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INDEX

5

Foreclosure Series:
Taking Action



7

HMDA Data:
What Does It Mean?

Exploring Innovation Week
April 14-18

9



Spanning
the Region

10

“Fringe” Lenders

Traditional Institutions Search for Alternatives

By Lyn Haralson
Community Affairs Specialist
Federal Reserve Bank of St. Louis
Little Rock Branch

The financial service industry has expanded beyond the traditional financial services of yesterday. A host of nontraditional or “fringe” financial service providers have grown in popularity, adding more consumer options to the mix.

Traditional financial services are typically offered by regulated financial institutions, such as banks and credit unions, and include checking and savings accounts and home mortgage and auto loans. “Fringe” financial service providers offer check cashing and payday and title loans.

This article focuses on check



cashers and payday lenders, why consumers turn to these services and how financial institutions can create partnerships to offer lower-cost alternatives.

Check Cashers

Check cashing outlets are the most commonly used fringe financial service. They cash government benefit checks and

continued on Page 2

According to the Center for Responsible Lending, the following is a **profile of the typical payday loan:**

loan amount = \$325

14-day interest = \$52

amount of check = \$377

average borrower refinances **eight times**

average borrower **pays \$800 to borrow \$325**

99 percent of loans go to **repeat borrowers**

average annual percentage rate (APR) = 416 percent

Law Protects Servicemen

Concerned about how high-cost debt obligations were affecting service men and women, and more specifically their preparedness for battle, the Department of Defense asked Congress to address the issue.

Congress responded with the Limitations on Terms of Consumer Credit Extended to Service Members and Dependents Act. This new federal law protects active-duty service members, their spouses and dependents from predatory lending. The law took effect Oct. 1, 2007, and targets payday lenders, auto title pawn lenders and providers of income tax refund anticipation loans.

Among other things, the law:

- limits the APR lenders can charge to the military to no more than 36 percent;
- prohibits rollovers with the proceeds of other credit extended to the borrower by the same creditor;
- prohibits lenders from requiring borrowers to use a check or other method of access to a deposit, savings or other financial account of the borrower as security; and
- prohibits lenders from requiring borrowers to waive their right to legal recourse.



“Fringe” Lenders

continued from Page 1

payroll checks, for a fee. Some check cashing outlets also sell money orders, collect bill payments and offer payday loans.

Check cashing outlets were originally designed to serve consumers who did not have a traditional bank account. However, a growing number of Americans are turning to check cashers to access their funds more quickly.

Check cashers may be more conveniently located for consumers than banks or may be open for business during more convenient hours. Consumers with low bank balances may be unable to cash checks at their banks without sufficient off-setting balances. The Check Clearing for the 21st Century Act (Check 21) provides for faster clearing of checks. Some consumers find, that while their bill payments are processed faster, they are still required to deposit payroll checks and wait for them to clear before accessing their funds. For consumers living paycheck to paycheck, as a growing number do, this hold period can result in insufficient funds to meet basic needs. Check cashers, on the other hand, provide immediate cash without waiting for the check to clear. However, the fee for providing this service is often high.

Payday Lenders

Some consumers who find themselves short of funds turn to payday lenders. Payday loans are small-dollar,

short-term loans secured by a check that the borrower leaves with the lender, who holds the check until the borrower's next payday. They are known to consumers by various names, such as cash advance loans or deferred presentment transactions.

Payday loans are usually priced at a fixed-dollar fee, which represents the finance charge to the borrower. The loans are short-term, usually 14 days. The cost of borrowing, expressed as an annual percentage rate (APR), can range from 300 percent to 1,000 percent or more, according to the Federal Deposit Insurance Corp. The loan is due on the consumer's next payday. Those unable to pay the loan in full must pay another transaction fee to postpone payment until the following payday. This is known as a rollover.

Unlike the check cashing outlet patron, payday loan consumers must have a checking account to secure a loan. So why would consumers pursue such a costly option if they have a banking relationship?

There is some indication that consumers turn to payday lenders when an unexpected financial emergency arises, such as auto repairs or medical expenses. A study by the Federal Reserve found that consumers turn to payday loans when there is an increase in dependents in their household. Other sources, including the payday lending industry itself, cite speed and ease of obtaining loans and an expectation by

consumers that they will not be turned down.

Perhaps one trend that is particularly disturbing is the use of check cashers and payday lenders as collection points for utility bills. According to the National Consumer Law Center, 21 large utilities use more than 650 licensed payday lenders as payment stations. For those who live paycheck to paycheck or who do not have a relationship with a financial institution, it may be enticing to take out a payday loan to pay utility bills, resulting in increased financial stress on these consumers.

Arkansans Take Action

In 2003, Arkansas Advocates for Children and Families convened a group of consumer, government and business leaders to identify practices that prevent families from sustaining adequate incomes or maximizing the income they do receive. Topping the list were the detrimental effects of payday lending on the working poor.

