LINKING LENDERS AND COMMUNITIES

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Reverse Mortgages—the Next Hot Spot?

By Heidi Kaplan
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A reverse mortgage is a special type of home loan that allows eligible homeowners to convert a portion of their home's equity into cash. Despite recent troubles in the national mortgage market, reverse mortgages are growing at a rapid rate. Expansion of this hot spot in mortgage lending is expected to continue with increasingly flexible products, new sources of capital and a growing supply of potential borrowers. As the reverse mortgage market develops, it is important that potential borrowers are educated about this complex product to protect them from taking out unsuitable loans.

Reverse mortgages are characterized by the payment flow: Rather than making mortgage payments, the borrower receives cash from the lender. A reverse mortgage enables senior citizens to borrow against their home equity to create a tax-free source of income while they continue living in their home. Borrowers have no monthly repayment obligation until the home is no longer their primary residence.

According to the National Council on Aging, the development of the reverse mortgage is an important tool for seniors intending to live at home as they grow older, also known as "aging in place." These loans can provide seniors with vital income for home maintenance, taxes and health care. Some older adults use reverse mortgages for indulgences such as a second car, family gifts or lavish vacations.

The American Association for Retired Persons also supports reverse mortgages as a valid financial option, but urges borrowers to carefully consider whether the reverse mortgage is the correct product to meet their needs. To that end, borrowers should determine whether there are less costly options to access

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Reverse Mortgages

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needed cash, make a long-term plan for managing assets, and develop a clear understanding of the reverse mortgage product.

The Reverse Mortgage Explained

The reverse mortgage market is dominated by the Home Equity Conversion Mortgage (HECM), a product administered by the Department of Housing and Urban Development (HUD) and insured by HUD's Federal Housing Administration (FHA). HECM loans are originated by private lenders and purchased by Fannie Mae. With 90 percent of the reverse mortgage share, HECM has led this market since becoming active in 1989. In 1995, Fannie Mae introduced the initial HECM competitor with a proprietary product known as the Home Keeper Mortgage.

HECM and Home Keeper share characteristics that have defined the reverse mortgage market to date. Both products require borrowers to be at least 62 years old and have a substantial amount of equity in their principal residence. Each product uses a formula to determine the maximum amount of principal a homeowner can borrow. Neither product supports "jumbo loans," loans that exceed $417,000.

Borrowers can draw down payments in monthly installments, lump sums, lines of credit or a combination of these options.

HECM and Home Keeper are adjustable rate mortgages. Fees for these products include closing costs, a monthly servicing fee and, for HECM, an insurance fee. For both products, the loan principal increases with each payment, as interest and other charges accrued are rolled into the total funds advanced to the borrower.

Borrowers are not required to repay a reverse mortgage until a "maturity" event, namely the death of the borrower, sale of the property or violation of the mortgage agreement. Although borrowers are not required to make payments until they no longer inhabit the home, they are required to maintain the property, pay property taxes and pay the home insurance.

Borrowers and lenders are protected from payment risk with both HECM and Home Keeper loans. HECM loans carry FHA insurance that ensures that the borrowers will receive all payments due and the lender will receive full repayment of the loan balance. Fannie Mae guarantees Home Keeper loans.

Despite the dominance of HECM, proprietary products have been entering the reverse mortgage market. In 1999, Financial Freedom Senior Funding Corp., a subsidiary of IndyMac Bank of F.S.B, introduced the first private-sector reverse mortgage, known as the Cash Account.

The onset of new products is bringing more consumer options, including lower age requirements; greater principal amounts, including jumbo reverse mortgages; more flexible rate structures, including fixed rates; and lower fees. However, the majority of new products do not include mortgage insurance.

Growth in the Market

The introduction of reverse mortgages was marked by a period of very slow growth from 1990 to 2002, followed by exponential growth in recent years. Reverse mortgages represent only 1 percent of the overall mortgage-lending market, but these loans are expected to expand by as much as tenfold in the next 20 years. According to HUD, since 1990, senior citizens have taken out more than 308,000 HECMs, which represent nearly 90 percent of the reverse mortgage market. And, between 2000 and 2006 alone, there has been a tenfold increase in the number of HECMs.

More recently, bigger players in the mortgage market have gained interest in reverse mortgages. As a result, the latest growth in the reverse mortgage market has occurred across products, with new proprietary products slowly pilfering market share from the established HECM market. Overall, approximately 90,000 reverse mortgages, totaling $10 billion in loans, were originated in 2006, doubling the number from 2005.

Interest in reverse mortgages continues to grow by both lenders and consumers. As noted, the reverse mortgage can enable older adults to "age in place" on a fixed income. As the industry grows, consumer interest will potentially be driven by the increase in product options, including jumbo loans, fixed rates and more flexible eligibility options. Furthermore, the growing number of reverse mortgage lenders has brought increased competition to the industry, which is resulting in lower pricing and additional product innovation.

