactory retail lending rating would be necessary for an overall rating of "satisfactory.")
- revise the definition of community development for banks

of any size to include activities such as affordable housing in underserved rural areas and designated disaster areas.

- clarify when illegal lending practices—for example, by a bank's affiliate—might reduce the bank's CRA rating.

The proposal addresses concerns expressed by the Board in 2004 when it withdrew a proposal to raise the small-bank threshold to \$500 million. The Board expressed concern that the proposal was not certain to yield significant cost savings for banks, but might reduce community development capital in some rural communities. The current proposal would deliver greater cost savings while maintaining scrutiny of banks' community development records, though on a more flexible basis.

To submit comments to the Federal Reserve Board on the proposed revisions, identified by

Docket No. R-1225, interested persons can use any of the following methods:

- visit www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm and follow the instructions;
- visit www.regulations.gov and follow the instructions;
- send an e-mail to regs.comments@federalreserve.gov and include the docket number in the subject line of the message;
- send a FAX to (202) 452-3819 or (202) 452-3102; or
- mail comments to: Jennifer J. Johnson, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, NW, Washington, D.C. 20551



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