

COMMUNITY INVESTMENTS

A Community • Economic Development Publication

VOLUME TWELVE NUMBER 3



COMBATING FINANCIAL FRAUD: WHAT YOU CAN DO

Efforts to eliminate financial fraud are as varied as the acts of fraud themselves. This article spotlights several programs throughout the Fed's 12th District targeted at protecting those most vulnerable to being victimized and offers suggestions on what role your organization can play

DIGITAL DIVIDE

What are the potential social and economic consequences of a digitally divided society and what can be done to bridge the gap? This thoughtful article provides answers to both these questions

CARAT ANNOUNCES TACP

Technical assistance is critical to the creation and long-term success of many small businesses. Read the results from a California nonprofit's survey of technical assistance providers and learn how these results will be used to develop baseline standards for certification

DISTRICT UPDATE

Featuring the profile of Leadership Council members from Los Angeles and Boise and the 2001 roundtable dates

DECEMBER 00

Community Investments

EDITOR-IN-CHIEF

Joy Hoffmann Molloy

MANAGING EDITOR

Lena Robinson

CONTRIBUTING EDITOR

Jack Richards

ART DIRECTOR

Cynthia B. Blake

If you have an interesting community development program or idea, we would like to consider publishing an article by or about you. Please contact:

MANAGING EDITOR

Community Investments

Federal Reserve Bank of San Francisco
101 Market Street, Mail Stop 620
San Francisco, California 94105

Community Affairs Department

www.frbsf.org

(415) 974-2978

fax: (415) 393-1920

Joy Hoffmann Molloy

Vice President

Public Information and Community Affairs
Joy.H.Molloy@sf.frb.org

Jack Richards

Community Affairs Senior Manager
Jack.Richards@sf.frb.org

Bruce Ito

Associate Community Investment Specialist
Bruce.Ito@sf.frb.org

H. Fred Mendez

Community Investment Specialist
Fred.Mendez@sf.frb.org

Craig Nolte

Senior Community Investment Specialist
(Seattle Branch)
Craig.Nolte@sf.frb.org

John Olson

Community Investment Specialist
John.Olson@sf.frb.org

Adria Graham Scott

Community Investment Specialist
(Los Angeles Branch)
Adria.Graham-Scott@sf.frb.org

Lena Robinson

Associate Community Investment Specialist
Lena.Robinson@sf.frb.org

Mary Malone

Protocol Coordinator
Mary.Malone@sf.frb.org

Judith Vaughn

Staff Assistant
Judith.A.Vaughn@sf.frb.org

Editor's

NOTEBOOK by Joy Hoffmann Molloy

SHOULD CRA STAND FOR THE "CREDIBLE REINVESTMENT ACT?"

Representatives from the Federal Reserve Banks of Boston, Chicago, Dallas, New York and San Francisco were invited to participate in a series of meetings in England last month to provide information about the United States' community development industry. The insights and best practices that we shared about community and economic development here and the banking industry's critical role were received with envy, awe and curiosity.

Due to long held views about lending in low-moderate income (LMI) communities, there is little bank investment throughout England's low-income geographies and few, if any specialized loan programs to meet the needs of LMI people. While there is a well-developed nonprofit and local government sector there, it operates independent of bank investment. Money that does flow to nonprofits and foundations is usually in the form of grants with no expectation of return. The investment potential of the inner-city or the "city fringe" is not yet recognized.

As I participated in these meetings in England, I asked myself if the billions of dollars of investment in the U.S. would have happened without a CRA. In many ways, CRA can be credited as the catalyst for expanding access to credit, creating a well-respected community and economic development industry and developing sophisticated models of public/private partnerships that have produced affordable housing, created small businesses and provided a higher standard of living for numerous Americans in low-income areas. Several reports published this year validate the quantitative success of CRA. Many of you have your own stories that also validate the qualitative success of CRA in your communities.

It is clear that CRA has been the motivation many financial institutions needed to consider financing alternatives in low-income communities. Today, many financial institutions speak of the value their various CRA-related programs and products have brought to their institutions: they have made claims of profitability, attraction of new customers and development of new market and product opportunities and they enjoy a positive reputation as a result. While I don't believe regulation is the final answer to solving a lack of investment in specific communities, I do feel that the CRA has been the primary motivator for the remarkable level of bank investment that has been key in turning these neighborhoods around. The audiences in England were astounded by our stories of loan pools and products designed especially to meet the needs of low-income people. It may not always seem so, but what we are doing here is working and offers inspiration and hope for communities around the world.

What's Inside

PREDATORY LENDING AND FINANCIAL FRAUD: WHAT YOU CAN DO	3
DISTRICT UPDATE	12
DIGITAL DIVIDE	15
CARAT ANNOUNCES TACP	19

INTRODUCTION:

For the better part of two years, the issue of predatory lending has commanded the attention of bankers, regulators, real estate and community development professionals and consumer advocates. As an issue or practice best characterized as fraud or violations of current consumer protection and lending laws, predatory lending defies easy solutions. Proactive measures are critical in any effort to eliminate this offensive and intractable problem. This article seeks to offer resources and ideas about how you and your organization can play a role in curbing predatory lending and financial fraud.

Combating predatory lending and financial abuse of elders requires the cooperation of front-line professionals such as bank employees, mortgage lenders and community organization representatives. Tougher legislation, heightened regulatory inspection, consumer education and increased disclosure requirements are not enough to guard against the superior tactics of unscrupulous players. The effort to combat predatory lending and other examples of financial fraud must also involve personal accountability.

For example, personal accountability includes a willingness to report individuals whose unscrupulous conduct poses reputational risk to the industry and, in some cases, nullifies the efforts of legitimate organizations to increase homeownership. Personal accountability includes taking the initiative to report suspected fraudulent and abusive activity targeted at elderly customers. Personal accountability also extends to developing strategies for collaborating with appropriate agencies to create innovative models and best practices. The information and programs that follow will serve as models for how your organization can take such steps.



Predatory Lending and Financial Fraud: What You Can Do

*Introduction by Lena Robinson, Associate Community Affairs Specialist,
Federal Reserve Bank of San Francisco*

The following articles spotlight efforts and resources focused on preventing home equity fraud and protecting the assets of those who are most vulnerable or at risk of being defrauded. The Los Angeles County Real Estate Fraud and Information Program illustrates the effectiveness of strategic cooperation among law enforcement, legal aid and real estate industry professionals. A list of agencies that regulate mortgage brokers throughout the Fed's 12th District is also provided to emphasize the importance of industry self-regulation

and due diligence in weeding out habitual offenders. Finally, the California Community Partnership for the Prevention of Financial Abuse underscores the importance of training and building relationships with law enforcement and social service agencies such as Adult Protective Services.

Most importantly, these models are intended to empower those in the best position to make a difference—you. As a professional working directly with clients, you may at some time or another encounter a situation or scenario

that “looks like” predatory lending or financial fraud. Hopefully your response will not be indifference or helplessness, but rather empowerment to uphold your personal and fiduciary duty. Knowing that there are mechanisms in place is encouraging and helps to defeat cynical thinking that hampers our willingness to get involved. “An ounce of prevention is worth a pound of cure.”

Fighting Home Equity Fraud and Predatory Lending ...One Community's Solution

by Joan Potter, Research Analyst, Federal Reserve Bank of Cleveland

On a warm, sunny day in Los Angeles, Bruce Provan left his home for the last time. Provan, severely disabled by multiple sclerosis, planned to go away for a few days while some home improvement work was completed. A friend from church had graciously offered to find a contractor to “fix up the place a bit” and had even taken care of the paperwork and financing. Provan had only to sign a few documents. He thought he was signing a contract for home improvements—but in fact, he had signed away his home entirely.

Stories of predatory lending like this one appear almost daily in newspapers nationwide. You might guess how the story ends: Provan loses his home, loses his home equity, and ends up living in his car. Legal? No.

Provan's misfortune was a case of home equity fraud. In 1994, such fraud was already illegal and carried criminal penalties in Los Angeles. But in most of the country, Provan's friend would have walked away free and clear, with a substantial amount of cash and more confidence to prey on the next victim. Home equity fraud is strik-

ingly similar to predatory lending and, despite its illegality, occurs quite often. In many instances, fraud plays a key role in predatory lending cases (see figure 1). According to attorney Ben Diehl of Bet Tzedek Legal Services, more than half of the predatory lending cases he sees involve criminal fraud. Other investigations into the practices of predatory lenders confirm that fraud occurs regularly.¹

The lesson to be learned from these cases is that making the abusive lending practices of predatory lenders illegal is not enough: enforcement is essential in curbing the practices that have catastrophic consequences for American homeowners.

