LINKING LENDERS AND COMMUNITIES

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Stored Value Cards: Opportunities, Risks

Stored value cards resemble a typical debit card, using magnetic-stripe technology to store information and track funds. However, unlike traditional debit cards, stored value cards are prepaid, providing consumers with immediate fund availability and little risk of overdraft. In addition, there is no physical account at a financial institution in the name of the stored value card holder. This virtual existence of the card's backing raises questions about FDIC insurance coverage and consumer protection regulation coverage.

By Lyn Haralson
Community Affairs Specialist
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In the 1980s, prepaid cards, as they were called, first emerged in the long-distance telephone service market. By the mid 1990s, large retailers realized the cost-saving possibilities of stored value cards and began issuing them in place of traditional, paper gift certificates. Over the past decade, the stored value card market has grown exponentially. Today, stored value cards are being used for many purposes, including payroll, general spending, travel expenses, government benefit payments, retailer-specific spending, and employee benefit and reward payments. Card issuers include financial institutions, individual retailers, government agencies and non-bank financial service providers.

Stored value cards fall into two categories: closed loop and open loop. (See chart, page 4). Closed-loop cards can only be used for the issuers' products or for other limited purposes. Open-loop cards are more widely accepted and can be either nonbranded or branded with a bank association's logo, such as Visa, MasterCard and, most recently, Discover. They can be used to make purchases or pay bills virtually anywhere the brand is accepted.

General Spending, Payroll Cards

Two of the most common stored value cards issued by financial institutions are payroll cards and reloadable general spending cards.

General spending cards are typically branded, open loop and reloadable, allowing purchasers to load and deplete funds multiple times during a specified period.

Many parents are choosing to provide funds to their teens with a general spending card instead of cash. Besides being safer to carry than cash, these cards allow parents to easily monitor their teen's spending habits by using online technology.

New Americans and migrant workers find general spending cards an inexpensive way to send money to relatives in their native countries. Dollars can be loaded onto the card in the United States, and the recipient can access the funds in their country using a duplicate access card. Fees for this service average $6 per ATM withdrawal as opposed to $15 to $40 for the same transaction using money

continued on Page 2

continued from Page 1
transmitter services or traditional wire transfers.

Payroll cards are another form of stored value card gaining acceptance in the marketplace. For an employer, payroll cards have a cost advantage. A typical electronic funds transmittal (whether direct to a depository account or a payroll card) is 20 cents. Conversely, the cost to process and distribute a payroll check is roughly between $1 and $2. Cost savings for a full-time employee for one year range between $20 and $50, depending on the frequency of pay periods.

Closed-loop payroll cards and ATM-access-only payroll cards provide limited access to funds at a finite number of locations. Since 2001, the majority of payroll cards issued are branded, open-loop cards that allow recipients to withdraw cash at ATMs, pay bills and initiate both personal identification number transactions and signature transactions at point-of-sale terminals. Branded, open-loop payroll cards are similar to a depository account.

Unlike gift cards and general spending cards, payroll cards are marketed to employers versus the end user. Employers as commercial customers of the financial institution are often offered payroll cards as part of a suite of services.

While cost savings accrue to the employer, what about the employee? Employees who usually opt for a payroll card are those who do not have a traditional bank account. It is estimated that 20 million Americans do not have a traditional depository account (i.e., checking or savings account). Payroll cards provide them with a less expensive way to access their pay than check-cashing outlets and money-service businesses. Payroll cards also provide a less expensive way to pay bills than the customary money order. As with general spending cards, consumers can request two cards so family members in other countries have access to the payroll account.

Stored Value Card Pricing

Function	Price
Card issuance	$1.00–$9.95
Card re-load	Free–$5.95
Card re-issuance	$1.00–$9.95
Monthly maintenance	Free–$3.00
IRVU	$0.50–$1.00
ATM	Free–$2.00
Bill payment	$0.50–$1.50 per transaction
Dormancy Fee	$5.00–$15.00
Activity Statement	$10.00–$25.00

Industry standard pricing can help consumers make informed decisions and help potential financial institution suppliers structure a profitable program. (SOURCE: University Bank)

Regulatory Considerations

The rapid growth of the stored value card, both in volume and varied uses, has raised questions with the regulatory agencies. This trend triggers discussion of whether these entities should be considered deposit accounts for purposes of insurance and consumer regulation coverage. Stored value cards of any type operate in a virtual reality at the issuer level. Funds underlying stored value cards are traditionally commingled and do not exist in accounts set up under individual names. Proposed regulatory changes and guidance issued by the financial institution regulatory agencies include:

Regulation D—
Reserve Requirements of Depository Institutions

The Federal Reserve Board's Regulation D sets uniform requirements for reserves that depository institutions are required to maintain for facilitating the implementation of monetary policy by the Federal Reserve System. Institutions should note that, to the extent stored value or other electronic money represent a demand deposit or transaction account, the provisions of Regulation D would apply to such obligations.

