LINKING LENDERS AND COMMUNITIES

SPRING 2009

PUBLISHED QUARTERLY BY THE COMMUNITY DEVELOPMENT DEPARTMENT OF THE FEDERAL RESERVE BANK OF ST. LOUIS

BRIDGES

WWW.STLOUISFED.ORG

INDEX

4 Growing Small Businesses in Rural Communities

6 The Rising Cost of College

9 Exploring Innovation

10 Spanning the Region

Child Development Accounts

Innovative Plans Build Savings For Youth, Starting at Birth

By Julia Stevens

In a global economy, people require ongoing investment to remain competitive and successful. Research suggests that having savings and other assets (owning a house, for example) is as important for people's long-term development as income. Therefore, programs that promote saving and accumulation of assets may be important to help people become and remain economically viable.

Children are in particular need of investment as they grow and develop into young adults. But statistics suggest that we are not investing sufficiently or effectively in our children. As of 2008, the Children's Defense Fund (CDF) notes that "epidemic numbers of children" are at risk in the United States, with 5.8 million living in extreme poverty, teen pregnancy rates on the rise and educational achievement scores falling. In fact, among industrialized nations, the United States ranks 21st in science scores, 25th in math scores and last in three categories: child poverty, the gap between rich and poor, and adolescent birth rates.

Child development accounts (CDAs), first proposed in 1991 by Michael Sherraden, director of the Center for Social Development at Washington University in St. Louis, offer an innovative approach to making long-term investments in America's children.

What are CDAs?

CDAs are savings or investment accounts that benefit a child's future. Often opened at birth, CDAs allow parents and children to accumulate savings over approximately 18 years. With regular saving, often supplemented by the government, a child will have a nest egg by the time he or she graduates from high school. This nest egg can be used by the child to successfully launch himself or herself into early adulthood.

Although CDA programs differ in design and features, most share common characteristics.

With few exceptions, savings accumulated in CDAs can only be used for approved purposes. These commonly include post-secondary education, a down

continued on Page 2

Accounts

continued from Page 1

payment on a starter home, and seed capital to start a small business, among others.

As an incentive to save, most CDAs are "seeded" with an initial deposit of around $500 to $1,000 and deposits made by children and their parents are matched, often at a 1:1 ratio up to a certain limit.

Recognizing the difficulty of saving for low-income households, the accounts of lower-income children receive additional financial assistance. This assistance may take the form of a larger initial deposit, a higher match or a grant.

Ideally, CDAs are universal —available to all—in the same way that public education is universal. The government usually provides the initial deposit and match funds. Although these funds are usually offered as a grant or subsidy, a recent proposal in the United States would make the initial deposit and match funds a long-term, low-interest loan.

Why CDAs?

CDAs are particularly attractive for long-term investment in a nation's children (and long-term investment in a nation's future competitiveness and viability) for several reasons.

Most CDA accounts are opened at birth, allowing savings to be accumulated over approximately 18 years. This long span of time means that regular deposits of small amounts can make a difference, thus making saving a realistic goal for families of low or modest income.

Having savings may improve outlook and expectations, and children are in the best position to capitalize on this improved outlook for the long term. Research shows that having savings that are specifically for college may increase a child's expectations of attending college and improve academic achievement.

Among lower-income families, CDAs may effectively interrupt the cycle of trans-generational poverty. Studies have shown that economic status is often passed from one generation to the next within a family. No matter the economic background of a family, a CDA provides a child the opportunity to obtain an education, buy a house or establish a small business—all opportunities that improve the child's chances of increasing their economic status over the long term.

CDAs around the World

Canada, Singapore and the United Kingdom have instituted national CDA policies. Although sharing the common theme of investment in children, the programs differ in design.[1]

Canada provides all children with a tax-deferred savings vehicle to encourage savings for post-secondary education. The first C$2,000 deposited every year by parents or children is eligible for a 20 percent match, with an additional match for low-income families. A grant program supplements the savings of middle- and low-income households, providing an initial grant of C$500 and an additional C$100 annually, in addition to the match. The funds accumulated in the account must be used for post-secondary education or the government funds must be returned.

Singapore provides a CDA account to all children from birth to age 6. Savings accumulated by age 6 are matched at a 1:1 ratio up to a cap of S$6,000 to S$18,000, depending on the child's birth order. (Because Singapore's program is meant to promote population growth as well as child development, larger financial incentives are available to the third and fourth children of a household.) The savings in the CDA account can be used for child care, education-related expenses and medical expenses. Unused funds can be transferred to a college savings account when the child turns 7 years old.

The United Kingdom provides all children with a tax-advantaged Child Trust Fund at birth seeded with an initial deposit of £250 (or £500 for lower-income children). An additional deposit of £250 (or £500 for lower-income children) is provided at age 7. Unlike Canada's and Singapore's programs, the U.K.'s program does not provide a savings match. Another difference is that the funds in the U.K. may be used for any purpose after the child reaches 18 years of age.

Toward a Federal CDA Policy in the United States

The Center for Social Development is leading an innovative experiment in Oklahoma. SEED for Oklahoma Kids (SEED OK) tests the impact of giving every child a CDA at birth for post-secondary education. The experiment is intended to be a model for a national CDA policy in the United States.