As a result of those meetings, Arkansas Against Abusive Payday Lending (AAAPL) was formed. This informal organization is dedicated to improving the lives of Arkansans, particularly the working poor, by supporting legislation that restricts or abolishes payday lending and by crafting alternatives that may be offered by regulated financial institutions.

The Community Affairs staff at the Little Rock Branch of the Federal Reserve Bank of

St. Louis has worked with AAAPL to help it craft a model alternative product. In 2006, the Fed convened a focus group of bankers to discuss barriers to an alternative product, as well as acceptable characteristics of a model product. Armed with this information, AAAPL developed the Payday Alternative Loan (PAL). In February 2007, the Fed held a meeting to highlight the model and to provide the FDIC an opportunity to share their proposed rules for small-dollar loans.

Properties of this model are:

- reasonable interest rates established by the financial institution,
- installment payments that fully amortize the loan in six to 12 months,
- a savings component that helps the borrower establish a savings account equal to the amount borrowed.

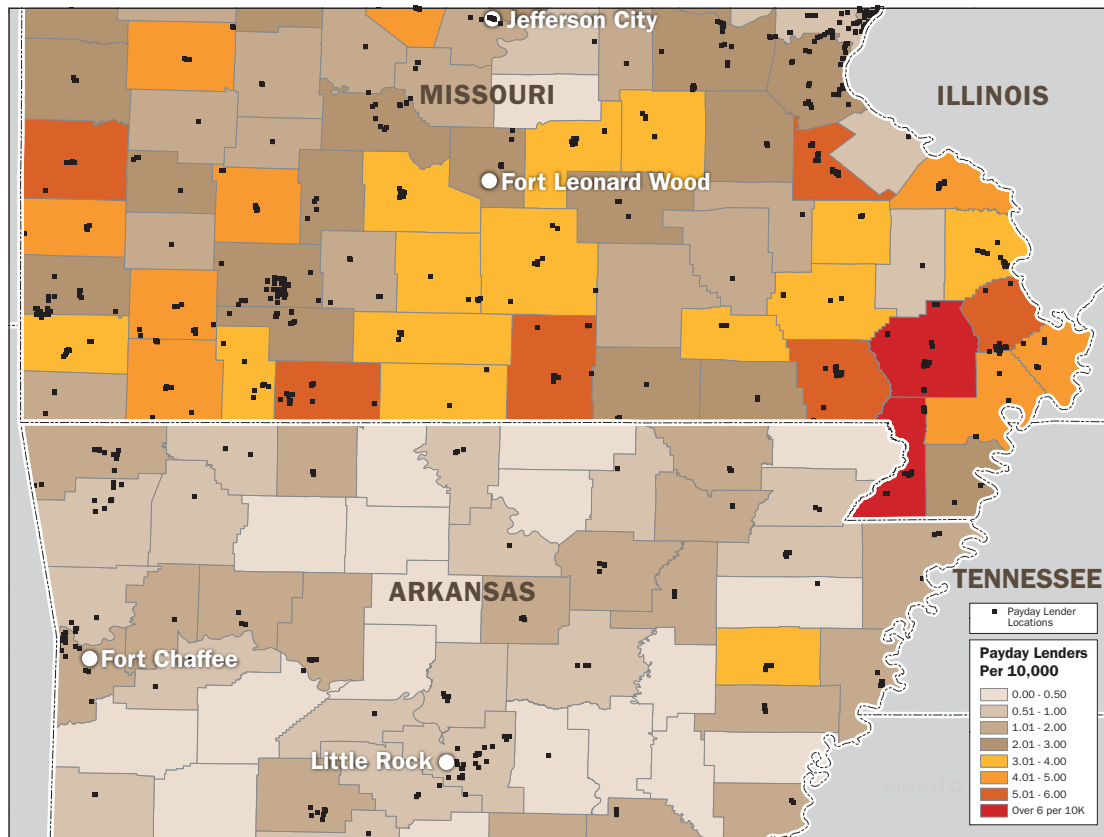
For more information on the Payday Alternative Loan (PAL) product, contact Hank Klein, founder/president of Arkansans Against Abusive Payday Lending at klein@aristotle.net.

Actions to place limits on payday lenders and check cashers also have had an impact on their density in Arkansas. (See map.)

What's Next?

It is undisputable that check cashers and payday lenders provide a service that consumers demand. It is equally true that these services exist

Per Capita Density of Payday Lenders by County Missouri-Arkansas Borderlands



Among states where payday lending is legal, the average per capita density of payday lending institutions is 1.19 per 10,000 persons. This figure is almost double for Missouri at 2.32, but slightly lower than average for Arkansas at 1.03. Courtesy of Steven M. Graves, Department of Geography, California State University, Northridge. Sources: State regulatory authorities, phone directories, U.S. Census.

because services such as signature loans and personal lines of credit have steadily declined over the past 20 to 30 years, leaving a consumer finance need unfilled.