Consumer growth in the reverse mortgage market is expected to continue rapidly due to national demographic changes. Today, there is already an estimated $4.3 trillion in home equity held by Americans age 62 and over. As baby boomers quickly become age-eligible, this number will increase dramatically.

Lenders' interest in the reverse mortgage market also is increasing as additional capital becomes available from the development of a secondary market. An established secondary market for reverse mortgages would provide increased liquidity and could broaden the lender distribution channels and expand the investor base. Securitizing these products is complicated, but the market is slowly adopting techniques to do so.

In 2006, the Lehman Brothers issued the first HECM-backed securities to investors. Later that same year, Ginnie Mae announced that the organization

is in the process of creating a HECM securitization program. With its new program, Ginnie Mae intends to deepen the availability of HECM lending, create a broader secondary market for HECM loans, reduce the costs to borrowers and broaden options available to lenders and homeowners. Private investors are anticipated to be players in the reverse mortgage securitization market in the near future.

Consumer Protection

Reverse mortgages are a new and complicated financial product that are being offered at an increasing rate to the nation's seniors. With a growing number of products offering a variety of rate structures and features, it is increasingly difficult for borrowers to determine which reverse mortgage, if any, is a suitable financial option. Furthermore, most people lack familiarity with the reverse mortgage market, leaving eligible borrowers exposed to loans that they might not understand or that might not be appropriate for their needs.

Accordingly, it is critical that potential borrowers of reverse mortgages get adequate information and, preferably, counseling. To take out a HECM or a Home Keeper loan, borrowers are required to complete HUD-certified counseling. However, with private products that do not require counseling, consumers are increasingly left on their own to determine product suitability.

Government and industry efforts to increase quality counseling options have faced some challenges.

First, the quality of the reverse mortgage counseling available appears to vary greatly. HUD-certified counselors and their counterparts face different standards for counseling. HUD-approved agencies are, at a minimum, required to focus on product suitability for the borrower and the possible alternatives. But even within this certified circle, there is still a great deal of variety, as counseling may be offered by video, telephone or in person, and sessions may range from 10 minutes to two hours.

Second, counseling has been a troublesome issue from time to time due to a lack of available counselors in some locations, particularly those areas with an increased volume of reverse mortgages. Currently, the need to train counselors who specialize in reverse mortgages is competing with the national surge in training for foreclosure counseling.

Third, anecdotal evidence suggests that there is an increase in predatory lending practices around reverse mortgages. As a result, counselors must be even more equipped to educate borrowers regarding mass marketing for high-cost products, sales pressures and general financial planning.

One practice that has raised particular concern is a tactic to advise reverse mortgage borrowers to bundle their loan with a second financial product, such as an annuity or insurance. Because of the high cost of reverse mortgages, using this product to purchase annuities or insurance is almost always financially unsound.

Despite the risks, reverse mortgages offer consumers an increasingly important option for accessing additional cash as they age. Sound information can inform borrowers whether a reverse mortgage is a suitable product for them.

Where To Find Information

A number of reputable organizations with information on reverse mortgages are available. The following web sites were used as sources for the accompanying article and are a good place to begin a reverse mortgage investigation.

American Association for Retired Persons
www.aarp.org/money/revmort

Fannie Mae
www.fanniemae.com/homebuyers/findamortgage/reverse/index.jhtml

Mortgage Bankers Association
www.mortgagebankers.org

National Council on Aging
www.ncoa.org/content.cfm?sectionID=321&detail=1795

National Reverse Mortgage Lenders Association
www.reversemortgage.org

Department of Housing and Urban Development
www.hud.gov/offices/hsg/sfh/hecm/hecmhome.cfm

Young Entrepreneurs
An Investment in Our Future

By Kathy Cowan
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Pay close attention to how to spell the name *Bentrail Milow.* It is a name you will see in the future.

This 16-year-old entrepreneur from Tunica, Miss., launched Milow's Custom Car Wash Service last fall and immediately landed his first customer: First Security Bank. The bank hired Bentrail to wash and detail its repossessed vehicles.

While it may be unusual for a 16-year-old to have his own business, there are thousands of young people in the United States like Bentrail who want to be their own boss. A recent survey by Harris Interactive, an Internet-based market research firm, polled 2,400 people between the ages of 8 and 21 about entrepreneurship. Forty percent said they wanted to start their own business.

That news is encouraging, considering the importance of entrepreneurship to the American economy. According to the Small Business Administration, from 1988 to 2004, businesses with fewer than 20 employees accounted for 90 percent of all U.S. firms and created more than 97 percent of all new jobs. By 2004, these businesses employed 21 million workers. The statistics confirm the value of nurturing a spirit of entrepreneurship among the country's youth. But how does a young person get started?

Bentrail Milow washes a repossessed vehicle at First Security Bank in Tunica, Miss. Bentrail, 16, is owner of Milow's Custom Car Wash.