In 2007, approximately 2,700 newborns from across Oklahoma were randomly selected to participate in this research study. Of these newborns, 1,360 (the treatment group) received $1,000 in a special SEED OK account in the Oklahoma College Savings Plan, and another 1,360 (the control group) did not receive an account.

Through SEED OK, families in the treatment group can save for their children's future and may receive matching funds for their savings, depending on their household income. Both groups will be followed throughout the duration of the seven-year experiment to investigate the impact of CDAs on saving for college, family attitudes and behaviors, and outcomes for children.

SEED OK uses the Oklahoma College Savings Plan, a 529 College Savings Account, as the CDA's financial vehicle. Nicknamed for the applicable section of the federal tax code,

"529s" are state-sponsored plans that allow all individuals to save, regardless of income, for post-secondary education.

Although specifically created for college savings, aspects of 529's design—including centralized accounting, low deposit minimums and matching provisions—make them a promising, tax-advantaged savings tool that could be used to build a national CDA policy. In fact, the design of SEED OK is meant to be scalable—that is, a design that can be expanded in size from a state-level program to a federal program.

The groundwork for SEED OK was laid by a four-year national research initiative on CDAs, known as Saving for Education, Entrepreneurship and Downpayment (SEED).

The national SEED initiative includes 10 CDA programs at community-based organizations across the United States, totaling more than 1,000 accounts. The programs target children of various ages, including infants and children in preschool through high school. Research in the SEED initiative has included in-depth interviews with parents and youth, focus groups with parents, a survey of parents and monitoring of the SEED accounts.

Challenges and Opportunities

Preliminary findings from SEED and early experiences implementing SEED OK suggest some challenges.[2]

Most parents in the SEED initiative understand the importance of saving, and many of them save despite their limited incomes. Economic barriers, however, make it difficult for low-income parents to save; and, although they do save, they save at fairly low amounts.

Voluntary enrollment does not work. Despite attractive incentives, enrollment rates in SEED and SEED OK are low. Focus groups with parents who did not enroll their children in SEED suggest that distrust of financial institutions, embarrassment about lack of financial knowledge and discomfort sharing personal financial information discouraged enrollment. In SEED OK, it appears that paperwork necessary to open an account is also a barrier to enrollment. A system of universal CDAs with automatic enrollment would go far to addressing both of these barriers.

Policy Initiatives

There are currently five federal proposals for special savings accounts for children:[3]

America Saving for Personal Investment, Retirement, and Education (ASPIRE) Act: Every newborn would receive an account endowed with a one-time $500 contribution. Children in households earning below the national median income would be eligible for a supplemental contribution of up to $500.

Young Savers Accounts: These accounts would serve as Roth IRAs for children. Parents would be allowed to make deposits using their current IRA contribution limits.

Shown at a CDA Research and Policy Symposium last fall in St. Louis are, from left: Michael Sherraden, director of the Center for Social Development at Washington University; Jim Bullard, president of the Federal Reserve Bank of St. Louis; and Edward Lawlor, dean of the George Warren Brown School of Social Work at Washington University in St. Louis.

401Kids Accounts: Savings accounts would be opened in a child's name as early as birth, with up to $2,000 of after-tax contributions permitted per year. The funds could be used for education expenses, for a first-home purchase or could be rolled over into a Roth IRA for retirement.

Baby Bonds: Each child would receive a $500 bond at birth and at age 10. Funds could be used for college or vocational training, buying a first home and retirement savings. Families earning below $75,000 a year could direct their existing child tax credits into the accounts tax-free.

Portable Lifelong Universal Savings (PLUS) accounts: Granted to every newborn for retirement savings, each PLUS account would be endowed with a one-time $1,000 initial deposit. Contributions would continue as adults, with a mandatory 1 percent of each paycheck withheld pre-tax and automatically deposited into their account. (Workers could voluntarily contribute up to 10 percent). Employers would also be required to contribute at least 1 percent (and up to 10 percent) of earnings.

Julia Stevens is an editor with the Center for Social Development at Washington University in St. Louis.

ENDNOTES

1 Vernon Loke and Michael Sherraden, "Building assets from birth: A global comparison of Child Development Account policies," *International Journal of Social Work,* forthcoming.

2 Drawn from unpublished work by Deborah Page-Adams and Edward Scanlon of the University of Kansas School of Social Welfare.

3 Adapted from unpublished work by Reid Cramer and Ray Boshara of the New America Foundation.

Gardening on Main Street

Growing and Tending to Small Businesses in Rural Communities

By Jean Morisseau-Kuni

Growing a business has often been compared to tending a garden. In a garden, you need to have the right climate, along with the nutrients plants need to thrive and the proper amount of sun, water and fertilizer.

When "growing" small businesses, communities need to make sure they have the right mix of nutrients—or components—to support business growth and development. These include a trainable workforce, financial resources, business services, space, city infrastructure and business networks.

When a business "garden" has an imbalance in these components, its growth can be stifled. Unhappy business owners will relocate to a community that will help them flourish, and new business owners looking for a location will avoid the area altogether. A balanced business climate needs to have a diverse blend of businesses and business services that complement each other and work together. Businesses tend to thrive in communities where they have access to financial institutions and alternative funding sources, networks, educational institutions and city government.

