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Financing Childcare: Innovative Approaches

Quality childcare plays a decisive role in the lives of our children and the future of this country. This article explains the importance of quality childcare and some of the innovative approaches banks are using to address gaps in availability, affordability and capacity.

Using CDFIs to Reach the Unbanked

As new federal legislation is introduced to spur banking services for the unbanked, many bankers have already embarked on innovative methods to reach individuals without bank accounts. This article may inspire some new ideas for your institution.

2000 Conference Roundtable Q&A

Find answers to your CRA questions in this set of questions and answers collected from the 2000 Community Reinvestment Conference.

District Update

Three members of the 12th District's Leadership Councils share their background, experience and successes working with CRA, and offer words of wisdom for other CRA professionals.

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Community Investments

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Editor's NOTEBOOK by Joy Hoffmann Molloy

On September 7th, 2000, the Federal Reserve Bank of San Francisco held a public hearing on the HOEPA, capping a series of public hearings sponsored by the Federal Reserve Board at branches across the country. The hearings provided an opportunity to gather information and hear perspectives about predatory lending from financial institutions, consumer groups, community advocates and researchers. Public testimony helps personalize the issues and provides concrete examples of consumers' experiences. These hearings were intended to help regulators better understand what regulatory changes might be most effective in ending predatory lending, and how these changes might impact the availability and cost of credit.

While subprime lending can be credited with greatly improving access to credit for marginal borrowers, it also has fueled the predatory lending practices that have victimized homeowners and raised a red flag for community advocates, the Fed and financial institutions alike. The Fed's Community Affairs unit is particularly concerned about "predatory" lending practices because of their disproportionate effect on low-income persons and economically marginalized communities. The question is whether the regulatory tools at our disposal are sufficient to halt predatory lending without curtailing the availability of credit for those who already have limited options.

The Home Ownership and Equity Protection Act (HOEPA) of 1994 is one tool the Fed can use to protect consumers from unfair lending practices. HOEPA doesn't inhibit loans from being made, rather, it expands the Truth in Lending Act (TILA) by requiring additional disclosures and restricting certain alternative loan terms (e.g., pre-payment penalties, higher default interest rates) on "high-cost" loans. These disclosures are triggered by loans with closing fees that exceed eight percent of the loan amount or an APR ten points above prevailing Treasury rates for securities with comparable maturities. The most significant deterrent under HOEPA is the three-year period in which a loan that violates any HOEPA provision can be rescinded.

Currently, only 0.7% of subprime loans trigger HOEPA disclosure requirements. Lowering the trigger to eight percent would increase that number to 3.9%. Given the increased reporting burden, financial institutions contend that lowering the trigger would make subprime lending unattractive thereby shrinking the credit opportunities for low-and-moderate income borrowers. Balanced public testimony is an important part of determining whether this increased reporting burden will have a decisive impact on ending predatory lending and can be justified as a benefit to consumers.

Another tool—and in my opinion the more effective one—is financial education. The issue of predatory lending is broader than any regulation can address. While predatory lending is universally acknowledged as an egregious practice, a clear-cut solution isn't readily apparent. However, self-empowerment through financial literacy would better prepare consumers to face the barrage of product and service offers, and equip them with the knowledge necessary to make sound financial decisions. As stories surface nationwide of "equity rich but cash poor" consumers entering into questionable loan agreements, it is clear that regardless of their age, income or race, one characteristic common to almost all victims of predatory lending is their vulnerability due to limited financial savvy. The Fed plays an important role in both educating consumers and regulating financial institutions on fair lending practices. In its unique role as educator and overseer, the Fed can play an urgent and important role in limiting the havoc of predatory lending. The public hearing on September 7th was an important step towards this goal.


FINANCING CHILDCARE: Innovative Approaches

by Jodi Nishioka, Planner, Project Lift-Off; City of Seattle

This article will highlight ways banks are investing in childcare as a partner in resolving one of the nation's biggest crisis, the availability of high-quality affordable childcare. Approximately 68 percent of three-year-olds, 78 percent of four-year-olds and 84 percent of five-year-olds receive some form of childcare on a regular basis. This translates to more than 6.8 million pre-schoolers in childcare.[1] There are another five million children under three years of age in the care of other adults while their parents work.[2] Yet, only one in seven childcare centers provides a level of care that promotes healthy development and learning, with one in eight providing such poor care that the health and safety of our children are actually threatened. The situation for infants and toddlers is even worse. Eight percent of childcare programs for infants and toddlers are considered good quality, while forty percent are considered poor quality.[3]

Why Invest in Childcare?

High-quality childcare is a major determinant in resolving our national education crisis. Many children arrive at kindergarten unprepared to learn because they have not received appropriate development and learning opportunities before they reach kindergarten. Children who attend higher quality childcare centers perform better on measures of both cognitive and social skills. The results of a long-term study revealed that the quality of childcare affects childrens' success in kindergarten and, for many, their development through the second grade.[4]

Affordability is also a major childcare issue for many American families. Nationally, poor families—defined as earning 50 percent or less of area median income—with small children spend an average of eighteen percent on childcare, compared to seven percent spent by wealthier families. In Seattle, families of all income levels spend on average fifteen percent of their median income on childcare for one child in the first three years of the child's life. Many families have more than one young child in childcare, which means approximately thirty percent of a family's income is spent on childcare alone.