Bentrail did not "go it alone" when he went into business. He had help from alt.Youth, an entrepreneurship program for young people. Bentrail was among the first graduates of the program, which was conceived by alt.Consulting, a nonprofit management consulting firm based in Memphis, Tenn.

Kerry Temple, vice president of First Security Bank, attended the graduation ceremony and says he was so impressed with Bentrail and his presentation of his business plan that he hired him on the spot to clean the bank's repossessed vehicles that are offered for resale.

At the graduation, Temple says, Bentrail was well-dressed, well-spoken, maintained eye contact and simply wowed the audience—all skills taught by the alt.Youth program.

When First Security Bank repossesses a vehicle, Temple alerts Bentrail so he can schedule the job. However, nothing is done to the vehicle before a 10-day redemption period expires.

"Bentrail currently comes on Monday and Wednesdays, but it's his business," Temple says. "He calls the shots. He knows when we need the job completed, and we trust him to complete the job." After seeing the quality of Bentrail's work on the bank's vehicles, some bank employees have become his customers.

Alt.Consulting did not have to sell James Dunn, executive director of the Tunica County Community Development Coalition, on its idea for the youth entrepreneurship program. After working with alt.Consulting to provide services to small businesses in Tunica, it was Dunn's vision to implement alt.Youth.

Dunn says he wants young people to know they do not always have to work for somebody—they can be self-employed.

Tunica is a thriving community with lots of opportunities, Dunn says.

"As the community grows, I am interested in seeing more minorities start businesses in order to share in the rewards of the community's growth," he says. "The program offers the

skills kids need to know so that they can plan as early as possible and know how to manage their finances."

Dunn approached Billy Willis, director of the Tunica County Recreation Commission, about the program. Willis decided to offer it to teens who had successfully completed the city's summer job-training program.

Alt.Youth goes beyond training young people to start and manage a business. The program actually helps them launch a business. There are three levels of training.

Level 1 is an introduction to entrepreneurship and basic business training, money management and self assessment. Speakers from the business community share their experiences with the young entrepreneurs. Participants look at their strengths and weaknesses. At the completion of Level 1, participants should have an idea about the type of business they want to start, an idea they can work on immediately and a sky's-the-limit idea.

Level 2 focuses on the feasibility of the young entrepreneur's idea and on creating a business plan. Participants receive one-on-one coaching through each step of the feasibility study. They analyze the available market, startup and monthly operating expenses, earning potential and necessary management skills. At the end of Level 2, participants use the study results to assess the feasibility of starting their businesses, review lessons learned and make a decision to launch or not.

After completion of levels 1 and 2, which last a total of 12 weeks, there is a graduation ceremony where each participant presents his or her business plan to the audience.

In Level 3, all the young entrepreneurs receive up to 40 hours of one-on-one assistance as they start their business and 20 hours of additional coaching after the business is launched. Parents receive training on the tax implications of the new business. In addition, each business owner can apply for an equity investment in the business.

The first session of the alt.Youth program ran from September to November of 2007. Twice a week from 3:30 p.m. to 6:30 p.m., Mark Hudson of the Tunica County Community Development Coalition and Cynthia Norwood and Vonesha Mitchell, both of alt.Consulting, served as facilitators for the program.

On the first day of class, there were 16 participants. At the end of Level 1, there were 10 participants. By the end of Level 2, there were only five to graduate. At the graduation, the participants presented business plans for a candy shop, a baby-sitting service, a cleaning company, a hair braiding salon and, of course, a car wash service. Four of the five graduates decided to launch their businesses. And who was the first? Bentrail Milow.

The second session of the alt.Youth program started Jan. 7, 2008, with 12 aspiring entrepreneurs who had a variety of ideas for businesses. Barbara Young wants to design shoes—tennis shoes, flip-flops, boots—all kinds of shoes. Demaris Black plans to start a business designing rims and tires for cars. And Sherica Conway's idea is for a nail shop/restaurant. Sounds like an odd combination? Maybe so, but before you judge, you might want to read her business plan.

For information about the alt.Youth program, call Vonesha Mitchell at 901-312-9796.

"It is gratifying to see that American youth aspire to not just take a job, but to make a job."

Dennis Cheek, vice president, education
Kauffman Foundation

Resources for Young Entrepreneurs

Ewing Marion Kauffman Foundation
www.kauffman.org/entrepreneurship.cfm

McKelvey Foundation
www.mckelveyfoundation.org/entrepreneurial

Mind Your Own Business
www.mindyourownbiz.org

SCORE Resources for Young Entrepreneurs
www.score.org/resources_young.html

SBA's Young Entrepreneurs
www.sba.gov/services/specialaudiences/youngentrepreneurs/index.html

National Federation of Independent Business Young Entrepreneur Foundation
www.nfib.com/page/YoungEntrepreneurFoundation

Youth About Business
www.youthaboutbusiness.org

Youth Venture
www.youthventure.org

It's Not Just a Number, It's *the* Number

What's in Your Credit File?