The square around the Marion County Courthouse in Palmyra, Mo., was the site of several improvements in 2000 after a local community group got involved.

Assessing the Climate in a Business Garden

The Missouri Rural Entrepreneurship Initiative at the University of Missouri-Columbia's Rural Policy Research Institute found that growing a small business in a rural setting is vastly different from growing a small business in an urban setting. Rural communities often are missing components that are vital to business development and growth. They also found that, by measuring a community's strengths and weaknesses in relation to 10 components, they could assess whether the climate in the community was conducive to business growth.

The initiative team retained the Community Policy Analysis Center in Columbia, Mo., to develop a guidebook and refine a survey that rural communities could use to assess their small business climate. The result was *Growing Entrepreneurs from the Ground Up.* (See related story: "The Survey.") Although this survey was originally created as a self-assessment tool, some communities found that inviting an outside party into their community to conduct the survey was the best way to get to the heart of many issues.

One Town's Mission to Revitalize Main Street

Over the past 30 years, many rural communities watched as their "Main Street" changed from a retail hub to a vacant reminder of better days. Consumers who had once patronized Main Street shops now chose the convenience of nearby malls and supercenters over smaller establishments in the heart of town.

Starved for business, retail establishments closed, empty storefront windows displayed "For Rent" signs and downtown lost the magic it once held. The problems on Main Street were soon felt all over town as community leaders struggled to replace lost income from sales taxes that had dried up.

In Palmyra, a small rural community in northeast Missouri, changes on Main Street did not go unnoticed by local business owner Irene Meyers and a group of residents and fellow business people. They realized they needed to organize to reverse the drought that was hurting the downtown business community. Meyers began researching ways to rebuild and in 1996, with the help of Missouri's Department of Economic Development, the Palmyra Area Community Betterment (PACB) association was organized.

PACB's mission was to bring together resources that would

improve the quality of life and economic conditions in Palmyra. The hard work of rebuilding Main Street by attracting new business owners began.

The Missouri Community Assessment and Planning Process (MoCAPP) program helped by conducting an assessment of Palmyra and finding grant money for community improvement projects. In 2000, PACB efforts paid off when it launched a project that added new lights and park benches to the courthouse square. However, along with the success of the project came the realization that they needed to refocus and create a comprehensive revitalization and economic development plan that included engaging business owners.

While attending a regional workshop on community development, Meyers heard representatives from the Federal Reserve Bank of St. Louis talk about the *Growing Entrepreneurs from the Ground Up* survey. She realized that Palmyra could benefit from inviting the Fed to survey the town's business owners.

Palmyra's survey began in October of 2007 and, by December, PACB had a copy of the final report. Meyers invited the Fed to present its findings at the community's annual meeting.

More than 100 citizens attended the meeting to hear the findings from the Fed's survey and MoCAPP's updates to its assessment. After the reports, attendees were split into work groups to discuss how to approach the issues. Everyone had the opportunity to vote for the goals they wanted the community to pursue.

This collaborative effort created a list of 15 community development goals, with six coming from the *Growing Entrepreneurs from the Ground Up* report. Recommendations included hiring a professional planner/developer, redesigning curbs and sidewalks for safety and aesthetics, and establishing a downtown historic district.

PACB quickly found that fulfilling the goals was going to take a lot of work and money. The goal that received the most votes was to hire a professional planner/developer to focus on community and economic development. However, there was no city or PACB funding available for the position.

PACB members didn't let that stop them. Using a recommendation from the survey, they did some intensive research and developed an innovative initiative to raise money. Calling its initiative "The Community Investment Plan," PACB asked residents to pledge one dollar a week, or $52 dollars annually, to help Palmyra achieve its development goals.

To promote the fund-raising drive, PACB held a community meeting to outline the plan, the local newspaper ran a story about the meeting, and the plan and the results of the *Growing Entrepreneurs from the Ground Up* survey were posted on www.showmepalmyra.com, the town's web site. Money soon started coming in, but surprisingly, not just from residents. Some of the first pledges came from former residents who still care about the community.

Meyers feels good about the interest and changes in the climate on Main Street. The plan lets everyone feel they can get involved, she said. "When folks ask me how much money I think we can raise, I tell them as much as we need to make our goals realities. It's easy to say that we have a lot of work ahead of us, but now we have a plan," Meyers said.

PACB originally hoped to hire a community planner within a year, but the recent downturn in the economy has slowed their efforts. What it hasn't hurt is their enthusiasm for the task ahead of them.

"The *Growing Entrepreneurs* report is what gave us the push we needed. It re-energized our base and gave us food for thought and discussion. We'll be ready when the economy starts flowing again," Meyers said.

Loren Graham, Palmyra's mayor, also said he has been pleased with outcomes of the report.

"When citizens become interested in what's going on, and I'm able to fill board positions that have been vacant for a long time, I'd call that success," Graham said.

Jean Morisseau-Kuni is a community development specialist at the Federal Reserve Bank of St. Louis.

The Survey

The *Growing Entrepreneurs from the Ground Up* survey is a series of questions weighted on a scale of 1-7, with 1 being the lowest possible score and 7 the highest. The questions focus on characteristics that communities need to have a healthy business climate. In addition, a series of open-ended questions give business owners the opportunity to share their personal insights on community strengths, weaknesses and opportunities.