Automated underwriting and the use of credit scores also have stripped the customer relationship out of the consumer financing decision. These changes are not necessarily bad as they are designed to mitigate risk and help financial institu-

tions compete in the expanded financial services market.

The question for regulated financial institutions is whether an increased level of consumer education and improved access to other forms of short-term credit would effectively reduce the use of more high-cost services. And, can financial institutions provide these small-dollar loans without losing money on them? The answer is unequivocally "yes."

An example is the State Employee's Credit Union (SECU) in North Carolina, which offers a Salary Advance Loan program. Loans are a maximum of \$500 repayable in a lump sum at the end of the month.

The program works much like a line of credit, with repayment and future loans fully automated through funds transfer, voice response, SECU's call center or over the

continued on Page 4

Payday Lending

continued from Page 3

Internet. The program has low-cost origination, maintenance and servicing costs. To qualify, members must have a SECU checking account and not be under bankruptcy.

Costs and profitability are shown in the table below.

To help financial institutions make informed decisions about these types of programs, the FDIC issued its Final Affordable Small Dollar Loan Guidelines in July 2007. For more information, visit www.fdic.gov/news/news/financial/2007/fil07050a.html

In January 2008, the FDIC will launch the Affordable and Responsible Consumer Credit program. The program is a two-year study designed to assist bankers by identifying replicable business models for affordable small-dollar loans. For more information, visit www.fdic.gov/news/news/press/2007/pr07088.html.

Resources

Arkansans Against Abusive Payday Lending
www.stop paydaypredators.org

Check 21 FAQ
www.federalreserve.gov/paymentsystems/truncation

Fannie Mae Foundation, *Alternative Financial Service Providers*
http://urbaninstitute.org/UploadedPDF/410935_AltFinServProviders.pdf

Journal of Economic Perspectives, *Payday Lending*, Winter 2007
<http://stlouisfed.org/news/assets/pdf/StegmanPaydayLendingJan07.pdf>

National Consumer Law Center, *Utilities and Payday Lenders: Convenient Payments, Killer Loans*, June 2007
www.nclc.org/reports/content/payday_utility.pdf

New Council To Advise Fed On Community Issues

The Federal Reserve Bank of St. Louis has created a Community Development Advisory Council composed of executives from 13 organizations throughout the Federal Reserve's Eighth District.

Council members—all experts in community and economic development and financial education—represent nonprofits, financial institutions, universities, government and foundations.

Their mission is to keep the Federal Reserve Bank's president and community affairs staff informed about community development issues in the District and suggest initiatives the Bank might undertake to support local development efforts.

The council members are:

Tim Bolding, executive director, United Housing, Memphis, Tenn.;

Rev. Adrian Brooks, pastor, Memorial Baptist Church and founder, Memorial Community Development Corp., Evansville, Ind.;

Alice Burks, director, Department of Housing and Community Development, Bowling Green, Ky.;

Brian Dabson, president and CEO, Rural Policy Research Institute (RUPRI), University of Missouri, Columbia, Mo.;

David Jackson, senior program officer, Mid-South Delta LISC, Greenville, Miss.;

Leslie Lane, vice president, Arkansas Capital Corp., and senior vice president, Arkansas Economic Acceleration Foundation, Little Rock, Ark.;

Trinita Logue, president and CEO, IFF (formerly Illinois Facilities Fund), Chicago;

Tom Reeves, president, Pulaski Bank, St. Louis;

Ben Steinberg, president, Southern Financial Partners, Helena, Ark.;

Stephanie Streett, executive director, William J. Clinton Presidential Foundation, Little Rock, Ark.;

Emily Trenholm, executive director, Community Development Council of Greater Memphis, Memphis, Tenn.;

Marita Willis, assistant vice president and community consultant, PNC Bank, Louisville, Ky.; and

John Wuest, president and CEO, St. Louis Equity Fund, St. Louis.

SECU Profitability Analysis for a \$10 Million Portfolio (Annualized)

Revenue at 12% APR	\$1,200,000
Actual loan losses (1/4 of 1%)	(\$25,000)
SECU average cost of funds (4%)	(\$400,000)
SECU average cost of operations (expense-to-asset ratio) (2%)	(\$200,000)
Net before taxes	\$575,000

ROA of 5.75%



Members of the Federal Reserve Bank of St. Louis' new Community Development Advisory Council are, from left: (front row) Tom Reeves, the Rev. Adrian Brooks, Emily Trenholm, Ben Steinberg, Trinita Logue and David Jackson; (back row) Stephanie Streett, Tim Bolding, Marita Willis, Leslie Lane and Alice Burks. Not pictured: John Wuest and Brian Dabson.