Predatory lending is a complex problem, requiring a broad policy response that combines actions at local, state, and federal levels. Policy actions must

address the underlying causes of predatory lending. This report focuses on two of those factors, insufficient laws and little enforcement.

ONE COMMUNITY'S SOLUTION

Homeowners in L.A. County who suspect fraud or predatory lending may call the Real Estate Fraud Hotline and speak with a trained investigator about their loan; if the call is made immediately, they may exercise their right to rescind the loan within three days under the Truth in Lending Act. Borrowers may also make an appointment with L.A. County's Department of Consumer Affairs, and a member of the Real Estate Fraud Division will examine and explain their loan documents.

In Los Angeles, whenever property is pledged as security for a loan (by the recordation of a deed of trust), property owners are notified by mail and provided a copy of the deed, disclosing the full amount of debt against the property. Also included is a tip sheet—written in plain English (or Spanish)—explaining the documents and the possibility of foreclosure if they fail to make payments.

¹ For example, in the 1998 Senate Special Committee on Aging hearing, a former finance company employee testified, “I've seen finance company employees commit forgery on a massive scale. These employees have forged everything from insurance forms, RESPA documents, income verification forms, and even entire loan files.”

Los Angeles consumers are urged to call the Real Estate Fraud Hotline to speak with Department of Consumer Affairs staff if they have any questions or concerns about their loan documents. In addition, the department provides counseling, information, referrals, investigation, and mediation of complaints—all free of charge—and conducts outreach programs targeting high-risk groups such as the elderly and homeowners in low-and moderate-income neighborhoods.

In many predatory lending cases consumers believe they are getting a home equity loan but are, in fact, refinancing. Therefore, L.A. County homeowners are notified that their entire mortgage has been refinanced, leaving them with a substantial outstanding debt that is secured by their home. If criminal fraud is suspected, law enforcement agents and the district attorney begin an investigation, which may lead to criminal prosecution. Additionally, the Department of Consumer Affairs refers complaints against contractors and mortgage brokers to their respective licensing agencies.

A PARADIGM SHIFT

During the early 1990s, legal aid attorneys in Los Angeles saw the number of home equity fraud cases increasing. Although the county had laws in place making home equity scams a crime, few criminal prosecutions occurred. Civil litigation was just as ineffective in deterring such fraud: according to attorney Manuel Duran, “judgments meant nothing to these scammers. The scammer would just get a new name and continue on with the same scam.” Therefore, a way to address the barriers to effective criminal prosecution was needed.²

Why were so few home equity fraud cases prosecuted? Many homeowners were routinely turned away because the police had little knowledge of home equity fraud and told victims their cases were civil in nature. On rare occasions when allegations of home equity fraud were investigated, the detectives assigned to the cases were not properly trained to understand the

complicated legal documents involved, and therefore could not assess whether a crime had taken place. Because of poor investigations, there was rarely sufficient evidence to prosecute.

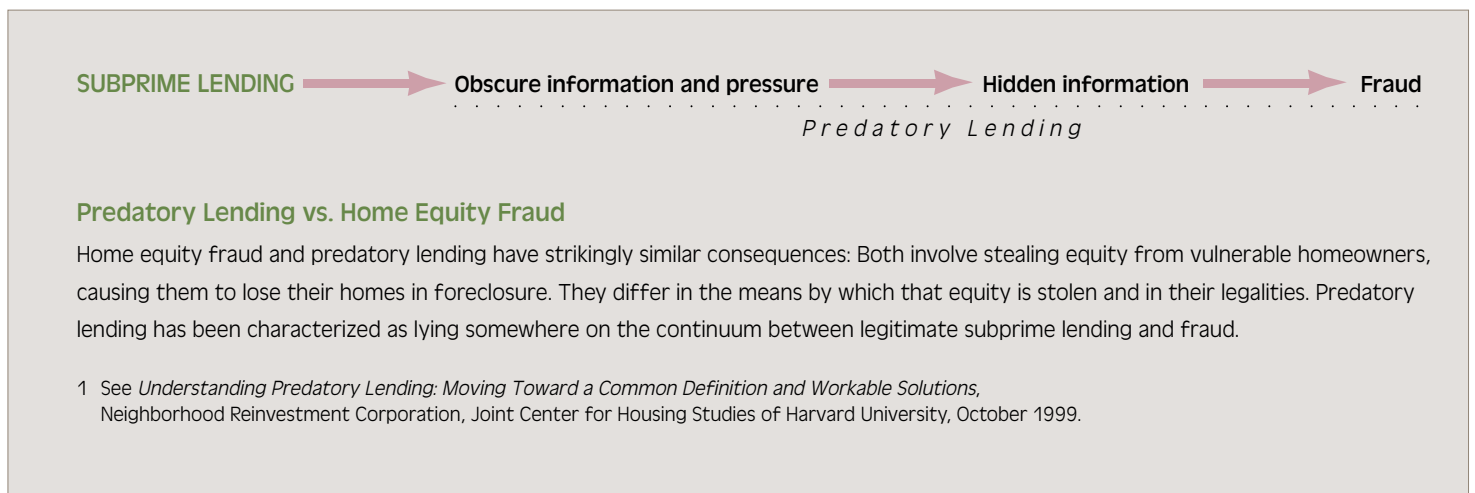
In 1994, a home equity fraud prosecution committee was established, comprising two legal aid attorneys, a deputy district attorney, and representatives of the Department of Real Estate and the Los Angeles County Consumer Affairs Office. Additionally, legal aid attorneys invited law enforcement agencies to participate in a two-day training session.

Although these efforts allowed law enforcement to better recognize home equity fraud and conduct more productive investigations, the prosecution model remained flawed.

The county’s prosecution model was ineffective, for two reasons. First, many homeowners did not realize they had been scammed until the foreclosure process had already begun. Such cases are difficult to investigate and prosecute because so much time has passed; in some cases, the statute of limitations may have expired. The Real

² See “Getting Law Enforcement Involved in Predatory Lending Cases,” *The Consumer Advocate*, January/February 2000, p. 38.

FIGURE 1



Estate Fraud Notification Program and Hot-line were created to address this problem. Consumers are notified within 30 days of the recording of a deed or deed of trust and victims are able to recognize and report fraud much more quickly.

Second, few resources were dedicated to investigating and prosecuting home equity fraud cases. Thus, the Real Estate Fraud Prosecution Trust Fund was established, funded by a \$2 fee added to deeds and deeds of trust at the time of filing. The fund pays for local police real estate fraud investigation units and an expanded district attorney's real estate fraud prosecution unit.

THE SUCCESS OF THE LOS ANGELES MODEL

The Real Estate Fraud Hotline receives about 2,000 calls a month, answered by three Department of Consumer Affairs investigators. Of those calls, 50 percent require formal action. The program's positive public reception—it has a 99

“A significant component of predatory lending involves outright fraud and deception, practices that are clearly illegal. The policy response should simply be better enforcement.”

— Federal Reserve Governor **Edward M. Gramlich**
to the Fair Housing Council of New York, April 14, 2000

Home Equity Fraud and Predatory Lending Defined

<i>Legitimate subprime lending</i>	<i>Predatory lending</i>	<i>Predatory lending plus fraud</i>	<i>Home equity fraud</i>
<p>Legitimate subprime lending refers to lending at rates above the prime rate to cover the increased risk and transaction cost of lending to borrowers with non-traditional credit histories or who pose greater credit risks. The premium above the prime rate reflects the increased risk and transaction cost.</p> <p>The loan structure is related to the borrower's income stream and promotes the borrower's ability to repay the loan.</p> <p>Lending terms and costs are fully disclosed to the borrower. Borrowers' questions are answered honestly, and all applicable disclosure laws are followed.</p>	<p>Predatory lending typically refers to the abuse of mortgage provisions that are generally desirable. Lending rates are usually substantially above the prime rate and large fees and points are typically charged, added to the principal, and financed as part of the loan.</p> <p>The total cost of the credit often far exceeds the credit risk; however, sometimes the credit risk is so high that the loan seems to have been made with the expectation of borrower default.</p> <p>In many cases, loans are originated based on the equity in the home, without regard to the borrower's ability to pay.</p> <p>Many times the initial loan terms disclosed to the borrower are substantially different in the contract.</p> <p>Frequently the borrower has little time to review the documents and is pressured to sign quickly without asking questions.</p>	<p>Fraud often accompanies predatory lending, and it may be present in a number of ways, since fraud laws vary by local community and states. Behaviors that constitute fraud vary as well: Practices include falsifying borrower income on loan documents, forging the borrower's signature, and diverting funds away from the borrower.</p>	<p>Home equity fraud differs from "predatory lending plus fraud" in that home equity fraud may occur with or without a loan. The circumstances under which home equity is "taken" can vary, but it typically occurs through deception, trickery, forgery, and identity falsification.</p> <p>For example, one case successfully prosecuted in Los Angeles involved a "borrower" who had forged a deed and was attempting to get a loan secured by the property. The original owner had no knowledge of the forgery or the debt. The lender suspected the forgery and called the Real Estate Task Force, which conducted an investigation and arrested the forger.</p> <p>Bruce Provan's case also involved home equity fraud without a loan: Provan was tricked into signing papers that would give another power of attorney.</p>

percent approval rating—has prompted several other California counties to pass initiatives for similar programs.