Once the survey is completed, communities are given the results and a list of actions they can take to make the most of their strengths and to address deficiencies in the small business environment. Resources and tools—such as web sites, books, seminars, programs and foundations—are included.

Communities can benefit from assessing their small business environment and finding ways to beef up the components that will help their "business garden" grow. The survey is not about hiring a consultant. It's about looking at strengths and weaknesses and organizing efforts to address community needs.

More information about the initiative and the survey is available from Missouri Rural Development Partners at www.mrdp.net or by calling Jean Morisseau-Kuni at 314-444-8646.

The Rising Cost of College

Student Loans Harder to Find in Tight Credit Market

By Rajeev Bhaskar and Yadav Gopalan

High school students contemplating going to college are confronted with a myriad of questions, including how much it will cost and how they will pay for it. Unfortunately, the cost of education keeps rising and the availability of credit, especially in this current economic environment, keeps dwindling. This article takes a closer look at various aspects of the financial needs of college-bound students, from what makes up the overall cost to what types of student loans are available. We also look at the rising cost of college and the impact of the credit crisis on student loans.

The Overall Cost of College

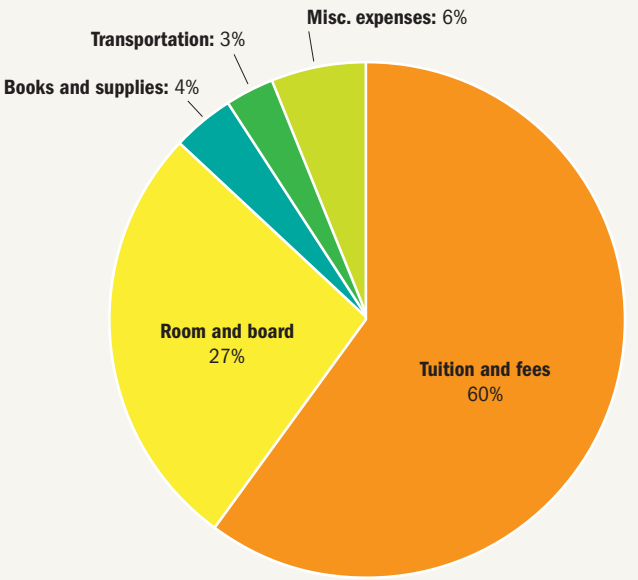
Going to college can be expensive. There's tuition and fees, but there's also room and board, books and supplies, transportation, and other miscellaneous expenses.

The cost breakdown for these categories as a percent of the overall cost varies by the type of institution (private or public), in-state or out-of-state, two-year or four-year.

According to the College Board 2007-2008 survey, published tuition and fees constitute 67 percent of the total expenses for students enrolled in a four-year private college. This compares to 60 percent for out-of-state students enrolled in a public college, 36 percent for in-state public students and 17 percent for a public, two-year college.

Room and board, on the other hand, comprised the largest category of expenses for a student attending a public, two-year college and for an in-state student attending a public, four-year college. The pie chart breaks down the expenses for a typical out-of-state student attending a four-year public school. Tuition and fees comprise the largest share (60 percent) followed by room and board (27 percent), books and supplies (4 percent), transportation (3 percent), and other miscellaneous expenses (6 percent).

Costs for Out-of-State Students at Four-Year Public College



SOURCE: The College Board, Annual Survey of Colleges.

Paying for College

Students who attend college choose from a variety of options to pay for the overall costs. According to a 2008 Sallie Mae-Gallup study, parents pick up the largest part, paying 48 percent of the overall cost of college. An average student covers 33 percent of the cost with income, savings and loans. Grants and scholarships contribute 15 percent toward the cost, while the rest is made up by support from friends and relatives.

The study, which involved interviewing hundreds of families with college-aged students during the 2007-2008 academic years, breaks down the 48 percent provided by parents into 32 percent from income and savings and 16 percent from loans. Similarly, the student contribution can be broken down into 10 percent from income and savings and 23 percent from loans. Therefore, the overall amount of borrowing by students and parents is close to 40 percent of the overall college costs, which is significant. The types of borrowing that parents and students typically use include: private and public educational loans, home equity loans, credit cards, retirement accounts and other loans.

Disparities exist, however, in contributions across income levels. Higher-income families—those with income of $100,000 or higher—on average pay more from income and savings, compared to middle-

and lower-income families. Middle-income families—those with income between $50,000 and $100,000—rely most heavily on loans while lower-income families, on average, receive more scholarships and grants.

Types of Loans for Education

The Sallie Mae-Gallup study reaffirms the importance of loans and that savings and income alone are not enough to pay down college costs. Although parents and students use many types of loans, we focus here on educational loans. Educational loans are divided into three broad categories: federal student loans (Stafford and Perkins), private education loans and parent loans.

The most common educational loans taken to finance higher education are federal student loans. These loans typically have lower interest rates with no credit check or collateral required. They come in two basic forms: the Stafford loan and the Perkins loan. Stafford loans are the most popular loans among students and are sometimes subsidized by the federal government. Perkins loans, on the other hand, are meant for undergraduate and graduate students in extreme financial need.

In addition to federal loans, private education loans also are available to students. Private lenders usually use students' credit scores to make the loans, which often supplement federal loan amounts that are not enough to pay for costs. In addition, private educational loans often provide flexibility in repayment.