Regulation E—
Electronic Funds Transfer Act

The Federal Reserve Board's Regulation E implements the Electronic Funds Transfer Act. The act provides an array of protections to consumers who use electronic funds transfer (EFT) systems. A transaction involving stored value products is covered by Regulation E when the transaction accesses a consumer's account, such as when value is loaded onto the card from the consumer's deposit account at an electronic terminal or personal computer.

On Aug. 24, the Federal Reserve Board announced its approval of a final rule that states payroll card accounts are covered by Reg E. The rule is to become effective July 1, 2007.

Payroll card accounts can be set up either directly or indirectly by employers on behalf of employees. The accounts receive electronic fund transfer infusions of an employee's salary, wages or other compensation. They are managed by the employer, a third-party processor, a depository institution or other entity.

The rule does not require financial institutions to furnish periodic statements for payroll card accounts as long as they provide the consumer with a telephone number to call to receive the account's balance. The institution must also provide a web site at which the consumer can access at least a 60-day history of the account's transactions. At the consumer's request, an institution must also provide a written history of transactions occurring in the preceding 60 days.

Regulation BB—
Community Reinvestment Act

The Federal Reserve Board's Regulation BB encourages regulated financial institutions to meet the credit needs of their entire community, including low- and moderate-income neighborhoods, consistent with the safe-and-sound operation of the institution.

Payroll cards have the potential to qualify for credit under the community development service test of the Community Reinvestment Act (CRA) if they are free or low-cost and improve access to financial services for low- or moderate-income individuals.

Remittance service provided either through general spending cards or payroll cards also has the potential to qualify for CRA credit.

Regulation DD—
Truth in Savings Act

The Federal Reserve Board's Regulation DD implements the Truth in Savings Act, which helps consumers compare deposit accounts offered by depository institutions, principally through the disclosure of fees, the annual percentage yield, the interest rate and other account terms.

Payroll cards that operate similarly to courtesy pay or bounce-proof checking accounts fall under the purview of this regulation.

Stored Value Card Types, Features and Capabilities

	Closed Loop	Open Loop	
		Unbranded	Branded
Point-of-sale purchases	Yes—Within issuer's network (can't use a Starbucks card at grocery store)	Yes—Anywhere with PIN keypad or ATMs	Yes—Anywhere with Visa, MasterCard, American Express or Discover logo
Reloadable	Depends on issuer and type of card	Depends on issuer and type of card	Depends on issuer and type of card
Direct Deposit	No	Yes—Depends on set-up	Yes—Depends on set-up
Risk of overdraft	None	None	Slight—Depends on reconciliation

Closed Loop

Can only be used for the issuer's products or for limited purposes. Examples include the Starbucks card, or a Borders gift card.

Open Loop

Similar to a debit card but without a linked account. They allow a variety of uses, including bill payment, ATM withdrawals, and point-of-sale purchases from grocery stores and other retailers. Open-loop cards can be branded or unbranded.

Unbranded cards are linked to point-of-sale and ATM networks and use PIN-based technologies for sales and withdrawals. Examples include grocery store PIN networks and public benefit cards.

Branded cards carry the Visa, MasterCard, Discover or American Express logo and use signature-based technologies that allow users to make purchases anywhere the brand is accepted—retailers, restaurants, auto-repair shops, online retailers, etc.

(SOURCE: National Community Investment Fund. www.ncif.org)

FDIC Insurance Coverage

Equally difficult to address in regard to stored value cards is the issue of Federal Deposit Insurance Corp. (FDIC) insurance of the underlying value of stored value cards. In April of 2004, the FDIC published notice and comment of a proposed rule to clarify the meaning of "deposit" as it relates to funds underlying stored value cards at insured depository institutions.

In August 2005, the FDIC issued a proposed rule to clarify whether funds underlying stored value cards, such as employee payroll cards or retail store gift cards, qualify as deposits for insurance coverage purposes. The FDIC considers the funds that underlie stored value cards deposits if a depository institution has an obligation to either hold or transfer the funds. In that case, the funds qualify for insurance coverage following the same guidelines that apply to other deposits.

Comments on this rule were due by Nov. 7, 2005. To date, the final rule has not been issued.

To read more on the proposed rule, go to: www.fdic.gov/regulations/laws/federal/2005/05cstoredval88.pdf.

USA PATRIOT Act/Bank Secrecy Act/Anti-Money Laundering Laws

The USA PATRIOT Act requires financial institutions to be diligent in documenting customer identification. Financial institutions issuing payroll cards or general spending cards should require adequate

continued on Page 4

continued from Page 3
documentation to verify the identity of the card recipient.

In the case of payroll cards, banks should conduct due diligence with their commercial customer to ensure the controls of the company are adequate to verify identity.

Another implication of the act applies to payroll cards and general spending cards where a second card is issued for a family member in another country. The challenge is in verifying the identity of individuals living outside the United States. To aid in this process, financial institutions should engage in effective dialogue and communicate control needs to their partnering institutions in the other country.

The Bank Secrecy Act (BSA) requires financial institutions and other financial service providers to keep certain paper trails on their customers' transactions. Issuers, sellers and redeemers of stored value cards are for the most part exempt from BSA. However, they are subject to certain reporting requirements under BSA to include cash transactions in excess of $10,000. Due diligence must be employed and controls put in place to prevent money laundering through these instruments.