Foreclosures—Let's Talk about the Solution

Neighborhood Action Matters

By Matthew Ashby
Community Affairs Specialist
Federal Reserve Bank of St. Louis

This is the second of a two-part series on foreclosures. The first article, in the fall issue of Bridges, focused on help for homeowners facing foreclosure. This article looks at wider property issues that could adversely affect the future of a neighborhood.

It's been said that the first line of defense is a good offense. Thinking around a curve can be a bit of a challenge, but the ability becomes more important for a neighborhood considering how to preserve the progress it has made when foreclosed and problem properties start showing up.

To meet the challenge, residents need to reach a consensus about the existence of problem properties and how it affects them. Neighborhood-based improvement, business, housing, faith-based and other organizations often lead efforts to identify issues and build consensus around them. These groups serve as the primary means to communicate the concerns of the neighborhood to city, regional and state leaders.

To begin building a good offensive strategy may require

talking about reasons why foreclosure and problem property intervention and prevention efforts are important. Three basic answers are offered here to help answer the question, "Why does this issue matter?"

Reason No. 1: The homeowner and the wider neighborhood are not independent of one another.

Problems presented by residential foreclosures and other types of property issues go beyond the household and spread to the neighborhood. This spillover effect is known in economics as a neighborhood externality. It means that the behavior of an individual homeowner and the wider neighborhood are interdependent. Positive externalities offer a benefit while negative externalities present a cost to the wider neighborhood.

Reason No. 2: The stakes are high.

Decades of work and investment by dozens of stakeholders in a neighborhood could be in question, particularly in those areas with concentrations of at-risk properties. Studies reveal that local foreclosures and other serious housing problems like vacancy and abandonment can be related to other issues,



The High Costs of Foreclosures: What Are the Calculated Costs?

Stakeholders	Estimated Costs Per Foreclosure
Homeowner	\$7,200
Lender	\$50,000
Local government	\$19,227
Neighbor's home value	\$1,508
Estimated total costs	\$77,935

Source: Special Report by the Joint Economic Committee, 2007. Sheltering Neighborhoods from the Subprime Foreclosure Storm. <http://jec.senate.gov/reports.htm>.

including criminal activity, demographic changes, business closures, declining tax revenue, falling home prices and property values, higher municipal costs, and a rise in predatory lending, like foreclosure rescue scams and mortgage fraud. Foreclosures alone mean not only costs for borrowers and lenders but also for neighborhoods, communities and local governments and have been

estimated to be about \$78,000 per foreclosure. (See Table.)

Reason No. 3: Local action can mitigate negative externalities.

Neighborhood-based organizations helped break down barriers to lending. Now they play an important role in addressing other issues in the neighborhood, including foreclosure and property

continued on Page 6

Fed Welcomes New Staff Member

Kathy Moore Cowan has joined the Federal Reserve Bank of St. Louis, Memphis Branch, as a community affairs specialist.

In that capacity, she will provide advisory services to community organizations, government agencies, bankers and others on community and economic development issues.

Cowan comes to the Federal Reserve from The Works, where she was president and CEO. The Works is a faith-based, nonprofit community development corporation in Memphis that focuses on affordable single- and multi-family housing and homebuyer education. The Works is also a licensed mortgage brokerage in Tennessee and Mississippi.

Cowan has worked as an urban planner for governmental agencies in Louisville, Ky.; Nashville, Tenn.; and Knoxville, Tenn. She also has served on the Memphis and Shelby County Zoning Board of Adjustments.



Kathy Moore Cowan

Foreclosures

continued from Page 5

problems. They represent the interests of the residents, organize support and develop the capacity to raise capital.

These organizations can be even more effective when they work together. The St. Louis Foreclosure Prevention Task Force is one example. It is a coalition of organizations interested in property asset protection and preservation. The task force will work in 2008 to explore neighborhood actions.

Action at the neighborhood level is necessary because housing markets are local and some neighborhoods are affected more than others by property issues. For instance, home price appreciation has stabilized or declined in some areas and this could translate to an increase in loan-to-value ratios for the homeowners in a neighborhood.

Data and automated information systems help neighborhoods to stay on top of conditions and develop answers to questions like, "What's next?" This is critical because, in dealing with foreclosed and problem properties, the goal for the neighborhood is to intervene as soon as possible and recycle properties in a timely manner.

Tools and Techniques: A Checklist for Local Action

- The neighborhood is served by social, housing and community development organizations.