Parents also take out educational loans for their dependent children in the form of the Parent Loan for Undergraduate Students (PLUS). Loans through this federal program can be used to cover any costs not already met by the student's financial aid package.

Who are the Lenders?

Both the government and financial institutions provide funding for student loans. Financial institutions—banks, credit unions, thrifts and other lenders, including nonprofit organizations—participate in student lending either by providing the funds for federal loans such as Stafford and PLUS through the Federal Family Education Loan (FFEL) program or by directly making private student loans. According to the web site www.finaid.org, there are over 2,000 education lenders nationwide, although most of the volume comes from the top 50 lenders. The top 50 include most of the big banks, as well as several nonprofit organizations. Sallie Mae, once a government entity but now private, is the largest lender.

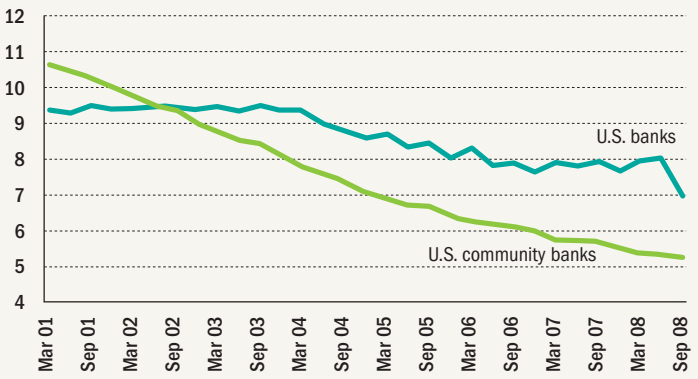
Figure 1 shows consumer loans—auto loans, student loans and medical and other personal expense loans—as a percentage of total loans at all U.S. banks and U.S. community banks (banks with assets of $500 million or less). In addition to the originators, there is an active secondary market that

continued on Page 8

FIGURE 1

Bank Loans to Consumers

Percent of consumer loans (excluding credit cards) to total loans for U.S. and community banks



SOURCE: Call Reports data

Resources Available to Students

There are many resources available for students and families seeking funding help for college. Government agencies, nonprofit organizations and private institutions provide a wealth of free information on the Internet regarding student loans, costs, lenders and planning tools. Students and parents should be able to find the information they need to plan and pay for college on the following web sites:

http://fafsa.ed.gov
(federal student aid web site offering online application for federal student loans)

www.college.gov
(Department of Education web site, the "go to" source for information on post-secondary education)

www.finaid.org
(a comprehensive web site on student loans, scholarships and aid with useful links)

www.collegeboard.com
(information on colleges, standardized testing and financial aid from a nonprofit organization)

www.nchelp.org
(a network of financial institutions and schools providing information on the FFEL program)

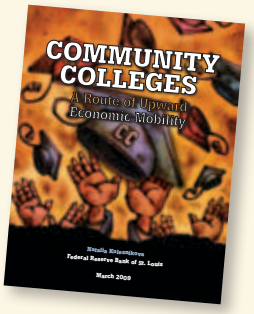
www.students.gov
(U.S. government web site providing links to other government resources for students and parents)

Community Colleges Topic of Fed Report

Community colleges play a critical role in U.S. higher education and in the economy. For many who cannot afford a traditional four-year college, these two-year colleges are a pathway to economic opportunity. With the current economy in crisis, their role is magnified.

A new report, *Community Colleges: A Route of Upward Economic Mobility,* by St. Louis Fed economist Natalia Kolesnikova, looks at both the benefits and downsides of community colleges and the types of students they attract: their goals, educational choices and outcomes.

The report is available online at www.stlouisfed.org/community. Click on "Other Publications" and "Research."



Student Loans

continued from Page 7

provides the necessary liquidity to the primary market. The other players that complete the student loan market are guarantee agencies, service providers and collection agencies. Over the last decade, there has been a gradual decline in these loans, especially at the smaller community banks.

Escalating Costs

The rise in education costs has been faster than the rise in the overall basket of goods over the last 10 years. Increased education costs have been in the 4.5 percent to 7.5 percent range annually since 1998 in comparison to a 1 percent to 5.5 percent range for overall inflation.

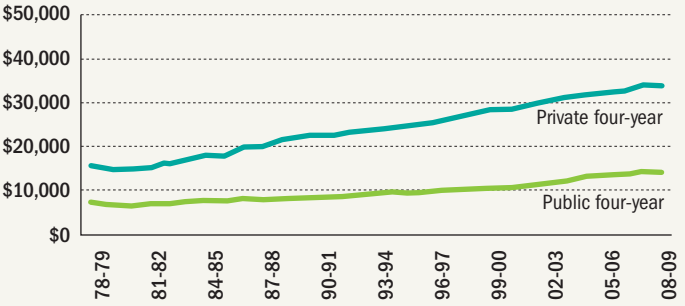
Figure 2, from a College Board survey, illustrates the rising trend of college costs for both public and private four-year colleges over time in constant 2008 dollar terms. The costs included in these trends are tuition expenses, fees and boarding costs.