Other Considerations

State payroll laws vary and should be reviewed by financial institutions to ensure compliance in the structure of any payroll card offerings. Some states have laws requiring that employees have access to pay at no cost. Other laws govern whether direct deposit can be offered or mandated.

The person who receives a gift card or general spending card and never uses it up can cause a problem for financial institutions in states where strict laws govern abandoned property. Despite the card expiring, there are dollars left unspent. Financial institutions should follow the same procedures they would in the case of an abandoned depository account to ensure compliance with the law.

Concerns for Consumers

Consumers who choose to use stored value cards should understand how they work and be aware of possible fees.

Stored value cards may have entrance/activation fees, maintenance fees, point-of-sale fees, domestic ATM transaction fees (in and out of network), transaction limit fees, bill payment fees, phone or online transaction fees, reload fees, money transfer fees, international ATM transaction fees, inactivity fees, overdraft fees, overdraft protection fees, payday advance fees, credit-reporting fees and dispute fees.

The issuers of gift cards and general spending cards can easily disclose fees at the time of purchase to the purchaser. However, the transfer of these cards from the original recipient to another party raises disclosure concerns regarding the fees and other terms associated with the card, such as the expiration date, the amount or existence of maintenance or other types of fees, and information about where to call for assistance.

Cost-conscious consumers should compare the cost of using the more common reloadable general spending cards in lieu of a checking account or other alternative financial services, such as a check-casher or money-transfer service. Checking account fees, money order purchase fees and check cashing fees should all be considered.

Conclusion

For financial institutions, the opportunity to reach new customers or expand services to existing customers has a positive potential for the bottom line. However, financial institutions developing a stored value card product must consider how they will provide disclosures, notices, periodic statements and error resolution procedures.

A survey of stored value card providers conducted by the Center for Financial Services Innovation was inconclusive as to what makes a stored value card product profitable. However, a common denominator for most was scale.

To develop a profitable stored value card system structure, providers should complete a market analysis to determine card volume potential, card load potential, anticipated frequency of use, break-even analysis of frequency of use and potential float volume.

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Specialized Mortgage Products: A Game of Chance?

Those returning to the home-buying market after several years will be surprised by the baffling array of mortgage products. Choosing the right mortgage is no longer as simple as knowing the difference between a conventional and FHA loan or a fixed rate versus adjustable rate.

On the contrary, specialized products such as the "piggyback" and "interest-only" mortgage are being offered to all segments of the market from the first-time home buyer to the more sophisticated investor.

Many of these products have been developed in response to the demand from home buyers for an affordable mortgage that requires little or no down payment on a home purchase. Other features offer more flexibility to accommodate the lifestyle changes of certain market segments over time. Although this industry shift has accounted for a significant increase in home ownership, what potential pitfalls await home buyers? Is the flexibility worth the risk?

Piggyback Loans

A piggyback loan is a combination of a first and second mortgage closed at the same time. Often involving 100 percent financing, the first mortgage loan can cover 80 percent of the cost of the home with a "piggyback" second mortgage valued at the remaining 20 percent.

The most common type, however, is the 80-10-10 in which the second mortgage product accounts for 10 percent of the purchase price and the borrower invests 10 percent as a down payment on the loan.

Although the second mortgage carries a higher rate than the first mortgage and extends for a shorter term, the advantage of the piggyback mortgage is that the interest expense is potentially tax-deductible while the mortgage insurance payment (typically required for loans exceeding 80 percent of the home's value) is not.

According to a survey by the National Association of Realtors, 25 percent of all home buyers financed 100 percent of the purchase price of their home. Forty-two percent of first-time home buyers bought with no money down.

Popular Alternative to Private Mortgage Insurance

The popularity of the piggyback loan has been partly fueled by home buyers who want to avoid private mortgage insurance (PMI). PMI is circumvented by keeping the first mortgage amount at 80 percent or less, and taking out a second mortgage for the remainder.

Piggyback loans have taken 40 percent of the market share from private mortgage insurers. According to Patrick Sinks, executive vice president of Mortgage Guaranty Insurance Corp. (MGIC), home buyers with FICO scores of 770 or higher account for 80 percent of the lost volume. These borrowers are considered to be the most desirable market segment.

Mortgage insurers are fighting back by pushing to make PMI tax deductible for families earning up to $100,000 by developing new products and by urging home buyers to compare the advantages and disadvantages of financing with a piggyback loan versus a PMI loan.

Mortgage Insurers Offer New Products

In response to the piggyback loan boom, MGIC developed its SingleFile lender-paid mortgage insurance product. Instead of the borrower paying PMI, the lender pays the mortgage insurance premium, but charges the borrower for this expense either in the form of a higher interest rate on the mortgage loan, a mortgage origination fee or a combination of both. When the lender charges a higher rate to cover the mortgage insurance premium, it is recast into a tax-deductible interest expense for the borrower.