The comprehensive partnerships and collaborative efforts among several agencies are what make the initiative so effective. According to Manuel Duran, an attorney formerly with Bet Tzedek Legal Services and an early initiator of the partnership, “[i]t is not difficult for a legal aid attorney to call the Department of Real Estate and start the process of revoking the license of a broker or the district attorney’s office to start a criminal investigation. Just as easy, a police detective can call a legal aid attorney for information that will assist the detective in an investigation or in obtaining a search warrant.” Because the district attorney’s office plays such a key role in the partnership, cases are turned over for prosecution more quickly and effectively. Many times, law enforcement units discover they are investigating the same people, and they can team up and share evidence to develop a case.

A MODEL OF INTEGRATED EFFORT

Because no legislation has made predatory lending a criminal offense, such practices often must be fought indirectly. In fact, according to Supervising Investigator Nicholas Aquino, Los Angeles Department of Consumer Affairs, the most disturbing calls received by the hotline are cases with allegations of abusive lending practices and verbal misrepresentations of loan terms, but few elements of fraud or other criminal behavior. Although many such cases have been successfully tried in the civil courts, consumers hesitate to incur the legal expense of a civil court battle.

The fraud-fighting partnership is a model of an integrated effort to stop unscrupulous scam artists from stealing home equity, causing homeowners to lose their home in foreclosure, leaving their victims with a pile of legal bills, and causing them substantial stress and misery. In Los Angeles, the collaborative efforts of many players are helping people get back their home

equity, prevent foreclosure, put scam artists behind bars, and deter others from entering this line of work.

The views in this report are those of the author and do not necessarily represent those of the Board of Governors of the Federal Reserve System or of the Federal Reserve Bank of Cleveland.

Reprinted from CR Report, Summer 2000, a community affairs publication of the Federal Reserve Bank of Cleveland. If you would like additional copies of CR Report, contact the Community Affairs office at 216/579-2135.

The story ends...

Bruce Provan was fortunate to live in Los Angeles. Provan’s case—a clear case of home equity fraud—was the first to be prosecuted by the Task Force. His “friend”—who had abandoned Provan in a motel 90 miles away from home with a bag of groceries and no money, so that he could return and sell the house—did spend some time in jail. Although Provan never got his home back, the man who stole it got his due.

Special thanks to Supervising Investigator Nicholas Aquino of the Los Angeles Department of Consumer Affairs for many lengthy interviews regarding the Los Angeles program. Thanks also to attorneys Manuel Duran, in practice at Duran and Flanagan, and Ben Diehl of Bet Tzedek Legal Services.

MORTGAGE BROKERS AND LENDERS

by Lena Robinson, Associate Community Affairs Specialist, Federal Reserve Bank of San Francisco

As the name suggests, predatory lending is most often a lending transaction where the victim has been specifically solicited with a loan product that is unfavorable. By itself, this may not be illegal. But a pattern and practice of such conduct is, and can be prosecuted. At the very least, such conduct should be made known to the appropriate licensing or regulatory agency. Because the act of deceit and fraud often appears to occur with a non-depository mortgage broker or lender, contact information has been provided for the state agencies that regulate this group.

Realistically, it is not easy to uncover predatory practices. The unfortunate

reality is that fraud is usually discovered after the fact. For instance as a lender, you may detect irregularities in a previous transaction during an attempt to re-finance. Or perhaps as a community development professional helping a client workout of a foreclosure you suspect deception in the original transaction. These transactions may be isolated, but if they raise predatory “red flags”, they are probably worth reporting. The most practical opportunity for detection may be during the underwriting process for securitizing brokered loans. The emphasis here is really on industry self-regulation and due-diligence.

The departments that license and regulate mortgage brokers and lend-

ers vary by state. In the Fed’s 12th District, Alaska appears to be the only state that does not regulate mortgage brokers although they are required to be licensed. In general, regulatory responsibility includes periodic audits, investigation of complaints regarding fraudulent conduct, and authority to revoke their license if the complaint is substantiated. Most of these departments do not have civil or criminal jurisdiction and advise that these efforts must be pursued independently and often concurrently to safeguard statutory limitation guidelines. If your concern or complaint is outside the purview of these agencies listed, they can direct you to the appropriate agency.

AK:	Division of Banking, Securities and Corporations	http://www.dced.state.ak.us/bsc/mortgagelender.htm
AZ:	State Banking Department—Consumers Affairs	http://www.azbanking.com/conaff.htm
CA:	Department of Real Estate	http://www.dre.cahwnet.gov/
	Department of Corporations	http://www.corp.ca.gov/enf/enforcement.htm
HI:	Regulated Industries Complaints Office	http://www.hawaii.gov/dcca/rico/
ID:	Department of Finance	http://www2.state.id.us/finance/dof.htm
NV:	Nevada Real Estate Division	http://www.state.nv.us/b&i/red/comp.htm
OR:	Division of Finance & Corporate Securities	http://www.cbs.state.or.us/external/dfcs/mortgage/mortmain.htm
UT:	Utah Division of Real Estate	http://www.commerce.state.ut.us/re/udre1.htm
WA:	Department of Financial Institutions, Div. of Consumer Services	http://www.wa.gov/dfi/cs/home.htm



FINANCIAL ABUSE OF ELDERS AND DEPENDENT ADULTS

by Kimberly Petrini, President/CEO, Novato Community Bank

Financial exploitation of the elderly and dependent adults is a significant problem affecting millions of Americans across the county. Elders comprise an increasing segment of our population, and elder financial exploitation and other forms of abuse are occurring at alarming rates as the population gets older and accumulates more wealth. Still, only a small percentage of estimated financial abuse cases are reported each year.

Adult social service agencies find that approximately 25–35 percent of their caseload involves financial abuse by persons, often relatives or friends, known to the victims. California's state attorney general's office reports that an increasing number of criminal prosecutions involve financial abuse against elders. The number of financial abuse cases are currently estimated between 80,000–100,000 cases per year and rising. And this problem can only get worse. By 2010, the number of persons over 65 is projected to increase by 63 percent from 1990 statistics to almost five million.¹

“Staff training is important not only as a means of helping to identify potential abuse, but also in helping staff differentiate between financial exploitation and legitimate situations where family members must act on behalf of their elderly relatives.”

¹ California Department of Finance, Population Projections 1993.

TRAINING TO PREVENT ELDER FINANCIAL FRAUD

Cases of elder fraud often involve someone that the victim knows and trusts such as a family member, friend or caregiver. This makes detection less obvious and the decision to report more sensitive. For this reason, it is important that bank employees receive training to recognize signs of fraud and receive guidelines on how to proceed. In addition to the CCPPFA project highlighted on this page, a number of excellent resources exist to promote such training.

Several bankers associations in the 12th District have undertaken a campaign to educate bank employees on how to recognize and prevent financial exploitation. In 1997, the Utah Bankers Association in cooperation with the State Division of Aging and Adult Services developed and conducted "train-the-trainer" workshops for bank trainers on how to recognize elder exploitation and their state mandated obligation to report suspected abuse. Because of this effort and the active participation of bank personnel, several cases were reported and resolved. Similarly, The Oregon Bankers Association has launched a new initiative in partnership with their state attorney general's office, AARP and a state social service agency, to train bankers on how to identify and report suspicious activity.² The involvement of the state attorney general is a strong endorsement of this effort and an implicit indication that banks are shielded from liability for "good faith" reports based on reasonable suspicion. The Nevada Bankers Association also distributes handouts with tipsheets for consumers and bank employees that include the contact numbers for appropriate state agencies.

Financial Watch is an employee training video created by Union Bank of California. The five-minute video, which portrays a number of scenarios to acquaint employees with the possibilities of elder fraud, is augmented by a discussion of the Bank's procedures and individual branch considerations. The four banking regulatory agencies are currently working to develop a similar product that will be available to banks districtwide.

THE PROBLEM

Financial abuse is one of the most destructive forms of abuse because the elderly are generally unable to recoup their losses. If seniors lose their homes, they may not be able to feed themselves, pay for medications and other crucial medical care they may need today or in the future. This type of abuse not only financially devastates seniors, but has the potential to result in the unnecessary institutionalization of elders and possibly their death from depression. Often it is difficult to restore someone's physical well-being, pride and dignity after the cruel crime of elder abuse has occurred.