- Community-based housing corporations have the capacity to reclaim, rehabilitate and recycle foreclosed and problem property.
- Housing rehabilitation and repair programs are in place and are adequately funded.
- Neighborhood real estate watch programs use information and data management computer systems to track properties and other neighborhood conditions.
- Resident-driven nuisance, problem and code enforcement systems are in place to protect against larger problems.
- Vacant and abandoned properties initiatives are in place and legal issues are addressed through a municipal housing court or other remedy.
- Community partnerships support neighborhoods as a stakeholder in the property disposition process to ensure that the property will not cause disinvestment in the area. Banks and other financial institutions that have a Real Estate Owned (REO) department that is charged with selling foreclosed property are working with neighborhood-based organizations.
- There is a marketing plan for foreclosed and problem

properties to bring them to market quickly by partnering with real estate agents.

- Programs are in place at the neighborhood level to promote responsible property ownership for homeowners and landlords.

For additional information about strategies, technical tools, and model programs, visit the web site for the National Vacant Properties Campaign at www.vacantproperties.org.

Implications of the New Pricing Data from the Home Mortgage Disclosure Act

By Andrew P. Meyer
Senior Economist
Banking Supervision Department

The Home Mortgage Disclosure Act (HMDA) was enacted in 1975 and required that banks disclose certain information to the public regarding the home mortgages that they originated or purchased during the course of each year.

The original intent of HMDA was to determine whether mortgage lenders were discriminating against certain neighborhoods, particularly those with high minority concentrations. The law became a more powerful diagnostic tool following a 1989 amendment that required banks to collect information on the race and gender of each applicant. These data showed that minority applicants were more likely to be rejected than white applicants with similar incomes and loan amount requests.

Starting with the 2004 reporting year, lenders also were required to report loan pricing information to determine whether minorities who received loans were paying higher rates than white applicants. The lenders only report the rate if an applicant's annual percentage rate (APR) is

Figure 1: Differences by Type of Lender (St. Louis MSA)

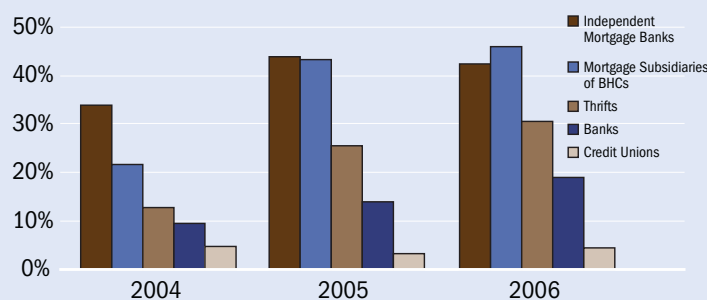


Figure 2: Differences by Race of Borrower (St. Louis MSA)



Source: HMDA

more than a certain number of percentage points over a benchmark rate. A loan secured by a first lien with an APR more than 3 percentage points above a comparable-maturity Treasury security would be entered as a high-cost loan. For junior liens, the high-cost threshold is 5 percent above the comparable-maturity Treasury security.

These thresholds were chosen so that most loans in the subprime market would be

flagged as high-cost loans and most loans in the prime market would not. As the subprime mortgage market proliferated, many lenders used higher prices to compensate themselves for added risk rather than rejecting marginal applicants outright. Thus, it became clear that pricing information was becoming increasingly important to any fair-lending analysis.

The HMDA evidence suggests that minorities are indeed

paying higher rates. This caused regulators, lenders and the public to grapple with many of the same issues that arose after the initial rejection rate disparities were discovered.

The Need for Supplemental Data

The original HMDA data showed that the denial rate for minority loan applicants was roughly three times that of white applicants. When these data were released to the public, many people concluded that this disparity represented a clear case of racial discrimination. Before this release, most of the evidence for discrimination had been anecdotal, but now there were some hard numbers shoring up this conclusion.

Naturally, many in the banking community took exception to this interpretation. They argued that if minorities were rejected at a higher rate on average, then they must have weaker average credit quality.

In the early 1990s, economists at the Federal Reserve Bank of Boston tested this hypothesis by painstakingly gathering additional underwriting variables from banks in the Boston area.¹ These additional variables included, among others, the debt-to-

continued on Page 8

HMDA

continued from Page 7

income ratio, the loan-to-value ratio, the number of past loan delinquencies, and the number of public records on applicants' credit reports. These variables were critical to the underwriting decision and added important information to the simple loan amount and income data required by HMDA.

When the additional credit quality variables were considered, much of the rejection rate disparity disappeared, but there was still a statistically significant role for race. That is, other things equal, minority applicants were still more likely than white applicants to be rejected for a given loan. Criticism of the Boston Fed study centered on data quality issues and the fact that underwriting standards vary widely across banks and across loan product types, leading to potentially misleading conclusions.

We are now traveling down a similar path with the release of the 2004 HMDA data. The new data show that not only are minorities being rejected at a higher rate, they are paying higher prices for the loans that they do get.

According to a study by economists at the Federal Reserve Board of Governors, the incidence of these high-rate loans for minorities is higher than the corresponding incidence for whites.² In the raw data, the differences are usually more than 20 percentage points for various loan products.