SingleFile is cheaper than other mortgage insurance because it is a low-risk product offered to borrowers who have excellent credit. Eligibility requirements include a 700 credit score or higher and a

continued on Page 6

continued from Page 5
total debt-to-income ratio of 45 percent or less. The discounted, lender-paid mortgage insurance premium is 40 to 65 percent less than regular borrower-paid insurance.

Interest-Only Loans Attract Both Wealthy and Low-Income Borrowers

One of the fastest growing adjustable-rate products in the last two years is the interest-only mortgage. As the name implies, interest-only mortgages allow the borrower to pay only interest on the mortgage in monthly payments for a fixed term of usually five to 10 years. At the end of the fixed period, the loan is fully amortized over the remaining term of the loan.

Historically the interest-only mortgage has been considered a product for savvy, wealthy borrowers who prefer to use the principal portion of their payment for more lucrative investments, such as the stock market. It also provides flexibility for individuals with cyclical income (commissions, for example) who can make lower payments during the lean months and repay principal when their incomes are higher. Another good fit is with young professionals who want to leverage future income potential for a larger home today.

Although not a new product, the interest-only mortgage has made a comeback in recent years as mainstream borrowers try to combat high home prices. Lower interest rates and more innovative financing options have increased the demand for housing and, in many markets, driven housing prices up. Consequently, home buyers are seeking ways to borrow more money without increasing their payment or income.

Interest-only loans are especially popular in markets where home prices are appreciating fastest, including California, Arizona and Florida. However, Georgia led the nation in share of interest-only loans in 2004 even though home prices did not appreciate as significantly as in other states. More than half of the "purchase" mortgages in Georgia were interest only, compared with less than one-third nationwide. In Atlanta, 55 percent of mortgages issued in 2004 were interest only.

The lure of the lower payment does come with increased risk for the borrower. First, borrowers are gambling that their incomes will rise enough to cover the future increase in monthly payments. Second, they are counting on market appreciation rather than debt retirement to build equity in their homes. Third, they are assuming the risk of possible hikes in interest rates after the fixed term expires as well as the potential for payment shock.

Percentage of Interest-Only (I-O) Loans in the Federal Reserve's Eighth District States

State	Origination Year	I-O New Single-Family Home Mortgages (%)	I-O Refinance Mortgages (%)	I-O Total Origination Count (%)
Arkansas	2004	7.2	4.6	5.7
	2005	11.2	6.7	8.9
Illinois	2004	13.7	9.5	11.3
	2005	21.3	15.4	18.2
Indiana	2004	6.0	4.6	5.2
	2005	9.1	6.6	7.8
Kentucky	2004	14.6	7.8	10.7
	2005	16.7	9.8	13.2
Mississippi	2004	8.2	4.2	6.1
	2005	8.8	4.4	6.8
Missouri	2004	9.1	6.5	7.6
	2005	13.5	9.8	11.5
Tennessee	2004	15.3	8.8	12.0
	2005	17.6	9.4	14.1

SOURCE: First American LoanPerformance MBS/ABS securities database. (Does not include agency or bank portfolio loans.)

New Twist to Interest-Only Option

An interest-only option can be attached to both fixed-rate and adjustable-rate mortgages (ARMs). Interest-only ARMs are gaining in popularity, but misperceptions about this product's features can be costly for uninformed borrowers.

One common misunderstanding is that the quoted interest rate on an interest-only ARM is fixed for the entire interest-only period. This is not the case. The interest-only period is the period during which the borrower is allowed to pay interest only. An ARM with an interest-only option also stipulates a time limit for the initial loan rate.

In the case of ARMs with a very low initial rate, the interest-only period is always longer than the initial rate period. For example, an ARM with an interest-only option for 10 years may have an initial rate period of six months. So a 5 percent rate today may rise to 7 percent in six months. Consequently, borrowers should not shop for a mortgage solely based on the quoted rate without assessing the overall risk of the product.

A Cautionary Note

This new wave of real estate business poses risks to two segments of potential home buyers. The first consists of individuals who see real estate as a better way to accumulate wealth than investing in the stock market. They sell quickly for capital gain and refinance to "put equity to work," thus growing equity through property appreciation rather than by paying down their loan balance. However, this tactic ignores the fact that mortgage amortization is in the home owner's control, while appreciation is not. Even the savviest borrower must bear this in mind. If the value of the home does not appreciate as anticipated, the buyer will be liable to pay the difference out of pocket.