Consumers can request a free copy of their credit report from all three credit-reporting agencies on an annual basis at www.annualcreditreport.com. In addition, the numerical credit scores are available for a nominal fee.

People can also request a free report by calling 1-877-322-8228 and going through a verification process or by completing the online form and mailing it to the address provided on the web site.

Once the report is received, consumers should check to ensure all of the information is correct. If there are discrepancies, the consumer needs to write to the credit-reporting agency that provided the report and outline the inaccurate information. Credit-reporting agencies are required to verify the information and remove any information that is incorrect.

Some groups are more at risk when negative information appears in their credit scores. An error indicating a late payment will not have much impact on the overall score for someone with established credit and a long history of paying bills promptly. However, for those without established credit or who have had credit problems in the past, errors in the credit file have a greater impact and can be the tipping point that causes the person to pay a higher rate of interest.

For more information, visit:

- www.annualcreditreport.com
- www.myfico.com
- www.fool.com

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

What has the power to lower car insurance rates, rent an apartment and buy a cell phone? It's certainly not Superman or Wonder Woman. The answer is a number—but not just any number. It's *the* number: your credit score.

It's hard to believe that a number has so much effect on what you can buy and where you can work or live. So, why do credit scores have such influence? And who creates them, what information do they use, where does it come from and why?

At one time, mortgage bankers were the only lenders who looked at credit reports. In today's world, landlords, employers, government agencies, and insurance, utility and cell phone companies all use credit reports to determine the character and creditworthiness of potential customers, tenants and employees. Why? Because credit reports provide a quick snapshot of how people handle personal finances.

Studies have shown that those with high credit scores act more responsibly in their lives and are less likely to file claims than those with lower credit scores. (See the Insurance Information Institute's web site, www.iii.org.)

There is a lot of misunderstood information and mystery surrounding credit scores and the credit-scoring process. Even financially savvy consumers may not know what elements make up their credit scores or how data is compiled to create their scores.

Taking the Mystery Out of Credit Scoring

Fair Isaac Corp. (FICO), the developer of the credit-scoring system, defines a credit score as an automated statistical analysis of creditworthiness—a numerical profile to assess how debts are repaid, how much and to whom money is owed and how responsibly available credit is used. Some lenders refer to a credit score as a FICO score.

However, FICO is not the only credit-scoring system. Experian, TransUnion and Equifax, the credit reporting agencies, also use credit-scoring systems. All credit-scoring systems are similar and provide much of the same information. However, the file formats are not the same and the end reports have different appearances.

Lenders, utility companies, department stores, landlords and other players in the financial world electronically forward payment and liability information to the credit-reporting agencies. The agencies use an automated system to compile the data into individual consumer files and evaluate the file by dividing the data into categories for analysis.

The data normally include payment history, outstanding debt, length of credit history, newly established credit accounts, number of inquiries from creditors, and the types of credit used by the consumer. Because personal characteristics such as age, race, sex, education or ethnic background are not included in the analysis, credit-scoring systems are believed to remove any illegal bias from the analysis.

Once the analysis is complete, the system assigns a number, between 300 and 850. The number is the credit score and represents the risk factor of the borrower.

According to Fair Isaac's web site, www.myfico.com, 2 percent of the U.S. population's credit scores are in the lowest range (300-499) and 15 percent are in the highest range (800-850). Other scores are between 500 and 800, with the majority, 27 percent, falling in the 750-799 range. The median score is 723, meaning that half of scores are below and half are above 723 and the average credit score is 692.

The Bottom Line

Consumers with established credit histories, who pay bills in a timely manner and use credit responsibly, generally have higher scores. Those without established credit histories or who have liens, collections, foreclosure, bankruptcy or a history of paying their bills late will have lower scores.

Credit scores below 620 are in the high-risk range. Consumers with scores in that range will generally pay higher interest and insurance rates. In addition, they also may be denied credit or employment and may have problems renting a place to live.

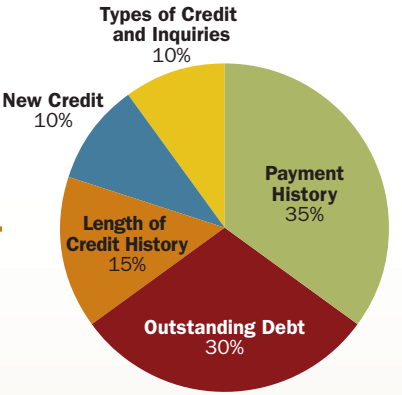
Consumers can improve low credit scores by changing the way they handle personal finances. Payment history and outstanding debt make up 65 percent of a credit score. By improving payment history, lowering the amount of outstanding revolving debt and limiting the amount of available credit, a consumer can significantly raise a credit score.

Those who have trouble making credit card or other loan payments should talk to their lenders. Most are willing to work with customers by changing billing dates, lowering the amount of available credit and, in some cases, changing the minimum amount payable each month.