THE SOLUTION

Financial institutions are in a unique position to witness financial abuse. They administer accounts, trust and other financial assets of elders and dependent adults. Employees get to know their customers' spending patterns such as denominations and amount of money regularly withdrawn. They can detect a decline in a senior customer's ability to conduct transactions or know whether or not a customer has the physical ability to make certain types of transactions. Yet, until recently, because of lack of information about identifying and reporting these transactions and the industry's practice of keeping customer's financial affairs confidential, banking institutions rarely reported these cases to public authorities. This has placed banks, as well as their customers, at risk.

Financial abuse is a significant problem demanding a comprehensive community response. The California Community Partnership for the Prevention of Financial Abuse ("CCPPFA") is

1 Preventing Elder Financial Exploitation:
How Banks Can Help (*training kit*),
Senior and Disabled Services Division
503/945-6399

California's first statewide public/private partnership initiative developed in response to this increasing social problem.

CCPPFA's mission includes:

- 1) training employees of financial institutions to recognize and report suspected financial abuse of elders and dependent adults;
- 2) raising community awareness of financial abuse through a regional public awareness campaign scheduled for January 31, 2001;
- 3) increasing communication between banks/credit unions, adult protective service and law enforcement agencies;
- 4) educating and empowering seniors; and
- 5) becoming a funding source for the many underfunded and understaffed programs in our communities who support financial abuse prevention.

CCPPFA's initiative offers a turn-key program that can be readily incorporated into almost any financial institution's existing public relations or training structure. Because CCPPFA was founded and developed by banks, the curriculum and topics are highly relevant and reflect the concerns of financial institutions. Currently, representatives of CCPPFA are working with the FDIC to receive CRA consideration for participation in this type of program. Many senior citizens fall within a low-mod income classification given that their financial support comes primarily from public benefits.

WHAT BANKS CAN DO TO HELP PREVENT FINANCIAL ABUSE

- Train bank personnel to recognize potential warning signs of elder financial abuse or fraud.

- Encourage staff to get to know their elderly customers and become familiar with their banking practices and account activity.
- Establish internal bank procedures that outline the appropriate staff responses to suspected abuse.
- Develop or sponsor education and consumer outreach programs targeted to elders (e.g. financial literacy and techniques for reducing risk to financial abuse and exploitation).

LEGAL AUTHORITY TO INTERVENE

Banks have existing civil, criminal and welfare and institutions codes to protect them when reporting suspected financial abuse cases. Such cases should be reported to the county office of Adult Protective Service for investigation. If the situation appears to be urgent and threatening, the sheriff or police department should be contacted immediately. Additionally, some banks have developed advanced directives for financial management which allow account holders to name someone they would like the bank to contact if their banking practices become "unusual".

In the State of California, Senate Bill 1742 was recently signed into law and will become effective January 1, 2001. This bill effectively allows specially trained peace officers to immediately freeze financial accounts of an elder whom they suspect is being abused. The system currently in place often takes months to establish a freeze. In the meantime, assets can be bled dry. For specific laws and regulations in your area, check with your local district attorney's office. *Remember... financial abuse can be reported anonymously anytime by anyone. CI*

For more information about CCPPFA, contact Kimberly Petrini at 415-898-5400 or email her at kpetrini@ncbanking.com.



ABOUT THE AUTHORS

JOAN POTTER joined the Federal Reserve Bank of Cleveland's Community Affairs staff as a research analyst in January 2000. She is responsible for researching and analyzing community reinvestment, economic development, and fair lending issues to illustrate the impact of the Community Reinvestment Act and other community development programs. Potter previously worked in the Bank's Research Department, where she obtained and analyzed economic data and worked with economists on long-term research initiatives.

KIMBERLY PETRINI is the president/CEO of Novato Community Bank, a locally owned and operated financial institution in Marin County, CA. Ms. Petrini is also the president of CCPPFA. She has been featured on KFTY 50, BayTV and the Marin Report.

Ms. Petrini is active in many community organizations including Rotary (former board member), Novato Chamber of Commerce (former financial committee member), Boy Scouts of America, Junior Achievement and Novato Community Health Foundation Board. Ms. Petrini received her bachelor's degree in accounting from California State University, Hayward and is currently pursuing her MBA at the University of Phoenix, Novato.

Novato Community Bank received the Small Business of the Year Award, 2000.

District Update

CRA Leadership Councils were established to recognize and encourage community reinvestment efforts throughout the 12th District. The Councils, which are affiliated with the local CRA roundtables, actively participate with the San Francisco Fed's Community Affairs staff to identify critical community and economic development needs, and to develop new products and services. In this ongoing feature, we ask Council members to talk about their backgrounds and how they became involved in CRA, their responsibilities, successes and any advice or words of wisdom they would like to share. This time we are pleased to feature Elsa Monte of Eldorado Bank in Laguna Hills, California and Jane Pavek of First Security Bank in Boise, Idaho.



ELSA MONTE
VICE PRESIDENT, CRA & FAIR LENDING
ELDORADO BANK

My career as a CRA officer began in 1989. The bank I was associated with was looking to improve their performance after receiving a 'Needs to Improve' rating on their first CRA exam. Management knew I was looking to do something different and asked if I was interested in taking on the task of developing a CRA program. CRA was new to me and I thought it would be an interesting challenge. As a result of lots of research, talking to other CRA Officers and keeping an open dialogue with the Office of Thrift Supervision (our bank's regulator), the bank achieved 'Satisfactory' ratings in the following two compliance exams.

I have found working with CRA to be both tremendously rewarding and challenging, particularly keeping up with changes and subjective interpretations of the regulation. The rewards come from the positive impact CRA has made on whole communities and individuals. CRA has provided a valuable opportunity to work with many local groups such as Neighborhood Housing Service (NHS), Habitat for Humanity, the Affordable Housing Clearinghouse and other community development organizations that help improve the economic condition of communities. Our involvement with these groups has also helped to acquaint us with the communities we serve and to change some erroneous perceptions.

A trip to south central Los Angeles to paint homes with NHS illustrates this point. On the morning we met in the Orange County branch parking lot, many of the volunteers were jittery about gangs and violence in the community because of perceptions developed from news stories over the years. By lunchtime and after a few hours working, these same people were out talking to all the neighbors and laughing and chatting with the kids on the block. On the way home, the conversation was about how real the families were and how similar their lives were to our own. That was the beginning of many years of service to the NHS program.

In 1998, I took on the challenge of assisting Eldorado Bank with its CRA responsibilities. At the time, oversight of CRA was shared between the compliance officer and the executive vice president of construction lending. While the bank was performing satisfactorily, a program that provided goals and objectives to continue to meet CRA requirements did not exist. My primary responsibility with Eldorado is to develop a CRA program that is consistent with the bank's overall business strategy.

The uniqueness of Eldorado Bank is that while it is a commercial bank headquartered in Southern California, it also has one branch and a large wholesale

mortgage division in Northern California. The primary source of business for the mortgage division is wholesale loans from four western states and Northern California, which affects the bank's geographic distribution of credit products unfavorably. To address this concern, the bank increased its mortgage production in Southern California by establishing a retail mortgage division in some branches and a wholesale division in San Diego. The affordability gap in the Southern California market required the bank to introduce loan programs that included 100 percent financing and other products that target low- and moderate-income buyers. After one year, the number of mortgage loans originated in Southern California has increased by 18 percent.

I would advise other CRA officers to keep up with regulatory changes and to communicate with the regulators. It is also important to keep senior management and the board of directors informed at all times on the progress of the CRA program. CRA is a team effort that requires participation from all bank divisions and progress should be measured against the overall achievements of the bank.

Elsa can be reached at (949) 206-5255 or via email:
emonte@eldoradobank.com.



JANE E. PAVEK
A.V.P. & COMMUNITY REINVESTMENT OFFICER
FIRST SECURITY BANK, N.A.

My career with First Security Bank, N.A. began in 1993, soon after I graduated from Boise State University. I completed the bank's management training program and became a mortgage loan officer, where it quickly became apparent to me as I originated mortgages that my niche was working mainly with first-time homebuyers. The first-time homebuyer market was largely untapped at that time and I was frustrated by the lack of assistance for customers who were otherwise prepared for homeownership, but did not have the means for the down payment and closing costs. This ignited my interest to find programs that could benefit a segment of the population often overlooked. In 1996, the bank's position for the Idaho CRA Officer became vacant and I saw this as a great opportunity to further promote assistance for underserved segments of our population.