The cost for private institutions has risen at a faster pace than for public institutions over the last 30 years. The published cost at a four-year private institution for the academic year 2008-2009 was an average of $34,132 compared to 30 years ago when it was $15,434 for 1978-1979. The cost for a four-year public school, on the other hand, was much lower: $14,333 in 2008-2009. Since 2000-2001, however, there has been a steep increase in college costs, especially at public institutions. The costs rose by a total of 33 percent, even after adjusting for inflation over this eight-year period. These rising costs put a huge burden on students, especially in today's slow economy.

FIGURE 2

Average Cost of a Four-Year College Program

in constant (2008) dollars, enrollment-weighted



NOTE: Average costs are derived from the sum total of published rates of tuition, fees, and room and board.

SOURCES: Annual Survey of Colleges, the College Board, Integrated Postsecondary Education Data System (IPEDS), U.S. Department of Education, National Center for Education Statistics

Impact of the Financial Crisis on Student Loans

The current financial crisis has presented extraordinary challenges for families with college-bound students. As noted earlier, savings and personal borrowings on the part of parents and students comprise the largest share of higher education financing. Borrowing by parents, especially through home equity lines of credit, has diminished significantly as house prices have dropped. Bank lending to consumers for personal expenses, such as college, has also slowed down, especially recently. The overall credit market has tightened, and loan volume has dropped sharply. (One study notes that 60 private lenders originated $19 billion in personal loans in 2008; by the end of January 2009, thirty-nine of these lenders had stopped lending and the rest had tightened their lending standards.[1])

As a result of this contraction, the Department of Education has seen a 10 percent increase in federal aid applications. Subsequently, Congress introduced legislation in 2008 to keep college financing channels open for families with college-bound students.

The legislation, signed into law as the Ensuring Continued Access to Student Loans Act (ECASLA), contained a variety of measures to ensure higher

education financing during the current turmoil in financial markets.[2] It was anchored by a Department of Education-sponsored federal education loan buyback program from private lenders that was meant to inject liquidity in student loan credit markets. The buyback program targeted FFELs, which include the Stafford and PLUS federal loan programs.

FFELs have been very popular in the past. For example, during the 2007-2008 academic year, 7.5 million students and their families took advantage of this type of financing, which totaled roughly $91.8 billion. However, in early- to mid-2008, this market dried up, with major private lenders ceasing to make FFELs due to unprofitability. The loan buyback program was seen as an essential vehicle to get credit flowing in this market again. Subsequent to the initial passage of ECASLA last summer, President George W. Bush signed into law a one-year extension on the buyback provisions so that the Department of Education could buy back FFELs through mid-2010.

ECASLA also allowed for an additional $2,000 to the unsubsidized Stafford loan limit.[3] Furthermore, the bill increased the scope of the Academic Competitiveness Grant (ACG) and the National Science & Mathematics Access to Retain Talent Grant (SMART) so that students who had already been receiving Pell Grants could avail themselves of these additional funding sources. In addition, ECASLA also gave parents the option to defer repayment of PLUS loans to six months after the student finished enrollment at an institution, at least part-time; the bill also expanded eligibility to PLUS loans for parents who were delinquent on medical or mortgage payments.

ECASLA also allows the Department of Education to designate institutions for Lender of Last Resort (LLR) loans upon approval from the Secretary of Education. This provision increases the ability of individual schools to expand student loan access on a systematic basis.

The new Obama administration is also actively working with Congress to ease the burden on families with college-bound students. Just very recently, a new piece of legislation was passed that increases the tax credit for eligible college expenses and increases the grant for low-income undergraduate students.

Rajeev Bhaskar and Yadav Gopalan are research associates at the Federal Reserve Bank of St. Louis.

ENDNOTES

1 Carpenter, Dave. "College financial aid system facing stiff test," Associated Press 01/24/2009

2 The full text of H.R. 5715 can be found at federalstudentaid.ed.gov/ffelp/library/HR5715PL110-227-FINAL.pdf

3 Tomsho, Robert and Lueck, Sarah. "Senate Clears Bill on Student Lending," *The Wall Street Journal* 05/01/2008

Exploring Innovation

A Conference on Community Development

"Innovation in Changing Times"

There is still time to register.

April 22 – 24, 2009

www.exploringinnovation.org

Today's economy presents many challenges for those working in the field of community development. This conference will focus on innovative programs that can have a positive impact on your community and help your organization not only survive, but thrive.

A special feature of the conference is the Innovation Café, a new twist on the traditional cyber café. In addition to offering refreshments and a place to network, the café will have computers available to those who want to share ideas on the "Innovation Flip Chart," respond to the "Question of the Day," enter a chance to win the "Fed Prize Challenge" or simply connect with others for dinner.

For details on this event and to register, go to www.exploringinnovation.org.

Sponsor:
Federal Reserve Bank of St. Louis,
Community Development Office

Partners: CFED, Enterprise Community Partners, NeighborWorks America, Opportunity Finance Network and Social Compact

Innovation: Anyone can do it!

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.

Illinois Tax Credit Program To Help Small Businesses

A new tax credit program is designed to stimulate the economy in low-income areas in Illinois by helping existing small businesses expand and by attracting new small business projects.

The Illinois New Markets Development Program will provide state tax credits to investors against their state income tax liability. The program is expected to pump at least $125 million into small businesses through New Markets Tax Credits.