Whether credit scoring is a good thing depends on who you talk to. Some say there is a strong case that it is unfair to low-income, historically underserved people and those without established credit. Others say it gives consumers greater access to credit by providing fair, fast and thorough information. Either way, in today's world, credit scoring is a consumer's link to getting credit. For that reason, it is crucial for borrowers to understand how it works.

Looking at the Components of FICO Scores

Credit scoring is easier to understand by evaluating the individual components that comprise each category and the emphasis given to each category when determining the score. Credit-scoring companies generally use these categories:



SOURCE: www.myfico.com

Payment History
35 percent

- account payment history for specific types of accounts, such as credit cards, retail accounts, installment loans and mortgage payments;
- presence of adverse public records, such as bankruptcies, liens and delinquencies;
- number of past-due items; and
- number of accounts paid as agreed.

Outstanding Debt
30 percent

- amount of money owed on each account;
- amount of money owed on specific types of accounts;
- number of accounts with a balance;
- proportion of balances on certain types of credit lines, such as revolving accounts; and
- proportion of installment loan amounts.

Length of Credit History
15 percent

- amount of time since accounts were opened;
- amount of time since specific types of accounts were opened, such as revolving accounts; and
- time since last activity on accounts.

New Credit
10 percent

- types and number of recently opened accounts;
- number of recent credit inquiries by certain lenders; and
- re-establishment of positive credit history following past payment problems.

Types of Credit Used and Inquiries
10 percent

- types of credit most frequently used;
- how many of each type of account is used; and
- how many recent inquiries have been made.

Alliance Helps Nonprofit Lenders Report Credit Histories

Many low- and moderate-income individuals understand the value of good credit and diligently pay their bills on time. However, if they have a mortgage or microloan through a nonprofit lender, their credit files may not reflect that diligence.

The reason is that major credit bureaus do not accept credit reports from low-volume lenders, and nonprofit lenders often fall into that category. Also, the high cost of creating and submitting electronic files to the credit bureaus can be prohibitive.

Credit Builders Alliance (CBA) has a solution for nontraditional financial institutions that want to help customers build credit reports.

A nonprofit organization itself, CBA understands the relationships that nonprofit lenders have with clients. As a result, CBA works hard to forge relationships with both lenders and credit-reporting agencies. Those relationships allowed them to create tools that help lenders collect, analyze and submit reliable, high-quality data on the unbanked and underbanked families they serve. This solution has earned CBA recognition as an innovator.

CBA was created through a partnership of industry leaders: Central Vermont Community Action, RUPRI Center for Rural Entrepreneurship and AEO. The Center for Financial Services provided seed funding.

For more information on CBA, contact them by e-mail at info@creditbuildersalliance.org, by telephone at 202-730-9390 or visit www.creditbuildersalliance.org.

Special Savings Accounts Provide Safety Net for Youth on Their Own

"The main thing they helped me with is money management," Fogelbach said of the program. "I worked seven days a week, and I would go and spend all my money. But right now I'm ahead. I have all my bills paid. I have money in the bank, and I still have some money to go out and have fun."

St. Louis Post-Dispatch (MO), Dec. 5, 2007, author Greg Jonsson

At age 21, how many young adults can say that? Especially those who have just left, or "aged-out" of, the foster care system and have no support system to fall back on.

The "they" in the above quote is the United Way of Greater St. Louis and the University of Missouri Extension. "The program" is a ground-breaking initiative called The Youth IDA Pilot Program. And Fogelbach is Mike Fogelbach, 21, who recently aged-out of the foster care system in St. Louis. He was featured in a *St. Louis Post-Dispatch* article about his experience in the program.

What is an IDA?

IDAs are individual development accounts that allow low- to moderate-income working people to participate in a matched-savings program. The savings then help them acquire assets such as education or down payments on housing. Participants are recommended by caseworkers and must complete 12 hours of financial education. At the end of the program, if participants have met their savings goal and taken part in budget and credit counseling, the savings is matched by a participating sponsor.

The concept of IDAs was developed by Washington University Professor Michael Sherraden, who says that welfare policy should be based on the concepts of saving, investment and accumulation of assets rather than the model of income, spending and consumption that was the norm into the early 1990s.

How the Youth IDA Project Began

"Basically the local PBS affiliate, KETC Channel 9, came to us one day and wanted to do more to help the foster children in our region," says Cassandra Kaufman, a community investment director with the United Way of Greater St. Louis. "A piece had aired on their station about foster kids and how tough it could be for them."

The issue at hand was to create a program to help youth leaving foster care make a successful transition to independent living. After learning about the IDA program for adults and the work United Way had been doing with it, professionals at KETC-TV Channel 9 believed there was a possibility to rework this program for youth. And in 2005, the Youth IDA pilot project was born.