I now oversee the implementation of the CRA for First Security Bank throughout Idaho. I coordinate CRA activities and record the activities of our 87 branches and other business lines. I am responsible for the assessment of the economic and social needs of the communities that First Security serves and the coordination of our efforts to meet those needs. This responsibility presents many opportunities to develop partnerships, products and projects to meet the unique needs of certain communities and popu-

lations. I also help write grant applications in collaboration with community development partners, and take part in administering grant programs and monitoring projects for compliance with the stipulations of the individual grants.

I have been fortunate to be involved with the three Neighborhood Housing Services in Idaho as a board member, loan committee member and as a resource development committee member. I also serve on the Idaho Partners for Homebuyer Education board of directors and represent First Security on the Idaho Financial Literacy Coalition. For the past 4 years, I have been on the Scholarship Committee for *Image de Idaho*, a nonprofit organization concerned with the education, employment and civil rights of Idaho Hispanics.

First Security Bank benefits from building partnerships in the communities it serves. Idaho has limited financial and technical resources in the community development industry, which necessitates bringing different "players" together around a common goal. For example, the Idaho Partners for Homebuyer Education (IPHE) was formed in 1997, following the conclusion of the first Idaho Governor's Conference on Housing, because it was apparent that Idaho was one of the few states that did not have a statewide homebuyer education program. IPHE has eight regional partners

throughout Idaho, who, within the first six months of classes, educated approximately 1000 people.

Similarly, the Idaho Community Reinvestment Corporation (ICRC) was created in response to the need for affordable housing for low- and moderate-income residents in Idaho. It serves as a catalyst for the development of affordable housing by providing fixed-rate, permanent loans for the construction and rehabilitation of multi-family rental projects. The ICRC is a consortium of financial institutions throughout Idaho including First Security Bank, which was a leader in its formation.

Obviously, one of the main components in a successful CRA program is community involvement. Not only by the CRA officer, but throughout all business lines and branches. First Security Bank employees are very community minded, which is integral to our 'Outstanding' CRA rating. A good tracking and reporting system of employees' CRA activities is essential to accurately develop programs and products to meet your communities' needs. This will also enable you to evaluate community impact and makes the preparation for CRA examinations less stressful—if this is possible. One last thought: never underestimate what can be accomplished with *partnerships*.

*Jane Pavek is available at (208) 393-2256 or via email: **jpavek@fscnet.com.***

District Update

Leadership Council Update

Alaska Council

Gail West (outgoing)
Teresa Nelson (incoming)
Key Bank (Anchorage)

Arizona Council

Kathleen Hemmingsen (incoming)
Harris Trust Bank of Arizona
(Scottsdale)

Hawaii Council

Ann Marie Springer (incoming)
American Savings Bank (Honolulu)
Walter Horikoshi (incoming)
Central Pacific Bank (Honolulu)

Northern California Council

Christine Maia-Fleres (outgoing)

Oregon Council

Scott Zimbrick (outgoing)

Washington Council

Randy Fewel (outgoing)

WELCOME NEW MEMBERS!

2001 CRA Roundtable Dates

Financial institution CRA officers and bank community development staff are invited to participate in the Roundtables. These meetings are a valuable source of information about CRA regulatory compliance and local community credit, service and investment opportunities.

STATE	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER
Arizona	March 15	June 21	September 20	December 13
California (San Francisco)	February 6	May 8	August 7	November 6
California (Los Angeles)	February 7	May 9	August 8	November 7
California (San Diego)	February 8	May 10	August 9	November 8
Idaho	March 8	June 14	September 13	December 13
Nevada	March 13	June 12	September 11	December 11
Oregon	January 9	April 10	July 10	October 9
Utah	January 18	April 19	August 16	TBD
Washington	February 8	May 10	August 9	November 8

COMMUNITY AFFAIRS CONTACTS FOR ROUNDTABLES:

Adria Graham Scott (213) 683-2785 (Los Angeles, Arizona, San Diego)

Craig Nolte (206) 343-3761 (Idaho, Oregon, Washington)

John Olson (415) 974-2989 (Northern California, Nevada, Utah)

INTRODUCTION

Access to computers and the ability to use this technology effectively are now critical for full participation in society. A growing percentage of the population is using the Internet to gather information, work from home, start businesses, acquire new skills using distance learning and access a host of on-line services such as retail and banking. The ability to use technology also remains important in the workplace, where jobs in the growing information technology sector pay almost 85 percent more than jobs in other sectors.¹ Although the Internet and information technology are playing an increasingly important role in the country's economic, political and social life, the reality remains that not everyone is "connected" and thus able to participate in this new economy. This article discusses some of the consequences of the disparity that exists between those with access to technology and those without—more commonly known as the "digital divide"—and highlights initiatives in the 12th District that are attempting to overcome what may be the first significant challenge of the 21st century.

Creating Digital Connections From Digital Divide to Digital Opportunity

by Georgette Bhathena, Associate Examiner, Federal Reserve Bank of San Francisco

U nleashing the tremendous potential of both the Internet and digital information technology requires, as President Clinton asserts, that the "trade routes...run through every city, every town, every community." The unfortunate reality remains, though, that the digital trade routes run through some communities while leaving others unconnected.

A report released in August 2000 by the Federal Communications Commission (FCC) points to the gap in deployment of advanced telecommunications capability across the nation.² Despite the FCC's conclusion that deployment has been "reasonable and timely" overall, their data also support the conclusion that market forces alone cannot insure that certain segments of the American population will receive timely access to advanced telecommunications capability. The populations most at risk of being left out are low-income consumers, those living in sparsely popu-

lated areas, minority consumers, persons with disabilities and those living in U.S. territories.

While Americans are more connected than ever and access to computers and the Internet has grown across all demographic groups and geographic locations,³ significant disparities still exist among certain segments of the population. Households that have experienced the most rapid growth in access are those with higher incomes, more education, computers at work, white or Asian backgrounds, and households headed by persons ages 35 to 50.⁴ Those lagging behind are younger individuals, those with lower income and educational levels, certain minorities and those located in rural areas and inner cities.

According to the U.S. Department of Commerce's report entitled *Falling Through the Net: Defining the Digital Divide*:

1 *Meeting Workforce Demands in the Digital Economy*, Digital Beat, July 2000, p. 1. www.digitaldividenetwork.org/workdemands.adp

2 *Deployment of Advanced Telecommunications Capability: Second Report*; Federal Communications Commission, August 2000, p. 6. www.fcc.gov/Bureaus/Common_Carrier/News_Releases/2000/nrcc0040.html

3 *Falling Through the Net: Defining the Digital Divide*; National Telecommunications and Information Administration, U.S. Department of Commerce, July 1999, p. 1

4 *Falling Through the Net*, p. 1

- Black and Hispanic households are approximately two-fifths as likely to have home Internet access as White households, and one-third as likely as households of Asian/Pacific Islander descent.
- Regardless of income level, Americans living in rural areas are lagging behind in Internet access. At the lowest income levels, those in urban areas are more than twice as likely to have Internet access than those earning the same income in rural areas.
- A child in a dual-parent White household is nearly twice as likely to have Internet access as a child in a White single-parent household. A child in a dual-parent Black family is almost four times as likely to have access as a child in a single-parent Black household.

THE DIGITAL DIVIDE IN THE FINANCIAL SERVICES INDUSTRY

While the issue of the digital divide may seem far removed from the day-to-day operations of the financial services industry, in truth, the digital divide has a direct impact on the industry. This impact is felt primarily in the areas of customer service and market share.

With increased concerns about profitability and competition from a host of financial service providers, large banks in particular are facing considerable pressure to streamline operations and seek out alternative, less costly methods for delivering banking products and services. From a cost savings perspective, it is apparent why many banks have become more reliant on electronic delivery systems such as automated teller machines, bank-by-phone services and on-line banking. According to 1997 data reported by the Office of the Comptroller of the Currency,⁵ the cost of an average transac-

5 Goldberg, Deborah B.; *The Community Reinvestment Act and the Modernized Financial Services World*, ABA Bank Compliance, January/February 2000: p. 16.

“We’re in a different time of fundamental economic transformation, but we can do it very differently because, unlike the railroads of the Industrial Age, the trade routes of the Information Age can run through every city, every town, every community. And, in fact, the more communities they run through, the better it works.”

Remarks of President Clinton during a Digital Divide discussion with the East Palo Alto Community (April 17, 2000).

tion conducted at a teller window was four times higher than the cost of the same transaction conducted at an ATM, and a teller transaction cost 100 times more than the same transaction conducted over the Internet. However, to the extent that electronic delivery systems replace traditional brick-and-mortar branch facilities as the central delivery point for banking services, low- to moderate-income (LMI) consumers face even greater limited access to both traditional and alternative delivery systems.