More than two thirds of the difference, however, can be attributed to differences in the groups' incomes, loan amounts, other borrower-related characteristics included in the HMDA data, and the choice of lender. The choice of lender plays a role because, historically, minorities are more likely than white borrowers to borrow from a mortgage company as opposed to a bank, and mortgage companies tend to charge higher rates and fees than banks. When the authors analyzed the data on an institution-specific level, roughly 2 percent of lenders exhibited a statistically significant difference in the incidence of higher-priced loans between minorities and whites after accounting for factors included in the HMDA data.

Pricing Data in St. Louis

An example of these issues can be found in St. Louis, which, in large part, mirrors the situation nationwide. A total of 726 local and nationwide financial institutions made at least one loan in the St. Louis Metropolitan Statistical Area (MSA) in 2006.

Of all the mortgages in St. Louis, the high-rate proportion has risen from 17.7 percent in 2004 to 29.6 percent in 2006. This increase is attributable in part to a flattening yield curve and some technical issues regarding its effect on the rate spread calculation, but also in large part to the burgeoning subprime mortgage market. In a pricing analysis,

it is also important to distinguish between types of lenders. Figure 1 shows that mortgage companies (either independents or subsidiaries in a bank holding company) tend to have higher proportions of high-rate loans than banks, thrifts and credit unions.

The fair-lending issue becomes apparent in Figure 2. In 2006, of all the mortgage loans made to African American borrowers, 61.6 percent were high-rate loans, compared to 31.5 percent for Hispanic borrowers and 24.0 percent for white borrowers.

As outlined above, however, it is important to dig deeper into these numbers before concluding that these differences are a result of racial discrimination. For example, differences in income and the fact that African-Americans tend to borrow from mortgage companies more often than other borrowers explain some of this gap. A true picture of the underwriting implications can only be obtained with more data from the lenders.

Regulatory Response

The Federal Reserve and other regulatory agencies follow up aggressively whenever these disparities show up in an individual bank. We request additional underwriting variables and carefully model whether these variables explain differences in prices (or rejection rates) regardless of the applicants' race or ethnicity. This approach is in the spirit of

the Boston Fed study, but for individual lenders. We work closely with lenders to ensure that the data are accurate and that we are modeling as closely as possible the criteria that were used to make the lending decision for each specific loan product. In this type of analysis, race and ethnicity cease to be statistically significant factors in the underwriting and pricing decisions of most lenders; but in the cases where they do not, we have imposed a variety of sanctions, including referrals to the Department of Justice for criminal prosecution.

Conclusion

In short, because the HMDA data alone are insufficient to draw definitive conclusions, the Federal Reserve and other supervisory agencies work carefully to gather enough further information to be fair to all parties involved. The disparities in the raw data show a clear need for further study, but without knowing more information about the creditworthiness of the individual applicants, one cannot draw any definitive conclusions about discrimination.

ENDNOTES

- 1 See Munnell, Alicia H., Tootell, Geoffrey M. B., Browne, Lynne E., and McEaney, James, (1996). "Mortgage Lending in Boston: Interpreting the HMDA Data," *American Economic Review*, 86(1), pp. 25-53.
- 2 See Avery, Robert B., Canner, Glenn B., and Cook, Robert E. "New Information Reported under HMDA and Its Application in Fair Lending Enforcement," *Federal Reserve Bulletin*, Summer 2005, v. 91, iss. 3, pp. 344-94.

CALENDAR

FEBRUARY

14-15

MoCDS Conference on Housing and Foreclosures—Kansas City, Mo.

Sponsor: Missouri Community Development Society
816-454-2000

21

The Role of the Federal Reserve in Community Development—St. Louis

Sponsor: St. Louis Social Enterprise Alliance
Host: Federal Reserve Bank of St. Louis
www.stlouisfed.org/community

MARCH

9-11

Social Enterprise Summit—Boston

Sponsor: Social Enterprise Alliance
www.se-alliance.org

26-28

Reinventing Older Communities: How Does Place Matter?—Philadelphia

Sponsor: Federal Reserve Bank of Philadelphia
www.philadelphiafed.org/cca/conferences.html

30-April 2

National Interagency Community Reinvestment Conference—San Francisco

Sponsors: Federal Reserve Bank of San Francisco, FDIC, OCC and OTS
www.frbsf.org/community/conference08.html

APRIL

7-9

Latinos in Missouri: Uniting Cultures (Uniendo Culturas)—Columbia, Mo.

Sponsor: Cambio de Colores
www.cambiodecolores.org

29-May 1

CDFA Development Finance Summit—St. Louis

Sponsor: Council of Development Finance Agencies
www.cdfa.net

Exploring Innovation



The Federal Reserve Bank of St. Louis invites you to be part of its first annual
EXPLORING INNOVATION WEEK

April 14-18, 2008

Celebrate innovation in community development.
Showcase your organization's creative ideas.
Plan an event in your area.