In its role as convener, United Way brought several agency partners and the University of Missouri Extension to the table quickly to discuss an effective way to launch the program. The creators knew working with youth in the foster care system would not be the same as working with adults or even other youth who grew up with a family support system.

"Exponentially, the youth in foster care have a much tougher time than other kids going out on their own," Kaufman says. "These kids have many more stressors in life—they're often younger, many are parenting children, many need a place to live, need transportation, need education, they haven't had the resources to learn how to live on their own, low job skills, no money and they simply do not have the family support to fall back on if or when anything goes wrong."

Many statistics exist to support Kaufman's statements. Foster care studies have shown that four years after leaving

foster care, 62 percent have not maintained employment for one year, 46 percent lack a high school diploma, 42 percent have become parents and 38 percent have been diagnosed with some sort of emotional problem.

"We began working with four local agencies that worked with foster kids, and they told us what barriers existed for these kids once they aged-out," Kaufman says. "They were: needing a place to live, saving money for that and help with the transition into living on their own. We came up with a curriculum we felt would really work for these kids. We learned that their age and circumstances made these kids more likely to be focused on the now, and not the future. And we knew we had to try and help them understand the importance of saving.

"We were lucky enough to find the Jim Casey Foundation's 'Building Assets for Your Future Financial Literacy' curriculum that they provide free-of-charge and we used it for a base.

It's been educational to see these kids go through the classes, Kaufman says. "We've seen some of the kids take the test to opt out of the class, and not do well—and you can see the light bulb go off in their heads. They thought they knew the information and didn't. It's also been great to see the kids helping each other in the classes. Things we take for granted, balancing a checkbook for example, is something they've never learned to do. We try to make the classes as interactive as possible."

Who Are These Youth and What Happened Next?

Each organization involved played a critical role in developing this project.

KETC-Channel 9 served as the initial convener, bringing United Way and agencies that serve foster youth to the table around the aging-out issue. The University of Missouri Extension took the Jim Casey Foundation curriculum and tailored it specifically for this project. They then had a total of three professionals teach the classes. United Way gathered the organizations together, provided the matching funds and provided program oversight.

The four agencies—Covenant House Missouri, Epworth Children's Home, Family Resource Center and Youth in Need—determined which of the teens aging out of foster care would benefit most from the proposed program and got them involved. Each agency identified 10 youth to take part in the pilot program. The only criteria given to the agencies was that the youth needed to be working at least part time and have a source of earned income to save.

The youth involved came from one of three situations:

- those receiving case management and living in a foster home or residential setting;
- those living in a residential setting and participating in transitional or independent living programs; or
- those who had left the system, became homeless but somehow found themselves back in the social service system.

The majority of those chosen to participate were living in transitional or independent living programs.

In July 2006, everything was in place to start. The classes for the program were set up to begin that fall. The 40 hand-selected young men and women met one day for the kickoff event at KETC to learn about the Youth IDA project. During that day, they learned that they would need to take 12 hours of classes on financial literacy, housing and nutrition. They also learned that throughout the 18-month project they would need to save $1,000. If they did so, that savings would be matched 2:1. Each youth would then use his $3,000 or part thereof to make an asset purchase.

In October 2006, 34 of the original 40 began the Youth IDA pilot program by taking classes and opening savings accounts.

"Most of these kids did not have any kind of savings account," Kaufman says. "Another great partner in this project has been US Bank. They were behind this from the beginning and hold all of the savings accounts for these kids."

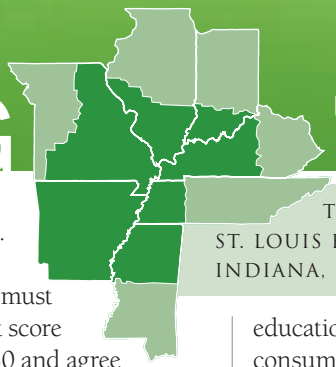
The classes were given in two-hour segments and held periodically through the end of 2006 and most of 2007. In order for the participants to receive their matched savings or to make a matched withdrawal, the educational classes had to be fulfilled.

"Since this began, seven of the youth have reached their $1,000 savings goal, and four have completed the program and purchased their asset," Kaufman says. "Three of them bought cars and one of them used the savings toward first and last month's rent and a security deposit for an apartment. Through January, 2008 these 34 youth have saved a total of $14,700.

"To watch these kids understand and realize they can make it and that there's help to do so—it's been an amazing process to be involved with. I look forward to this program expanding to serve more youth aging out of the foster care system in the future," Kaufman says.

The 18-month pilot period ends this spring.

SPANNING THE REGION



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

New Initiative Offers $200 Million To Refinance Mortgages in Illinois

Illinois homeowners facing foreclosure have a new ally in the fight to keep their homes. The Illinois Homeowner Assistance Initiative offers help through two components: The Illinois Statewide Foreclosure Prevention Network and the Homeowner Assistance Pool.