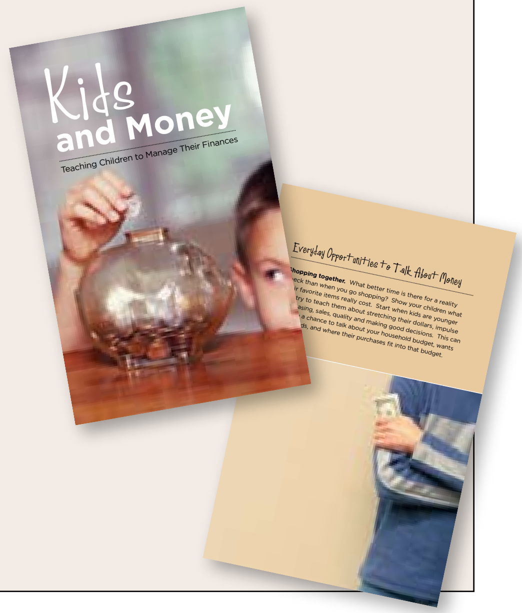
Individuals who want to realize the American dream of home ownership, but have not accumulated the savings for a down payment or need a lower payment to qualify for a mortgage product, are also drawn to these loans. Young professionals who can count on rising salaries or executives who receive annual bonuses may run less risk than others, but those who utilize one of these products to buy a house they cannot otherwise afford are taking a gamble. These loans are not designed to address affordability issues, and thus they can set up home buyers for failure.

Although these products may permit home purchase for little or no money down, allow for smaller initial payments or both, they all have costs, and they all have risks. These products should be used for their intended purposes. Consumers must shop to see which if any of these loans will work best for them.

This article was written by Sibyl Howell, regional community development manager at the Federal Reserve Bank of Atlanta. Reprinted with permission from Partners, *Volume 15, Number 3, 2005, the Atlanta Fed's Community Affairs newsletter.*

New from the Federal Reserve

Kids and Money is a new booklet from the Federal Reserve Bank of St. Louis that helps parents teach their school-age children how to manage money.



The booklet zeroes in on planning, budgeting and saving and suggests fun family activities that will encourage children to think about saving and spending responsibly.

Individuals or organizations can order *Kids and Money* free of charge by calling:

314-444-8761 in St. Louis;

501-324-8296 in Little Rock, Ark.;

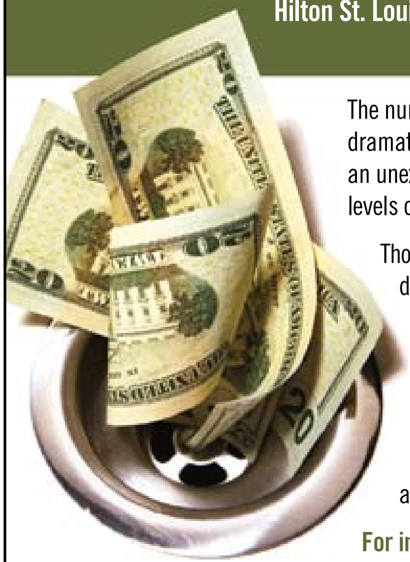
502-568-9202 in Louisville, Ky.; and

901-579-4101 in Memphis, Tenn.

The booklet is also available online at **www.stlouisfed.org/community/other_pubs.html**

The Rise of Personal Bankruptcy

Oct. 24, 2006, 7:30 a.m. to 9:30 a.m. (breakfast buffet meeting)
Hilton St. Louis at the Ballpark, One South Broadway, St. Louis, MO 63102



The number of personal bankruptcies in the United States has been escalating dramatically in the past 25 years. For most, declaring bankruptcy happens after an unexpected financial shock, such as divorce or medical bills, coupled with high levels of debt.

Thomas A. Garrett, research officer at the Federal Reserve Bank of St. Louis, will discuss his study on the role other factors—such as availability of credit, bankruptcy laws and decreased consumer savings—play in making Americans even more susceptible to bankruptcy. Garrett also will present detailed statistics for counties in the Fed's Eighth District.

Judge Barry S. Schermer of the U.S. Bankruptcy Appellate Panel for the Eighth Circuit will speak about bankruptcy legislation passed in 2005 and about who is filing for bankruptcy.

For information, contact Cynthia Davis at 314-444-8761. To register online, visit www.stlouisfed.org/community/conferences.html

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.

Bowling Green, Quincy Get Nod from DollarWise

The cities of Bowling Green, Ky., and Quincy, Ill., in the Fed's Eighth District have been awarded $15,000 grants to teach financial education to consumers.

Countrywide Financial Corp. donated $1 million to sponsor the grants for five years. Made under the auspices of the U.S. Conference of Mayors' National DollarWise Campaign, the grants are intended to expand local programs that promote financial education.

Bowling Green will use its DollarWise Capacity Grant in several ways: to increase home ownership among low- and moderate-income residents by teaching them about credit scores and the home-buying process; to reduce personal bankruptcies by providing financial education classes for residents; and to fund a personal finance program for high school students.

In Quincy, the money will be used to fund the Paycheck Partnership, a program developed by a coalition of employers, educators and city officials working with the Federal Reserve Bank of St. Louis. The goal is to increase financial literacy among teenagers and college students and to decrease student debt. The Paycheck Partnership also sponsors college students to act as teachers and mentors about financial issues.

The U.S. Conference of Mayors is the official nonpartisan organization of cities with populations of 30,000 or more. There are 1,139 such cities in the country today, each represented in the conference by its mayor.

Arkansas SBDC Recognizes Entrepreneurial Support

The City of Arkadelphia is the first recipient of the Arkansas Entrepreneurial Community of the Year Award presented by the Arkansas Small Business Development Center (ASBDC). The award recognizes Arkadelphia's organized efforts to assist and encourage entrepreneurial activities.