The purpose of the inaugural event is to draw national attention to the community development industry and its important role in American life.

The Bank extends an invitation to all interested entities to schedule local activities that will raise awareness and build support for community development.

Staff members at the Federal Reserve Bank of St. Louis are planning activities in the Bank's zones, which include St. Louis, Memphis, Little Rock and Louisville. Featured speakers, resource fairs and workshops will highlight topics such as innovations in housing finance and new ways to promote entrepreneurship.

A calendar listing of all events will be posted on the Internet. In coming weeks, you will receive information in the mail with the web address and more details on Exploring Innovation Week.

If you would like to discuss how you can be part of this celebration, call the Bank's community development staff member in your area:

St. Louis Matthew Ashby, 314-444-8891;

Little Rock Amy Simpkins, 501-324-8268;

Louisville Faith Weekly, 502-568-9216; or

Memphis Kathy Moore Cowan, 901-579-4103.

exploring: searching or traveling for the purpose of discovery

innovation: to add value by applying a new idea or method to something established

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.

IFF To Open Office in Missouri in January

IFF announced that it will open a St. Louis office to house its Missouri lending operation in January 2008. Kirby Burkholder will serve as the office director in Missouri.

IFF is a community development financial institution that serves nonprofit credit needs in Illinois, Missouri, Iowa, Indiana and Wisconsin. It provides nonprofits with loans and facilities planning and development. IFF loans are used to acquire, expand and maintain community facilities, affordable housing, and other physical infrastructure.

With assets of more than \$100 million, IFF has 539 loans totaling \$157 million that have leveraged more than \$360 million in new capital for nonprofits through June 2007.

Illinois Doubles Funding for Home Modification Program

Beginning in early 2008, the Illinois Housing Development Authority will make \$2.3 million available to senior residents and people with disabilities for home modifications that address accessibility or health and safety concerns.

Eligible households can receive a maximum of between

\$15,000 to \$25,000 as a five-year forgivable loan.

Twelve nonprofit and public agencies around the state will administer the program. Four entities in the Federal Reserve's Eighth District will receive grants: St. Clair County, \$150,000; Western Egyptian Economic Opportunity Council, \$165,000; BCMW Community Services, \$180,000; and Wabash Area Development Inc., \$150,000.

To qualify for the program, a person must be an Illinois resident with a household income of less than 50 percent of the median income, based on household size and the area where the resident lives. Qualified individuals also must be referred to the program through the Department of Aging or the Department of Human Services.

For more information, contact the Illinois Department of Aging Help Line at 1-800-252-8966 or the Department of Human Services at 1-800-447-6404. Information also is available online at www.state.il.us, www.state.il.us/aging/ or www.dhs.state.il.us/page.aspx.

Louisville Scholar House Focuses on Unemployed

Kentucky Housing Corp., the state's housing finance

agency, held a ground-breaking ceremony recently for Louisville Scholar House.

This new initiative is designed to help unemployed and underemployed Kentuckians pursue higher education and become self-sufficient. The goal is to remove barriers to higher education and employment by providing housing, child care and educational services.

Louisville Scholar House will have a child development center that will be operated in partnership with the University of Louisville and Project Women, a nonprofit organization.

Scholar House participants will attend workshops on topics such as health maintenance, parenting skills and job-search techniques, in addition to academic or vocational classes.

All services are free as long as the participant is a full-time student and meets the eligibility requirements for the federal Low Income Housing Tax Credit. Housing units will be available to single parents, as well as married couples, with or without children.

Louisville Scholar House is one of four such developments planned around the state. The other sites are in Owensboro, Bowling Green and Morehead.

For more information, contact Tammy Stansbury with Kentucky Housing Corp. at 1-800-633-8896 or 502-564-7630, ext. 411, or e-mail tstansbury@kyhousing.org.

Kentucky Joins Nationwide Mortgage Licensing System

Beginning Jan. 2, 2008, the Kentucky Office of Financial Institutions (OFI) will join several other states as participants in the Nationwide Mortgage Licensing System. The system is a pilot program developed by state regulators through the Conference of State Bank Supervisors and the American Association of Residential Mortgage Regulators.

The web-based licensing system will allow state-licensed mortgage lenders and mortgage brokers to apply for, amend or renew a license online. The goal of the new system is to streamline the licensing process for both regulators and the mortgage industry by using a national online system and a single set of uniform forms.

All companies that currently hold a license with OFI will need to complete a two-part process to get set up on the system.

For information, visit www.csbs.org and click the "Mortgage Lending" tab. OFI

has scheduled additional training and resources for licensees on using the system. Updates will be posted on OFI's web site, www.kfi.ky.gov.