The foreclosure prevention network provides counseling to homeowners on the verge of foreclosure about how to negotiate with their lenders. The network also reports fraud and deceptive practices.

The Homeowner Assistance Pool is a $200 million effort funded by four mortgage lenders—Chicago Bancorp, Guaranteed Rate, Perl Mortgage and Professional Mortgage Partners. It will be used to finance new, fixed-rate mortgages for homeowners facing adjustments to adjustable rate mortgages or for those who cannot afford their fixed-rate mortgages due to a high interest rate.

The new loans will be 30-year, fixed-rate mortgages with interest rates between 5.75 percent and 8 percent. The maximum loan will be $417,000, covering up to 100 percent of the value of the home. In addition, participating lenders agreed to limit their fees to $1,000 or less.

The program is available to all Illinois homeowners and does not have a maximum income requirement. However, participants must have a credit score of at least 580 and agree to attend mortgage counseling through the Illinois Statewide Foreclosure Prevention Network.

Funded by a grant from the Illinois Housing Development Agency and with support from NeighborWorks America, The Illinois Statewide Foreclosure Prevention Network is a coalition of 15 nonprofit counseling agencies.

In addition, Illinois consumers who call the national toll-free hotline, 1-888-995-HOPE (1-888-995-4673), will receive counseling over the phone and, if necessary, a referral to a counseling agency for further assistance.

For more information, visit www.illinois.gov or www.ihda.org.

Arkansas Coalition Offers DVD on Payday Lending

A DVD on the perils of payday loans is available from the Arkansans Against Abusive Payday Lending (AAAPL) coalition.

The DVD was completed in cooperation with the Center for Responsible Lending and highlights the stories of borrowers whose financial situations were further exacerbated by their patronage of payday lenders. The 10-minute video is a quick educational resource to inform consumers about the costs associated with taking out a payday loan. AAAPL is making copies of the video available to organizations that wish to use it for consumer education purposes.

To order a copy, contact Joy Buffalo, chair of the AAAPL Education and Alternatives Committee, U of A Cooperative Extension Service, 2901 W. Roosevelt Road, Little Rock, AR 72204 or at 501-340-6650 or jbuffalo@uaex.edu. To preview the video, visit www.stoppaydaypredators.org.

Memphis School System Starts Student-Run Bank

High school students at Trezevant Career and Technology Center, a Memphis city school, are learning money management and employment skills in a unique program that started Sept. 25, 2007. That's when the school opened Trezevant Bank, the first student-run bank in Tennessee.

Deposits on opening day exceeded $900. As of Jan. 7, 2008, the bank had 92 customers and assets totaling $2,424. Customers are mostly students at the school, although services are available to the community at large. Due to certain regulations, the bank offers only non-interest-bearing savings accounts.

The bank is open Tuesdays and Thursdays. Funds are deposited each day at a local First Tennessee Bank. Students keep records of all transactions.

The bank's employees are 10th-, 11th- and 12th-grade students enrolled in the Banking and Finance Academy at Trezevant. Students learn how a bank operates by rotating every six weeks through various positions at the bank, including application clerk, greeter, teller, auditor, security guard and bank manager. Students also learn job readiness skills, such as etiquette, business protocol, professionalism and money management.

Trezevant Bank came about after Principal Milton A. Burchfield II observed a student-managed bank in New York City. He worked for a number of years to replicate the bank in Memphis. The venture received help from First Tennessee Bank, Wachovia Bank and the Memphis Area Teachers Credit Union. The bank's advisory board consists of representatives of those financial institutions and other community partners, including the City of Memphis Division of Career Services and the Federal Reserve Bank of St. Louis, Memphis Branch.

Future plans for the bank include partnering with local

elementary and high schools to encourage saving, securing grants to allow the bank to pay interest on savings accounts, partnering with churches and other community groups, and becoming a member of the National Association of Banks.

Indiana Network Reaches Out to Those Facing Foreclosure

A new statewide initiative in Indiana is designed to help homeowners avoid foreclosure. The Indiana Foreclosure Prevention Network, a public-private partnership, distributes information on how to avoid foreclosure through a media campaign, a toll-free helpline and a web site.

The helpline, 1-877-GET-HOPE (1-877-438-4673), is available in Indiana from 8 a.m. to 8 p.m. seven days a week. The helpline provides free, confidential financial counseling over the phone for anyone who may be at risk of foreclosure.

The web site features an online education assessment that helps homeowners understand their options. Visit www.877GetHope.org for more information.

The media campaign includes billboards, newspaper advertising and radio commercials.

Exploring Innovation

Fed Celebrates Innovation in Community Development

Events in several states will mark "Exploring Innovation in Community Development Week," April 14 to 18, sponsored by the Federal Reserve Bank of St. Louis.

The Bank's Community Affairs department has planned ceremonial events and informational meetings to recognize the important role of community development in American life. It also has invited organizations to organize events in their areas.