Arkadelphia's community and economic development strategy includes nurturing new and existing small businesses. A central component of these efforts is the completion of the Rural Entrepreneurship Initiative survey. In 2005, the Arkadelphia Chamber of Commerce, the ASBDC, the Clark County Industrial Council, the Federal Reserve Bank of St. Louis, Henderson State University and Southern Financial Partners joined forces to conduct the survey. Survey results are being used in economic development planning to encourage business retention and expansion.

The ASBDC created the award to emphasize the economic importance of entrepreneurship and to encourage more communities to engage in economic development planning with a focus on local businesses.

In addition, Paul Shuffield with Southern Financial Partners in Arkadelphia was presented with the District Director's Award for Service to Small Businesses by the U.S. Small Business Administration. Among his other accomplishments, Shuffield has been involved in the Rural Entrepreneurship Initiative in Arkadelphia.

Both awards were presented at the 16th annual Arkansas Small Business Awards Luncheon this past summer.

For more information on the awards or the honorees, contact Linda Nelson at linda.nelson@sba.gov.

New Loan Fund Set Up for Tennessee Entrepreneurs

The state of Tennessee and the Department of Agriculture (USDA) have teamed up to launch a new revolving loan program for rural microenterprises in the state. Beginning in October 2006, the Tennessee Department of Economic and Community Development's Business Enterprise Resource Office (ECD-BERO) will administer loans of up to $5,000 through the ECD-BERO Micro Loan Program to help with startup or expansion costs.

To apply, potential borrowers will need a business plan and must be willing to attend business training workshops at Tennessee Small Business Development Centers, with locations throughout the state. The centers will provide technical assistance to applicants, including business plan development and business training. Applicants must be located in a rural area as defined by USDA and classified as a microenterprise (a for-profit small business with five or fewer employees, one of whom owns the business).

The ECD-BERO Micro Loan Fund is financed with a $125,000 investment through the USDA Rural Business Enterprise Grant program. Over the next three years, 25 to 30 loans are expected to be allocated with additional loans made as loans are repaid.

For more information, contact Michelle Proctor of the Tennessee Department of Economic and Community Development's Business Services Division by e-mail, michelle.proctor@state.tn.us.

Tax Credits Available to Louisville Companies

Republic Bank and Louisville

Metro Government have partnered to create a $4 million New Market Tax Credit (NMTC) Loan Fund to support economic growth in low-income areas. Through this fund, small businesses will be encouraged to expand, add new jobs and improve Louisville's economically distressed areas.

Proposed projects that demonstrate the greatest positive community impact and the greatest need for funding will qualify for loans, which will range from $250,000 to $1 million. Applications for the funds are available through Republic Bank, Louisville Metro's Development Authority or at Louisville Development Bancorp's web site, www.morethanabank.com. Click twice on New Markets Tax Credits. For details on this program, contact Andy Powell of Republic Bank at 502-561-7118 or apowell@republicbank.com.

Trucker Training in Kentucky Helps Fill Industry Void

A new Driving for Inner City Development workforce initiative recently held its first graduation ceremony for disadvantaged students.

The truck-driving workforce program, funded by $619,317 from the state of Kentucky, graduated seven students, who are now full-time employees for C.W. Johnson Xpress trucking company, a vested partner in the training program.

Jefferson Community & Technical Colleges, the Career Academy and other local community development agencies partnered to establish curriculums that prepare West Louisville residents for careers in the truck driving industry. The curriculums combine technical training with a series of "wraparound services," including assessments, counseling, and job and entrepreneurial opportunities.

The American Trucking Association says the national shortage of drivers is nearly 80,000 and growing. KentuckianaWorks, the region's workforce investment agency, estimates a need for more than 12,000 tractor-trailer drivers in the region by 2012 and shows that drivers in the area currently make median annual salaries of nearly $32,000, with more than $11,000 in benefits.

To learn more about Driving for Inner City Development, contact Gary Alexander at 502-410-6423.

Local Organizations Receive CDFI Funds

Several organizations in the Federal Reserve's Eighth District states are among 73 recipients of federal Community Development Financial Institutions (CDFI) Fund awards.

In August, the CDFI Fund awarded $26,373,900 to organizations across the country that serve economically distressed communities, including:

- Enterprise Corporation of the Delta, Jackson, Miss., $585,000;
- Federation of Appalachian Housing Enterprises, Berea, Ky., $585,000;
- Mountain Association for Community Economic Development, Berea, Ky., $585,000;
- The Illinois Facilities Fund, Chicago, Ill., $585,000;
- Southern Financial Partners, Arkadelphia, Ark., $585,000;
- Dallas/Fort Worth Capital Fund, Jackson, Miss., $100,000; and
- Kentucky Habitat for Humanity, Louisville, Ky., $99,895.

These institutions are certified by the CDFI Fund as community development financial institutions or CDFIs. They provide capital, credit and basic financial products, such as savings and checking accounts; and technical assistance, such as financial education, to community residents and businesses.

For a list or other information regarding these awards, visit the fund's web site at www.cdfifund.gov.