Missouri Gives Tax Credits for Matched-Savings Program

A new Missouri law allows some organizations to receive tax credits for projects developed under the Family Development Account program.

Community-based, religious or charitable organizations formed under Chapter 352, RSMo, or any nonprofit corporation formed under Chapter 355, RSMo, are eligible for the tax credits.

The Family Development Account program is a community building initiative that guides low-income Missourians to self-sufficiency through asset development. Organizations approved to administer a Family Development Account project recruit low-income Missourians to participate in a matched savings program. Participants may use their savings to help pay for job training; purchase of a primary residence; major repairs or improvements to a primary residence; education at an accredited institution of higher learning; or start-up capitalization of a small business.

For more information, contact the Missouri Department of Economic Development at 573-751-4539 or e-mail dedfin@ded.mo.gov.

Arkansans Can Dial 2-1-1 for Community Services

In February, Arkansas will become the 17th state to offer 2-1-1 services statewide. The easy-to-remember phone number connects individuals with community-based and government resources in their community.

Callers can find information about rent assistance, food banks, affordable housing, health resources, child care, after-school programs, elderly care, financial literacy and job-training programs.

The 2-1-1 service will be available 24 hours a day, seven days a week. A collaboration of United Way organizations, businesses, government and service agencies offered direction for the statewide initiative. Funding for the program comes from both private and public sources.

For more information, visit www.arkansas211.org.

Other states in the Bank's Eighth District that offer the 2-1-1 service are Mississippi, Missouri and Tennessee.

Fed Calls for Research Papers

The Federal Reserve System is seeking research papers on innovative financial services.

Authors whose papers are accepted will present them at the Fed's
**Community Affairs Research Conference
on April 16 and 17, 2009, in Washington, D.C.**

Innovative Financial Services for the Underserved: Opportunities and Outcomes

is a conference designed to encourage objective research into financial services issues affecting low- and moderate-income people and communities.

Examples of topics for research are:

- What innovations have occurred?
- Do traditionally underserved populations benefit from these innovations?
- Do these financial services serve as an entry point into the financial mainstream?
- Have we gone too far in creating additional access to financial services, in particular, access to credit?

Individuals interested in presenting their research should e-mail their completed paper (preferred) or detailed abstract to Alan Barkema at KC.CARResearchConf@kc.frb.org by July 15, 2008.

Telephone inquiries can be made to Kelly Edmiston, senior economist, Federal Reserve Bank of Kansas City: 1-816-881-2004

Income Tax Credit, Kids' Savings Topics of New Fed Booklets

A new publication from the Federal Reserve Bank of St. Louis is available to anyone wanting to learn about an important tax credit. And a booklet about teaching children to manage their money has been translated into Spanish.

You've Earned It! explains the federal Earned Income Tax Credit (EITC). Millions of low-income Americans are eligible for, but unaware of, this credit and do not apply for it. Qualified taxpayers could receive up to \$4,500 with their income tax refund. The new

booklet also provides a list of local organizations that an individual can go to for help.

Kids and Money (Los Niños y el Dinero) is now available in English and Spanish. The booklet gives parents ideas for fun family activities that teach children the importance of managing money.

Both booklets are free and may be ordered 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.



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.

Have you HEARD

Agencies Issue Final Rules on Identity Theft Red Flags

The federal financial institution regulatory agencies and the Federal Trade Commission have issued the final rules on identity theft "red flags." The final rules implement sections 114 and 315 of the Fair and Accurate Credit Transactions Act of 2003.

The rules require financial institutions and creditors holding consumer accounts that might be at risk of identity theft to develop an identity theft prevention program for new and existing accounts. The program must enable a financial institution or creditor to:

- identify specific forms of activity that are "red flags" signaling possible

identity theft and incorporate those red flags into the program;

- detect red flags that have been incorporated into the program;
- respond appropriately to red flags in order to prevent identity theft; and
- update the program periodically to reflect changes in risks from identity theft.

Credit and debit card issuers also must develop ways to assess the validity of a request for a change of address that is followed closely by a request for an additional or replacement card. The rules also require those who use consumer reports to develop procedures on what to do when they receive a notice of address discrepancy from a consumer reporting agency.

The final rules were issued by the Federal Reserve System, the Federal

Deposit Insurance Corp., the Federal Trade Commission, the National Credit Union Administration, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision. The final rules are effective Jan. 1, 2008. Covered financial institutions and creditors must comply by Nov. 1, 2008.

Federal Reserve Posts New Web Site for Consumers

A new web site from the Federal Reserve is designed to help consumers find information on a variety of financial topics.

The web site includes information on home mortgages, credit reports, starting a small business, electronic banking, checking accounts and more. A feature called "Can a Bank Really..." explains what rights banks have, while another feature explains consumers' rights and how to file a complaint about a bank.

To view the web site, visit <http://federalreserveconsumerhelp.gov>.