To qualify, investors must make investments into federally approved Community Development Entities (CDEs). CDEs are organizations that are federally certified by the Community Development Financial Institution (CDFI) Fund and that demonstrate a mission of serving low-income communities. CDEs are held accountable to the communities they serve through representation of community members on the CDE's governing board.

Businesses that benefit from CDE investments normally are unable to borrow from traditional lenders because they lack an established credit history or collateral.

Investors and organizations interested in learning more about the Illinois New Markets Development Program or becoming an Illinois qualified CDE should contact the Illinois Department of Commerce and Economic Opportunity at its Springfield office at 217-782-7500 or at its Chicago office at 312-814-7179. For information on becoming a CDE or on the U.S. Treasury's New Markets Tax Credits program, visit the CDFI Fund web site at www.cdfifund.gov.

ECD/HOPE Strengthens Presence in Arkansas

After serving residents and businesses in the greater Little Rock area for more than 40 years, College Station Community Federal Credit Union merged with Enterprise Corporation of the Delta/Hope Community Credit Union (ECD/HOPE) in November 2008.

ECD/HOPE and College Station have long been rooted in a commitment to community development. The merger will broaden access to ECD/HOPE's services in Central Arkansas while continuing to serve College Station members.

ECD/HOPE is a financial institution, intermediary and policy center dedicated to strengthening communities, building assets and improving lives in economically distressed areas in Arkansas, Louisiana, Mississippi and Tennessee. Through its efforts, more than $1 billion in financing has been provided to entrepreneurs, homebuyers and community development projects in the Delta.

For more information, contact HOPE Community Credit Union at 501-490-0646.

Grant to Help Kentucky with Foreclosure Prevention

The Kentucky Homeownership Protection Center will receive a grant in excess of $1.5 million from NeighborWorks America as part of the federal Housing and Economic Recovery Act of 2008. Included in the grant is funding for legal services, training and staffing for partner agencies that will provide foreclosure intervention and default counseling.

Since its creation last August, more than 2,100 Kentuckians have reached out to the Kentucky Homeownership Protection Center for foreclosure prevention help. The grant will help an additional 2,200 Kentuckians who are in danger of foreclosure receive counseling and assistance.

Each homeowner who contacts the center through the web site, www.ProtectMyKyHome.org, or through the toll-free number, 1-866-830-7868, will be referred to a counseling agency.

Memphis Groups Offer "Pizza with Planners"

Neighborhood leaders and residents in the Memphis, Tenn., area can enjoy pizza while learning about their community's inner workings in a series of workshops presented by the Coalition for Livable Communities.

"Pizza with Planners: A Citizen's Guide to How Your City Works" provides residents with the tools to improve their neighborhoods and the opportunity to be active in the planning process.

Recent topics included information on how planning works on a neighborhood level and a review of Memphis' long-range transportation plan.

"Pizza with Planners" is sponsored by the Community Development Council of Greater Memphis, the Community Foundation of Greater Memphis, and the Memphis and Shelby County Office of Planning and Development. The Coalition of Livable Communities represents a diverse group of local stakeholders.

For more information about "Pizza with Planners," contact Sarah Newstok at sarah@livablememphis.org.

HAVE YOU HEARD

Tax Credit Available To First-Time Homebuyers

First-time homebuyers can receive up to $8,000 under the American Economic Recovery and Reinvestment Act, which was signed into law on Feb. 17, 2009. This is a refundable tax credit, which means it can be claimed in excess of any federal income tax liability.

To be eligible for the tax credit, home buyers must have purchased the home as a primary residence between Jan. 1, 2009, and Nov. 30, 2009; must not have owned a home in the past three years; and must live in the home for at least three years. If they sell it before three years, they must repay the credit. The home can be a new or resale home, a co-op, condo or manufactured home.

The credit is 10 percent of the purchase price or up to $8,000.

Homebuyers can claim the credit on their 2008 tax return if they buy a home in 2009 by requesting an extension from the IRS or filing an amended 2008 tax return.

For more information, visit www.federalhousingtaxcredit.com.

Financing "Green" Projects Goal of National Initiative

The Council of Development Finance Agencies (CDFA) has announced the formation of the new Sustainable Public Finance Coalition. This is a major national initiative focused on financing economic development that adheres to "green" principles and alternative energy.

The coalition also will offer industry leaders and innovators education, networking and research to promote these new practices.

The Sustainable Public Finance Coalition offers an open invitation to anyone actively engaged in financing green development, alternative energy and infrastructure in a sustainable manner.

For details, contact CDFA at 216-920-3073.

Loan Program Provides Money, Technical Assistance

ShoreBank, a community development financial institution, has developed a new loan product to help nonprofit organizations stabilize their finances.

The Capacity Plus Loan Program addresses problems caused by the uneven revenue streams nonprofits experience due to sporadic income sources, such as government contracts, grants and donations. The uncertainty of the funding stream is cause for alarm because many nonprofits lack the expertise or sufficient collateral to secure a loan during a long dry spell. Capacity Plus will help nonprofits strengthen collateral and gain the expertise they need to use credit as part of their financial management strategy.