Though electronic services were developed to expand choices and options for consumers, the opposite is occurring for those who lack the economic means or technical skills to access these services. In addition to not having access to personal savings, checking and loan account information, these individuals also do not have the ability to research other bank products and services. Such lack of access may negatively impact a bank’s market share. As banks pursue electronic delivery systems as the primary point of interaction with customers, they may be limiting adjunct business opportunities.

In failing to reach unconnected individuals, banks forego precious “cross-sell” opportunities by losing the chance to offer home mortgage loans, business loans or other products like insurance.

Finally, another way the digital divide affects all industries, including banking, is through the labor market. As banks increasingly rely on technology to support business operations, the shortage of high-technology workers in the labor force presents a significant concern. In 1998, the Information Technology (IT) workforce, including workers in IT-producing industries and workers in IT occupations in other industries, totaled roughly 7.4 million workers or 6.1 percent of all workers.⁶ While demand for these high-tech workers grows exponentially, the supply has not kept up. In fact, last year alone nearly 346,000 technology jobs went unfilled because of a shortage of domestic workers with the appropriate skills.⁷

6 *Meeting Workforce Demands*; p. 1

7 *Meeting Workforce Demands*; p. 2.

One way to alleviate the tremendous demand for workers is to invest in a relatively untapped labor market, LMI individuals. Investments to increase access to technology and provide comprehensive technical training will yield both long-term advantages and significant returns that benefit all sectors of the economy. Through such investments, companies will gain access to an expanded high-tech work-force while individuals will obtain highly marketable skills that will allow them to secure high-paying jobs.

HOW BANKS CAN HELP BRIDGE THE DIGITAL DIVIDE—12TH DISTRICT INITIATIVES

Throughout the Fed's 12th District, banks are working with concerned partners to address the technology needs of their communities. To the extent that these efforts meet the needs of low- and moderate-income communities, banks can earn CRA credit under the investment and service tests. The six initiatives that follow represent unique and innovative approaches tailored to meet the particular needs of their communities. They are seeking bank involvement in three forms: financial grants, donations of time and expertise, and donations of computer equipment and software. While the list is by no means exhaustive, the initiatives selected represent programs as diverse as the communities they serve and geographically spread across the nine-state district.

A+ Computer Certification Training Program, Samoan Service Providers Association (Honolulu, Hawaii)

Established in 1984, Samoan Service Providers Association's (SSPA) mission was to provide support services exclusively to the Samoan community in Hawaii. Since then, SSPA has expanded its services to include the Native American, low-income, immigrant and refugee communities. The SSPA A+ Computer Certification Training Program was developed in 1999 because of the scarcity of qualified computer service

and repair technicians in Hawaii. The training program is designed to have students become versed in MS-DOS, Windows and identifying all the components of a computer system. Upon completion of a 12-week training course, the students then enter eight weeks of intensive certification training. The 20 weeks of training culminates with successful completion of the A+ Certification test. Last year students in the program refurbished 60 used computers provided by Bank of Hawaii, which were then donated to a computer center for grade school and high school students of Samoan ancestry. Each student to graduate from the A+ program also received one of the remaining computers. The program is now in its second year.

Contact: David Parish, Incubator Manager, (808) 842-0218

sspa@hawaii.rr.com

Website: www.samoanserviceproviders.com

Affordable Housing and Business Information Resource Desks, The Indian Walk-In Center (Salt Lake City, Utah)

The Indian Walk-In Center serves approximately 25,000 Native American Indians representing 50 different tribes with services and activities designed to be culturally sensitive and relevant for the urban American Indian peoples and all low-income populations. A relatively new resource under development at the Center is the Affordable Housing and Business Information Resource Desks, a project co-sponsored by the Federal Reserve's Utah Sovereign Lending Task Force. Using computers linked by an intranet, individuals will be able to access information on first-time home-buyer programs, Section 8 and small business development.

In the future, the Center plans to include information about the job search process (resume building and employment applications) as well as more comprehensive information on starting a small business (developing a business plan, securing a loan). The Center also plans to hold informational workshops

on various technology topics that will be video-conferenced to overcome geographic dispersion and maximize the number of people able to access the information. The Indian Walk-In Center is in need of computer donations and financial grants to be used to hire a full-time staff person to provide technical assistance at the Resource Desks and to purchase additional computers and internet access.

Contact: Thomas Burke, Development Director, (801) 486-4877

tburke@xmission.com

JobLink: Bay Area Video Coalition (San Francisco, California)

JobLink is a workforce development program for low-income adults and youth pioneered in 1997 by the Bay Area Video Coalition (BAVC). Heralded nationally as a model for technology training, JobLink offers intensive technology training and job placement services to narrow the digital divide and provide access to new economy skills for disadvantaged San Francisco Bay area residents. Since its inception, JobLink has trained over 235 low-income individuals and boasts a 75 percent placement rate at a number of Bay Area companies.

Contact Paige Ramey, Director of New Media Initiatives, (415) 558-2172

paige@bavc.org

The CyberVillage, Dunbar Economic Development Corporation (Los Angeles, California)

The CyberVillage project is a partnership between Dunbar Economic Development Corporation (Dunbar EDC) and several agencies and organizations to bring technology to the Somerville Place I and II, a housing community of mostly single heads of households in one of Los Angeles' poorest communities. In addition to the computers installed in each of the 41 family units ranging from two to four bedrooms, the project also consists of the following components:

CyberVillage Lab is housed in the Dunbar Hotel, a historically significant



ABOUT THE AUTHOR

GEORGETTE BHATHENA recently joined the consumer compliance unit as an associate examiner at the Federal Reserve Bank of San Francisco. In this capacity, she performs compliance and CRA examinations of state member banks. Prior to joining the compliance unit in September 2000, she served as a summer intern in the Bank's community affairs unit. She received bachelors' degrees in economics and business administration from the University of Washington in June 2000. Ms. Bhathena is also a Ford Foundation public policy and international affairs fellow.

building renovated to house an onsite community facility. The Lab's goal is to be a technology access point for residents. The computer lab will provide digital Internet access, tutorial training on computer use and academic enrichment through educational software. To address language and cultural barriers, training will be offered in both Spanish and English.

The *Community Asset Mapping Program (CAMP)* is a youth enrichment program that charges youth with the responsibility of identifying and cataloguing community assets. In partnership with UCLA/API, CAMP is a unique concept that teaches youth how to become empowered about assets in their community as they learn important technology skills. Each asset is incorporated into a website that creates a community map.

Contact: *Reginald Chapple, Executive Director, (323) 234-7882*

Website: www.dunbaredc.org

The Inner-City Cyber Café, Operation Hope (Los Angeles, California)

The Inner-City Cyber Café was developed by Operation Hope through a unique partnership with leading high-tech hardware and software companies. Situated in south central Los Angeles, the Inner-City Cyber Café provides the local community with a comfortable, relaxed atmosphere to meet, conduct e-commerce related business and research, hold one-on-one business meetings, and access the Internet. The Café offers 18 cutting-edge technology stations and access to a variety of software, including financial planning software provided by Intuit. Operation Hope will provide training on the software to encourage financial responsibility. Intuit also provided the TurboTax (software to allow LMI individuals to prepare and electronically file their federal and state tax forms free of charge. Taxpayers with an annual adjusted income of \$20,000 or less, as well as anyone filing Form 1040-EZ, are eligible for this program.

Valuable and needed market research on LMI individuals' opinions, perspectives and buying patterns will result from the 'regular' use of the technology stations in the Cyber Café. Operation Hope will implement an operating and information gathering system that tracks not only specific usage but provides a level of detailed feedback, with the information distributed to manufacturers, technology partners, the media and the community at large.

Contact: *Charles Toff, Cyber Café Manager, (323) 290-2410*

Website: www.operationhope.org

The Technical Teens Internship Program, Technology Access Fund (Seattle, Washington)

Established in 1996 by a former Microsoft employee and a former Seattle Mental Health Agency employee, the Technology Access Fund (TAF) is a nonprofit agency that provides communities of color access to technology.

TAF's flagship program is the Technical Teens Internship Program (TTIP) which provides both technical skills training and internship placement for 13 to 18 year-olds interested in careers in information technology. Each year in the fall, approximately 40 students enter the eight-month intensive computer "boot camp" where they meet twice a week for three hours to learn computer literacy, extensive Web page development and job readiness skills. Following their rigorous training, the students are placed with local Seattle-based technology companies to pursue eight-week summer internships. This year, students worked with companies like Microsoft, RealNetworks, ShopNow.com and others.

Other programs that TAF offers include *Tech Start*, a newly established program that works with children ages 2-12, their parents, their community agencies and their schools to increase technical awareness; and *The Virtual Institute* which provides curriculum, technical training and assistance to a consortium of approximately 31 community organizations that have technology components. Organizations include schools, boys and girls clubs, libraries, housing centers, and community centers.