IRS Offers Taxpayers New Refund Program

The Internal Revenue Service (IRS) recently announced a new program that will allow taxpayers who use direct deposit to divide their refunds in up to three financial accounts. The program will take effect in January 2007.

According to the IRS, more than three-quarters of the nation's taxpayers receive refunds each year. Last year, the average refund was $2,171. By using a new form, Form 8888, taxpayers will be able to choose up to three accounts—such as checking, savings and retirement accounts—for refund deposits.

The new split-refund option will be available to all individual filers, whether they file Forms 1040, 1040A/EZ, 1040NR or any of the other 1040 series forms. Taxpayers who want all their refund deposited directly into one account can still use the appropriate line on the Form 1040 series.

An IRS spokesman said the split-refund program is intended to encourage consumers to save more and to open depository accounts.

The IRS will work with its Stakeholder Partnerships, Education and Communication (SPEC) team to collaborate with IDA programs, VITA sites and nonprofit organizations. SPEC works with 60 national partners and 290 community coalitions.

Fed Product Helps Banks Serve Mexican Immigrants

Mexican immigrants working in the United States send at least $20 billion annually to family members in their home country. The bulk of these transactions (called "remittances") are made through storefront money-transfer services, which, on average, charge the sender about $10 in fees for a $300 transfer.

Recently, the Federal Reserve Banks and Banco de México, the central bank of Mexico, introduced *Directo a México* (Direct to Mexico), a service banks can use to send customers' funds from the United States to Mexico more quickly and economically. Banks that use the service can offer remittances for less than $5 a transaction.

As Federal Reserve Chairman (formerly Fed Governor) Ben Bernanke said in 2004, mainstream financial institutions that provide remittance services have a potentially effective method of attracting unbanked immigrants to other services, such as direct deposit services, savings accounts and consumer loans.

Targeting remittance services to consumers who need them can be difficult because as many as half the Mexicans in the United States do not regularly use a bank for remittances or any other service, according to Larry Schultz, vice president in the Federal Reserve's Retail Payments Office.

Directo a México helps banks reach these consumers and overcome other barriers. The service that supports *Directo a México*, FedACH International Mexico Service, is priced so that U.S. banks can offer it at competitive rates. ACH is a low-cost payments channel and is already in place in almost every financial institution in the United States. For this reason, there are no setup costs for most banks that choose to offer the program. ACH also uses standardized formats that make it possible for the payments to be channeled to Mexico in an automated fashion and delivered electronically to bank accounts there.

Financial institutions also receive a *Directo a México* promotional tool kit that is customizable. It includes Spanish-language templates for color brochures and posters, lobby/tent cards, statement inserts, foreign exchange information and text for a radio spot. The program's Spanish-language promotional templates help small and medium-sized financial institutions produce professional materials with minimal investment. The materials feature the consumer benefits that the banks can provide using the remittance program: security, speed, low cost and conveniences.

Remittances present a strong market opportunity for financial institutions, but the decision to enter this line of business is up to each bank and is subject to the same due diligence as any new product. Before offering *Directo a México*, Elizabeth McQuerry, assistant vice president with the Federal Reserve Retail Payments Office, suggests that banks consider compliance issues, such as account opening requirements and ceilings for payment amounts. Offering remittance services, such as *Directo a México*, may help financial institutions meet their Community Reinvestment Act requirements since they are providing a low-cost financial product to immigrants traditionally not using mainstream financial services and products.

More information on Directo a México *is available at: www.frbservices.org/Retail/intfedach.html.*

Have you HEARD

Entrepreneurship Focus of New Online Project

The Social Science Research Network recently announced the creation of the Entrepreneurship Research & Policy Network (ERPN).

Sponsored by the Ewing Marion Kauffman Foundation, ERPN is an online community for research on entrepreneurship. The foundation also is providing free ERPN subscriptions to U.S. universities and not-for-profit institutions for the first year.

To learn more, visit www.ssrn.com and click on ERPN.

Federal Reserve Adjusts Reg Z Disclosure Trigger

The Federal Reserve Board recently made its annual adjustment to the dollar amount that triggers additional disclosure requirements under the Truth in Lending Act (Reg Z) for home mortgage loans that bear rates or fees above a certain amount.

The amount of the fee-based trigger has been adjusted to $547 for 2007. The adjustment is effective Jan. 1, 2007.

The Home Ownership and Equity Protection Act of 1994 restricts credit terms, such as balloon payments, and requires additional disclosures when total points and fees payable by the consumer exceed the fee-based trigger or 8 percent of the total loan amount, whichever is larger.

Credit Reporting Firms Announce New Score

A new credit score was introduced earlier this year by the nation's three consumer credit reporting companies: Equifax, Experian and TransUnion.

VantageScore was developed in response to market demand for a more consistent and objective approach to credit scoring methodology across the three credit reporting companies, a statement from the companies said. Under the new scoring system, credit score variance between the companies will be attributed to data differences within each of the three consumer credit files and not to the structure of the scoring model or data interpretation.