The program gives charitable foundations an opportunity to provide cash security for bank loans to qualified nonprofit organizations through FDIC-insured CD deposits. Foundations may also elect to guarantee the loan without moving cash assets into a new deposit account at ShoreBank. As an additional bonus to foundations, the CD investment that secures loans to nonprofits may also qualify as a Program Related Investment.

Once nonprofit borrowers have cash security, they can partner with ShoreBank to take advantage of technical assistance programs that will help them build capacity, skills and expertise in cash management and financial and infrastructure development.

For more information, interested parties can contact the appropriate ShoreBank representative:

Debbie Kobak, foundation market strategist, 773-420-5133 or Deborah_Kobak@SBK.com; or Joe Uttech, nonprofit market strategist, 773-420-5134 or Joseph_Uttech@SBK.com.

Revisiting the Community Reinvestment Act

The Federal Reserve Banks of Boston and San Francisco have announced the release of a new publication on the Community Reinvestment Act.

Revisiting the CRA: Perspectives on the Future of the Community Reinvestment Act offers facts and opinions on the past and future of CRA. The publication is intended to foster a healthy debate on the CRA and possible reforms. Authors include academic researchers, current and former regulators, community development practitioners, and financial services representatives.

In conjunction with the publication's release, the Federal Reserve recently convened a CRA discussion in Washington, D.C. Participants offered their views on how best to update the CRA in light of more than 30 years of changes in the financial services industry. A highlight of the discussion was a speech by Federal Reserve Governor Elizabeth Duke who spoke extensively about the future of CRA and its effectiveness. To read her speech, go to www.federalreserve.gov/newsevents/speech/duke20090224a.htm.

Revisiting the CRA is available for download from both the Boston and San Francisco web sites:

Boston web link: www.bos.frb.org/commdev/cra/index.htm

San Francisco web link: www.sf.frb.org/publications/community/cra/index.html

BRIDGES

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

Glenda Wilson
Assistant Vice President
and Managing Editor
314-444-8317

Yvonne Sparks
Senior Manager
314-444-8650

Linda Fischer
Editor
314-444-8979

Community Development staff

St. Louis: Matthew Ashby
314-444-8891
Jean Morisseau-Kuni
314-444-8646
Eileen Wolfington
314-444-8308

Memphis: Teresa Cheeks
901-579-4101
Kathy Moore Cowan
901-579-4103

Little Rock: Lyn Haralson
501-324-8240
Amy Simpkins
501-324-8268

Louisville: Lisa Locke
502-568-9292
Faith Weekly
502-568-9216

The views expressed in *Bridges* are not necessarily those of the Federal Reserve Bank of St. Louis or the Federal Reserve System. Material herein may be reprinted or abstracted as long as *Bridges* is credited. Please provide the editor with a copy of any reprinted articles.

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

Post Office Box 442
St. Louis, MO 63166-0442

PRSRT STD
U.S. POSTAGE
PAID
ST. LOUIS, MO
PERMIT NO. 444

CALENDAR

APRIL

8

Community Colleges: A Route of Upward Economic Mobility—Louisville, Ky.
Sponsor: Federal Reserve Bank of St. Louis—Louisville Branch
502-568-9282
www.stlouisfed.org/community

16-17

Innovative Financial Services for the Underserved—Washington, D.C.
Sponsor: Federal Reserve
www.kansascityfed.org/care2009

17

Promoting Economic Development in Rural Areas and Small Towns During Tough Times: Lessons from the Field—Memphis, Tenn.
Sponsors: University of Memphis and the Federal Reserve Bank of St. Louis—Memphis Branch
901-678-2161
www.memphis.edu/planning

17

Stabilizing Our Future—Memphis, Tenn.
Sponsors: Fair Housing Alliance of Greater Memphis and the Federal Reserve Bank of St. Louis—Memphis Branch
901-543-7393
http://spw-devel.com/fhagm/index.html

MAY

5-7

CDFA Development Finance Summit—Pittsburgh, Pa.
Sponsor: Council of Development Finance Agencies
216-920-3073
www.cdfa.net

12

Interagency CRA Workshop—Louisville, Ky.
Sponsor: Federal Reserve Bank of St. Louis—Louisville Branch
502-568-9282
www.stlouisfed.org/community

JUNE

1-3

Reclaiming Vacant Properties—Louisville, Ky.
Sponsor: National Vacant Properties Campaign
http://reclaimingvacantproperties.org/registration

1-3

Underbanked Financial Services Forum—Dallas, Texas
Sponsor: Center for Financial Services Innovation
www.cfsinnovation.com/cfsi-produced-events.php

6

Creating Livable Communities—Memphis, Tenn.
Sponsors: Coalition for Livable Communities, Community Development Council of Greater Memphis and the Federal Reserve Bank of St. Louis—Memphis Branch
901-725-8370

JULY

16-17

The Fundamentals of Economic Development Finance Course—Washington, D.C.
Sponsor: Council of Development Finance Agencies
www.cdfa.net

21-23

Housing Finance Institute—Chicago
Sponsor: Fannie Mae
www.efanniemae.com/lc/hfi/

26-29

Celebrating Community: Creating Hope in Uncertain Times—Memphis, Tenn.
Sponsor: Community Development Society
www.comm-dev.org

AUGUST

3-7

Community Development Institute—Conway, Ark.
Sponsor: Community Development Institute Central
501-450-5372
www.uca.edu/cdi