Contact: *Ann Stjern, Development Officer, (206) 725-9095*

annst@techaccess.org

Website: www.techaccess.org

CONCLUSION

While it cannot be expected that the digital divide will be solved overnight, concrete steps to address the issue must be taken. With strategic investments, key partnerships and creative thinking, we can begin to open the "trade routes" President Clinton speaks of and move historically underserved communities to the economic mainstream. **CI**

Call to Action

Technical Assistance Certification

by Selma Taylor, Executive Director, California Resources and Training



Nationally, there is movement toward developing standards and performance measures within the nonprofit technical assistance (TA) industry. Both the National Community Capital Association, a trade association for CDFIs, and the Aspen Institute, a research institute studying the micro-enterprise field, are looking at ways to more effectively deliver and measure technical assistance services provided to small businesses. California Resources and Training (CARAT) is performing a similar function in California with the goal of helping TA providers better serve the growing small business community in this state.

CARAT was founded in 1995 as a private nonprofit to build capacity within the TA industry in California. CARAT's creation coincided with the formation of CEDLI, the California Economic Development Lending Initiative, a statewide for-profit multi-bank CDC that specializes in lending to small businesses and community organizations. Although separate organizations, CARAT (the nonprofit TA capacity builder) and CEDLI (the for-profit lender) both evolved out of the same three-year planning process—which involved foundations, community organizations, bank regulators and financial institutions.

From the beginning, one of CARAT's primary goals has been to develop performance standards for technical assistance providers through the development of a statewide Technical As-

sistance Certification Program (TACP). We are pleased to report on its progress so far and to share the direction for future action by CARAT and others.

In early 1997, CARAT surveyed 34 banks in California to determine the need for technical assistance certification. Sixty-one percent or 21 banks responded. Fifty-seven percent of the respondents felt there was a need to raise the standards for TA providers and sixty-six percent indicated that a formalized certification would be useful. This initial bank survey resulted in the development of a pilot Technical Assistance Certification Program (TACP) designed to assess the capacity of nonprofits delivering technical assistance to the small business community and identify performance indicators that impact the quality of service delivery. These performance indicators form the baseline standards that will be used to certify technical assistance providers.

PILOT TECHNICAL ASSISTANCE CERTIFICATION PROGRAM (TACP)

In this pilot TA assessment program, CARAT performed in-depth evaluations of ten business assistance providers—five in Southern California and five in Northern California—using a customized assessment questionnaire.¹ The question-

¹ A final report that describes the assessment methodology, organization background, client demographics as well as detailed findings is available from CARAT at (510) 267-8994 or via email at training@caratnet.org

naire was augmented by interviews with the program directors and business consultants of the TA organizations on the following key business areas:

- **Organization Overview and Management**—including organization background, finances, constraints and allocation of time;
- **Consulting Services Quality** including staffing, service deliverables and products;
- **Impact of Services**—including monitoring results and measuring impact and efficacy of services.

Result Findings and Recommendations
Results of the pilot TA assessment reveal that there are eight **performance indicators** that determine the ability of TA organizations to fulfill their missions and measurably impact the operating performance of their small business clients. The following section identifies these indicators and offers recommendations for overcoming them. Many of these recommendations provide meaningful opportunities for banks to make a direct investment in the capacity building of organizations in their communities in the form of professional training, internal systems automation and advisory board participation, to name a few.

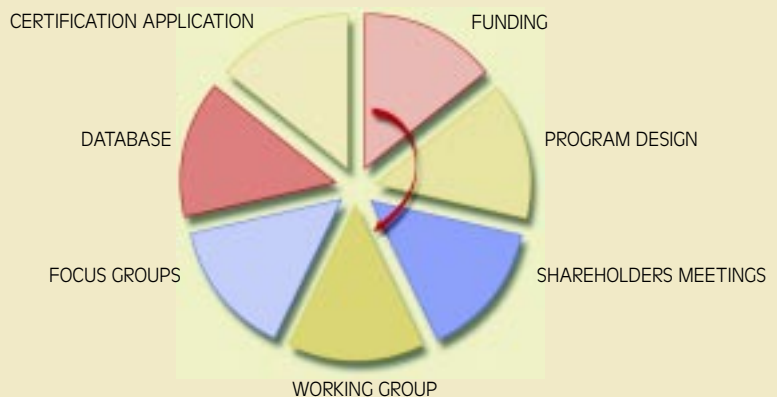
- **Impact of Funding Sources**—Funding is a universal constraint preventing the TA providers from achieving their missions. Because of the chronic dependence on government funding, TA providers are forced to operate with scarce and highly-leveraged resources. Without a more diversified funding base, TA providers become subject to the shifting priorities of government funding, which leads to a “treadmill” effect forcing TA providers to operate at a subsistence level that hinders achievement of a higher standard of service delivery. *TA pro-*

viders would benefit from diversifying their funding base by developing a marketing program for fund development that includes private sector capital as well as fee-based services.

- **Business Planning for the Organization**—There are discrepancies among TA providers with respect to business planning. Often TA providers set annual goals without a long-range plan for executing them. *TA providers would benefit from developing and implementing business plans that are readily updated and become part of their ongoing strategic planning process. Planning resource gaps can be bridged with active business oriented advisory board members and sufficient staff.*
- **Types of Services Requested and Types of Services Delivered**—In organizations with technical assistance as their primary focus, the TA services delivered generally match the types of services requested by small business clients except for technology-related training such as Internet and e-commerce. *In order to meet the market expectation that small businesses use technology routinely, TA providers will need to develop the knowledge, capacity, skills and/or talent banks to provide computer systems assistance in ways essential to the start-up, growth and expansion of clients’ enterprises.*

- **Professional Staff/Consultant Skills and Expertise**—A variety of staffing arrangements (i.e. full-time staff, part-time staff and consultants) are used to provide small business clients with professional TA services. *Providing training that enhances the skills of business counselors would enable TA organizations to attract and retain quality staff. The development and regular use of internship programs with universities and colleges could become an asset to the delivery of business assistance services.*
- **Internal Systems—Standards and Procedures**—For the most part, standardized pre-screening tools are used to qualify clients for service delivery eligibility. Initial “best practices” to automate standardized client intake and assessment processes and procedures are underway in a number of the TA organizations. However, the majority of TA organizations do not use standardized forms to for instance define scope of service or update client activity and are therefore not able to effectively track the counseling process over time. *TA providers can benefit from the automation of their services. Information received would be useful in ongoing case management, client profile analysis and measuring impact.*

Statewide Technical Assistance Certification Program (TACP)—Phase 1



- **Client-driven Services vs. Case Management Strategies**—Average client caseloads vary widely. The majority of business assistance organizations do not utilize formal case management strategies. Most TA processes are client-driven which means that the client requests each and every consulting session. Our assessment indicates that this results in lower client retention. By contrast, the systematic use of case management strategies is known to produce higher client retention. *TA providers would benefit from standardized scope of services and other formal case management strategies.*
- **Work Products**—For the majority of the TA organizations, quality control of their work products is informal. Loan packaging preparation and documentation appears to be the most consistent work product. There is a need for substantial intervention by TA providers in developing other work products such as business and marketing plans. *TA providers should provide clients with formats for generating work products and routinely engage them in a process of learning by doing. There is a need for business counselors to help clients bridge skill gaps with “hands on” assistance.*
- **Client Evaluation and Actual Impact of Services on Clients**—The majority of clients indicated a high level of satisfaction with services received from organizations having technical assistance as their primary function. However, limited resources impair the ability of TA providers to assess the long-term impact of their client services. *TA providers should establish formal procedures to measure client satisfaction and evaluate over time the actual impact of services on the performance of the businesses served.*

TACP IMPLEMENTATION

A working group of TA professionals and public and private sector funders has been assembled to develop certification criteria and a certification process. The working group will use the performance indicators outlined above as the platform for developing evaluation criteria for TA provider certification.

We are seeking volunteers from the banking and TA community to participate in focus groups to provide feedback on the certification criteria as it is developed. These focus groups will meet in various locations throughout California during the first quarter, 2001. Comments from the focus groups will be incorporated into the design of the statewide technical assistance certification program.

Bank participation in this certification process makes good business sense for both the TA providers and the banks. Assuming that our working hypothesis is correct, namely, that appropriate technical assistance can mitigate the risk of lending to a small business, then banks have a vested interest in encouraging certification and building capacity among TA providers. To that end, CARAT invites you to participate as a sponsor, focus group participant or both to ensure that your needs are addressed and your ideas are considered. We are also seeking financial investment from banks to assist in implementing the statewide certification program for the ultimate purpose of enhancing the delivery of quality technical assistance.