The following celebrations are sponsored by the Bank and its branches in Little Rock, Louisville and Memphis. Anyone interested in attending should visit **www.exploringinnovation.org**, the St. Louis Fed's new web site devoted to innovative ideas in community development. A calendar listing of all events, including those sponsored by other organizations, is available on the web site.

If you have questions, call the Bank's community development staff member in your area: St. Louis, 314-444-8891; Little Rock, 501-324-8268; Louisville, 502-568-9216; or Memphis, 901-579-4103.

ST. LOUIS, APRIL 14
"Pursuing A Vision of Excellence"

This event at The Old Rock House in the historic Soulard neighborhood will feature special guests, governmental proclamations, a brief program, tours of The Art of Living Building and food and entertainment.

MT. VERNON, ILL., APRIL 18
"Innovative Solutions for Rural Communities"

A banker and community roundtable will focus on forging partnerships for better communities. There will be a panel discussion on how CDCs and CDFIs can help to improve rural communities. Location: Cedarhurst Center for the Arts.

LITTLE ROCK, APRIL 14
"Innovation in the Natural State"

Communities and organizations from across the state will be honored for their innovative approaches to community and economic development in a celebration at the Peabody Hotel.

LITTLE ROCK, APRIL 16
"Creating a Road Map for Innovation"

Satish Nambisan, author of *The Global Brain: Your Road Map for Innovating Faster and Smarter in a Networked World,* will explore the critical role of innovation in the rapidly evolving marketplace. A panel discussion, book signing and reception will follow. Location: Peabody Hotel.

LOUISVILLE, APRIL 17
"Closing the Wealth Divide ... New Ways to Help the Underserved Build Credit and Assets"

John Hope Bryant of Operation HOPE, a nonprofit social investment banking organization, will deliver the keynote address during a luncheon at the Galt House Hotel. Afternoon sessions will focus on innovations in credit building.

MEMPHIS, APRIL 18
"The United Way Venture Fund: Planting the Seeds of Innovation"

This luncheon at the Memphis Marriott East will recognize the United Way of the Mid-South's Avron B. Fogelman Venture Fund and the contributions of the fund's grant recipients. (By invitation only.)

CLEVELAND, MISS., APRIL 14
"Rural Community Development Forum: Developing Innovative Strategies to Address Unmet Community Needs"

A reception and forum will focus on tourism and early childhood education as development strategies for the Lower Mississippi Delta. Location: Delta State University.

Bill Poole Retires from St. Louis Fed

Bill Poole, president of the Federal Reserve Bank of St. Louis, retired March 31, 2008, after serving 10 years as Bank president. A search is under way for his successor.

As president, Poole directed the Bank's activities at its headquarters in St. Louis and its three branches in Little Rock, Louisville and Memphis. In addition, he represented the Bank on the Federal Open Market Committee, the Federal Reserve's chief monetary policymaking body.

In recent years, Poole spoke about the economic impact of community development and about the Bank's role in gathering and disseminating information on the topic to its constituents.

"It's important to learn what some communities are doing well in order for us to bring the knowledge back to our own districts," he said at a 2007 conference convened by the Bank's Community Affairs Office.

The Federal Reserve Bank of St. Louis, one of 12 regional Reserve banks, serves the Eighth Federal Reserve District. The regional Reserve banks, along with the Board of Governors in Washington, D.C., constitute the Federal Reserve System.

Before joining the Federal Reserve Bank of St. Louis, Poole was the Herbert H. Goldberger Professor of Economics at Brown University in Providence, R.I. He joined the faculty at Brown in 1974 and twice served as chairman of the economics department. He served on the economics faculty at The Johns Hopkins University from 1963 to 1969. He was inducted into The Johns Hopkins Society of Scholars in May 2005.

Poole

CALENDAR

APRIL

14-18

Exploring Innovation Week
Sponsor: Federal Reserve Bank of St. Louis
www.exploringinnovation.org or see Page 11 of this publication

29-May 1

Overarching Strategies: Catalyzing Local, State and Federal Financing Sources—St. Louis
Sponsor: Council of Development Finance Agencies (CDFA)
www.cdfa.net

MAY

5-7

Roadmap to Revitalization—Detroit
Sponsor: Brownfields 2008
www.brownfields2008.org

5-9

NeighborWorks Training Institute—Cincinnati
Sponsor: NeighborWorks
http://nw.org/network/training/training.asp

30

Homebuyer Clubs Webinar Training—Indianapolis
Sponsor: Indiana Association for Community Economic Development
www.iaced.org

JUNE

8-10

Underbanked Financial Services Forum—Miami. Fla.
Sponsor: Center for Financial Services Innovation
www.cfsinnovation.com

12

Foreclosure Counseling Training
Sponsor: Indiana Association for Community Economic Development
www.iaced.org

5-6

Payments Fraud: Perception Versus Reality—Chicago
Sponsor: Federal Reserve Bank of Chicago
www.chicagofed.org/news_and_conferences/news/index.cfm

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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