The new system is expected to provide consumers and businesses with a predictive, consistent score that is easy to understand and apply, the statement said. Scores will range from 501 to 990.

RESOURCES

2004 Illinois Community Lending Fact Book—Published by Woodstock Institute, this statewide resource for mortgage-lending and home-buying trends includes statistics on low- and moderate-income home buying and high-cost lending. The book features information on the top metropolitan areas, including Springfield, Peoria, Champaign-Urbana, Bloomington-Normal, Rockford, the Quad Cities, Kankakee and Decatur in Illinois and St. Louis in Missouri. Information for individual metropolitan areas can be found online. The books can be purchased online for $25. Visit www.woodstockinst.org/factbook.

Farmers Market Resource Guide—The USDA Agricultural Marketing Service's guide lists grants, programs and other financial and informational resources available from public and private organizations. It is available online at www.ams.usda.gov/farmersmarkets/Consortium/Resource Guide.htm or in printed form by contacting the Agricultural Marketing Service in Washington, D.C., at 202-720-8317.

Moving Home: Manufactured Housing in Rural America—Although fewer than 25 percent of all homes in the United States are located in rural areas, half of all manufactured houses are located there. This study from the Housing Assistance Council takes a look at who purchases manufactured housing, how the purchases are financed, public perception of manufactured housing and other issues. The study is available online at http://216.92.48.246/infoReports Alpha.php#movinghome. Printed copies are available for $3 each, to cover postage and handling, from Luz Rosas at the Housing Assistance Council, 202-842-8600, ext. 137.

Reaching New Heights—The National Congress for Community Economic Development has released its fifth national census measuring the quantitative achievements of community-based development organizations. The census shows significant increases in home and apartment production, commercial and industrial development and job creation by community development organizations. Read the report online at www.ncced.org.

Community Development Financial Institutions: Providing Capital, Building Communities, Creating Impact—The publication analyzes data from 517 community development financial institutions (CDFIs) for the fiscal year 2004. An industry overview and five supplemental brochures provide in-depth analysis of community development banks, community development credit unions, community development loan funds, community development venture capital funds and microenterprise funds. The publication is the work of the CDFI Data Project, an industry collaborative supported by the Fannie Mae Foundation, the Ford Foundation and the John D. and Catherine T. MacArthur Foundation. Project partners include the Aspen Institute, Association of Enterprise Opportunity, Coalition of Community Development Financial Institutions, Community Development Venture Capital Alliance, CFED, National Community Investment Fund, National Federation of Community Development Credit Unions, and Opportunity Finance Network. Visit www.opportunityfinance.net/customer/home.php for more information.

CALENDAR

OCTOBER

11

Leading for Change: Toward the Greater Good—Louisville, Ky.
Sponsor: Center for Nonprofit Excellence (Sixth Annual Leadership & Awards Conference)
www.cnpe.org

28

Women's Money Matters Workshop—Crystal City, Mo.
Sponsors: University of Missouri Extension, Federal Reserve Bank of St. Louis
www.stlouisfed.org/community/conferences.html

30-Nov. 2

The Power of Opportunity—Washington, D.C.
Sponsor: The Opportunity Finance Network
www.opportunityfinance.net

NOVEMBER

15-17

Church-Based Community Development Training Symposium—Ft. Lauderdale, Fla.
Sponsors: BB&T, Freddie Mac
www.bbandttraining.com or 704-954-1108

16-17

Arkansas Venture Conference—Rogers, Ark.
Sponsor: Arkansas Venture Forum
www.arkansasventureforum.com

30

Mid-South Delta Summit—Tunica, Miss.
Sponsor: Federal Reserve Bank of St. Louis
www.stlouisfed.org

DECEMBER

7

Community Development Roundtable—Pine Bluff, Ark.
Sponsor: Federal Reserve Bank of St. Louis
www.stlouisfed.org/community/conferences.html

11-15

NeighborWorks Training Institute—New Orleans
Sponsor: NeighborWorks
www.nw.org/network/home.asp

JANUARY

31-Feb.2

2007 Community Development Conference
Sponsor: Missouri Community Development Society
www.mocds.org

BRIDGES

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

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

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

Call for Session Proposals

Exploring Innovation

DEADLINE TO SUBMIT PROPOSALS:
NOV. 30, 2006

The Federal Reserve Bank of St. Louis is seeking presentation proposals for a conference on community development finance from May 2-4, 2007, in St. Louis.

Share your knowledge, experience and ideas with your peers!

We're looking for breakthroughs in community development finance, in access to capital, and in scale and sustainability for community development organizations.

Do you have an innovate process or result you would like to share with us? It must relate directly to community development finance that most effectively improves communities.

Examples of presentation topics include, but are not limited to:

- How do you encourage innovation in the community, and under what conditions does it occur?
- How do you build and sustain a high-performance community development organization?
- How do you measure success in innovation?

It's easy to submit your presentation idea! Simply fill out the online form at www.stlouisfed.org/community/innovation. This site also has more details about possible topics and selection criteria for proposals.

Exploring Innovation

a conference on community development finance

May 2-4, 2007
St. Louis