Funding, staffing, technology constraints and the lack of familiarity of potential funders (e.g., banks, corporations, foundations) within the TA community are the primary constraints that impact the ability of TA providers to build capacity. This certification program will have a decisive impact on identifying and overcoming the constraints TA organizations face in upgrading the expertise of their staffs and improving the quality of technical assistance services for their small business clients. **CI**



ABOUT THE AUTHOR

SELMA TAYLOR joined California Resources and Training (CARAT) in 1996 as the executive director. CARAT, a private nonprofit corporation, is a statewide initiative designed to enhance community economic development in California. CARAT provides training and capacity building programs for business assistance providers throughout California. Ms. Taylor has worked as a technical assistance professional since 1978. Prior to joining CARAT, Ms. Taylor served ten years as the executive director of both the East Bay Small Business Development Center (SBDC) and the Center for International Trade Development (CITD) based in Oakland and serving the Bay Area. The centers provided technical assistance to over 5,000 small business clients during her tenure.

Ms. Taylor holds a masters degree in public administration and a bachelor of arts degree in political science from West Virginia University.

District

— CONFERENCES AND SEMINARS —

FEBRUARY 28—MARCH 2

CDVCA 2001 Annual Conference sponsored by the Community Development Venture Capital Alliance: New York, NY. Visit www.cdvca.com or registration and information.

The conference will feature a new case study that will allow participants to work with practitioners to structure a deal.

MARCH 12—14

Rural Voices: Sharing Our Stories sponsored by Rural Community Assistance Corporation: San Diego, CA. Contact RCAC at 916/447-2854 to receive details of conference events or visit www.rcac.org.

Training sessions on financing and tax credits for rural communities, housing and community facilities development and Native American community development are the focal point of this conference.

APRIL 5—6

Changing Financial Markets & Community Development sponsored by the Federal Reserve System: Washington D.C., The Capital Hilton

This academic conference offers a rare opportunity to hear Federal Reserve Chairman **Alan Greenspan** speak to community development practitioners who will be assembled to present and discuss the most timely and sensitive issues related to evaluating CRA, credit scoring, asset building and others. Registration materials are forthcoming. Call (202) 452-3378 if you do not receive a registration packet by mid-February.

MAY 16—19

A Microenterprise Odyssey sponsored by The Association for Enterprise Opportunity: Oakland, CA. Contact Alan Tin, program manager at 703/841-7760 ext. 29 or via email: atin@assoceo.org.

The Association for Enterprise Opportunity is seeking dynamic presenters and challenging topics for its conference sessions. Suggested topics and themes along with criteria for designing a session are provided on their website: www.microenterpriseworks.org/conferences/aeo2001/sessions.htm. Sessions should be relevant to the microenterprise industry with emphasis on policy, practice, learning and collaboration.

SAVE THE DATE

The Federal Reserve Bank of San Francisco and other sponsors are proud to present a series of *Sovereign Lending Workshops* in Arizona, California and Nevada. Leveraging off the success of similar workshops held in the Pacific Northwest and Utah, we'll be bringing together bankers, tribal members and government representatives to discuss access to credit and community development issues on tribal lands. The workshops will be followed by ongoing task force meetings. Look for registration materials to arrive in early January. But for now, mark your calendar with the date of the most convenient location and make plans to attend.

For more information, please call Craig Nolte, Senior Community Affairs Specialist at (206) 343-3761 or via email: craig.nolte@sf.frb.org.

February 13: Scottsdale, Arizona

February 16: Las Vegas, Nevada

February 21: Palm Springs, California

February 23: Reno, Nevada

February 27: Eureka, California

Bulletin

— REFERENCES, RESOURCES & OTHERS —

ID FRAUD VIDEO

As part of our ongoing commitment to consumer education, the Federal Reserve Banks of Boston and San Francisco have released a video on identity theft entitled, *Identity Theft: Protect Yourself*. The video, which is targeted at consumers, is also a valuable resource for anyone who wants to help consumers understand the issue of identity fraud, how to protect themselves and what to do if they suspect they are the victim of identify theft.

Copies of the 15 minute video are available in VHS format for a charge of \$7.50 each. Videos can be ordered through the Federal Reserve Bank of Boston by calling (800) 409-1333.

SOUTHERN CALIFORNIA MINORITY SMALL BUSINESS ATLAS

This first comprehensive study of minority businesses in Los Angeles and Orange counties presents a snapshot of the challenges and opportunities facing minority-owned small businesses. Results from the survey, which included interviews with more than 1,200 businesses from six of the largest ethnic groups in the area, are reported by ethnicity providing a unique opportunity to understand nuances specific to each group. According to Community Development Technologies Center who conducted the survey, the study "could provide a glimpse of the future for other parts of the state and nation, as the population becomes increasingly diverse."

Visit <http://www.cdtech.org> to download a PDF version of the study and to learn more about the Community Development Technologies Center, or call (213) 763-2520.

KNIGHT FOUNDATION PUBLISHES COMMUNITY PROFILES

The John S. and James L. Knight Foundation has released new community profiles as part of its Community Indicators Project. Drawing on local, state and national data sources, these profiles document more than 70 quality-of-life measures for each community profiled, covering children and families, education, literacy, community development, housing, citizenship, and arts and culture. Examples of community profile information include outcome measures such as high school graduation rates and infant-mortality rates and context measures such as median household income and the number of police officers per 1,000 population. Two communities in the 12th District were profiled: San Jose and Long Beach, California.

The profiles are available on the Knight Foundation website at www.knightfdn.org.

FEDERAL RESERVE STUDY ON CRA SPECIAL LENDING PROGRAMS

Results from a recent Federal Reserve Board survey provide new information on the nature of CRA special lending programs, their characteristics, and how these characteristics relate to the performance and profitability of the loans extended through them.

The study can be found on the Board's website at <http://www.federalreserve.gov/pubs/bulletin/default.htm>.

PERSPECTIVES ON CREDIT SCORING AND FAIR LENDING: A FIVE-PART ARTICLE SERIES BY THE FEDERAL RESERVE SYSTEM'S MORTGAGE CREDIT PARTNERSHIP CREDIT SCORING COMMITTEE

The second installment of the five-part series is now available. This installment addresses the need to maintain and update scoring models in order to retain their accuracy and fairness. The article features comments from a banker, a community based lender and Fannie Mae on the topic of the maintenance of scoring models to ensure compliance with fair lending laws.

For copies of the article, call Judith Vaughn at (415) 974-2978.

CRA101: TRAINING FOR PARTNERSHIP

Enhanced communication and more effective agreements are just two of the benefits that can accrue when organizations that represent community constituency understand the business environment of their financial institution partner. *CRA101* was developed to provide a basic understanding of the Community Reinvestment Act and how it affects the way banks conduct business in the communities they serve. The 33-slide power point presentation is a flexible training tool that has been used by banks, community-based organizations and even a community college course.

Download your copy directly from the community affairs section of the San Francisco Fed's website: <http://www.frbsf.org/publications/index.html#commaff>

COMMUNITY INVESTMENTS ARCHIVES

Would you like to read more about the topics covered in this edition? Copies of past articles from *Community Investments* are available on our website at www.frbsf.org/ or by request from Judith Vaughn at (415) 974-2978.

PREDATORY LENDING & FINANCIAL FRAUD: WHAT YOU CAN DO

DOJ Hot Buttons: Fair Lending Issues, Past and Present (Volume 9 #4, Fall 1997)

DIGITAL DIVIDE

The Challenge of High Tech Delivery Systems (Volume 8 #2, Spring 1996)

CARAT ANNOUNCES TACP

A New Model for Economic Development: CEDLI Celebrates Its First Anniversary (Volume 9 #1, Winter 1997)



Happy Holidays from the Community Affairs Staff

Free subscriptions and additional copies are available upon request from the Community Affairs Unit, Federal Reserve Bank of San Francisco, 101 Market Street, San Francisco, California 94105, or call (415) 974-2978.

Change-of-address and subscription cancellations should be sent directly to the Community Affairs Unit. Please include the current mailing label as well as any new information.

The views expressed are not necessarily those of the Federal Reserve Bank of San Francisco or the Federal Reserve System. Material herein may be reprinted or abstracted as long as *Community Investments* is credited. Please provide the managing editor with a copy of any publication in which such material is reprinted.



FEDERAL RESERVE BANK OF SAN FRANCISCO
101 Market Street
San Francisco, CA 94105

Address Service Requested

FIRST CLASS MAIL
U.S. POSTAGE
PAID
PERMIT NO. 752
San Francisco, CA

ATTENTION:

Chief Executive Officer
Compliance Officer
CRA Officer
Community Development Department