Availability is another major problem in childcare. Many families experience difficulty finding childcare and are on waitlists so long that their children outgrow the childcare they are waiting for. There is clearly a shortage of childcare slots in most cities around the country. In Seattle, there is a fifty percent shortage of slots for infants and

1 *West, Wright, & Hausken (1995). Childcare and Early Education Program Participation of Infant, Toddlers, and Preschoolers. Washington, DC: U.S. Department of Education, National Center for Education Statistics.*

2 *Carnegie Task Force on Meeting the Needs of Young Children (1994). Starting Points Meeting the Needs of Our Youngest Children. Carnegie Corporation of New York.*

3 *Cost, Quality & Child Outcomes Study Team (1995). Cost, Quality and Child Outcomes in Childcare Centers. Denver, Colorado: Department of Economics, University of Colorado at Denver.*

4 *Cost, Quality & Child Outcomes Study Team (1999). The Children of the Cost, Quality and Outcomes Study Go to School. Frank Porter Grahm Child Development Center, University of North Carolina at Chapel Hill.*

a twenty-five percent shortage of slots for toddler and preschool-age care.

The dearth of childcare availability also has a major impact on our economy. It is a common misconception that childcare is a small cottage industry. In fact, it is estimated to be a $50 billion industry in this country, affecting hundreds of thousands of workers and millions of working parents. With welfare reform and unemployment at record low levels, we have more mothers in our workforce than ever before. All working parents must leave their children in the care of someone while they are at work, creating a great demand for high-quality childcare in this country. Without accessible and affordable childcare, there is an incredible strain on our workforce and ultimately our economy.

What Childcare Investments are Banks Making in the United States?

Throughout the country, banks are collaborating with a host of concerned partners to address the needs and gaps of childcare providers. These initiatives vary in complexity depending on the partners involved and the specific audience they are designed to serve. While this list is by no means exhaustive, the diversity of programs presented will hopefully spur innovative thinking about how banks can invest in childcare initiatives.

CRA Lender Partnership (Washington, D.C.)

In Washington D.C., a consortium of eight banks, led by Riggs National Bank, has partnered with two community development corporations to expand the number of licensed neighborhood childcare spaces in Washington, D.C. This effort is in response to the increase in working mothers that have resulted from welfare reform.

The program provides micro-loans up to $1,500 to family home childcare providers for a term typically of three years, technical assistance on how to run a business and other workshops on providing quality childcare. Typically, the loans are used to purchase playground equipment, smoke detectors, and other items to meet licensing requirements.

The consortium was started in April 2000 and already has funded fourteen childcare programs. The eight banks made initial pledges to contribute a total of $60,000. Additionally, they waived any administrative or servicing fees. The local government contributed $200,000 to cover administrative costs, including the staff costs related to providing technical assistance and training to the borrowers.

This program is in its first phase with plans to expand its lending capacity to serve childcare centers and facilities development in the future. The program was three years in the planning stage to get up and running.

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Ohio Childcare Capital Fund

The Ohio Childcare Capital Fund, managed by The Ohio Community Development Finance Fund (Finance Fund), is a resource for *Head Start* [5] agencies in the financing of real estate projects. The Finance Fund is a housing and economic development agency whose programs target under served communities. In 1996, as a result of a four-year lobbying effort to increase *Head Start* dollars, the Ohio State legislature made a one-time budget allocation of $3 million to *Head Start* to leverage funds for childcare facilities in Ohio.

The $3 million was used to buy a certificate of deposit (CD), which generated an additional $3 million from the sale of the CD's revenue and future principal payments. The approximately $6 million of funds are used as *linked deposits* to help lower the costs of funds available to childcare programs for facilities development, resulting in sixteen projects so far. *Linked deposits* are funds placed in conventional lending institutions that enable them to make loans at a reduced rate to specific borrowers, such as childcare providers. The interest earned on the deposited funds is used to subsidize the interest charged on below-market rate loans.

The Finance Fund also administers a grant fund that can be used for predevelopment "soft costs" associated with acquisition, rehabilitation/addition and new construction of childcare facilities such as a feasibility study, architectural and engineering work. The grants are available to nonprofit organizations that provide childcare services to low-income populations—non-*Head Start* programs—and who generally do not have experience in property development. Banks might think about identifying similar grant programs in their area to locate childcare providers who are considering expanding their facilities.

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Massachusetts Child Care Capital Investment Fund

The Child Care Capital Investment Fund (CCCIF) pools funds from public and private sources and re-lends them to nonprofit childcare providers serving low-income children in Massachusetts. The fund was initiated in 1992 by the United Way with a significant contribution from the Ford Foundation, raising $2.5 million for the initial pool.

5 *Head Start is a federally funded early care and education program for low-income families.*

Recently, CCCIF received a million dollars in "participation loans" from four local banks: Citizens Bank, Fleet, Boston Private Bank and Wainwright Bank, with each lender contributing $250,000. Their participation was stimulated by an offer from the Federal Home Loan Bank to use funds from a special program to support this community effort.

CCCIF distributes $1.2 million annually in loans ranging from $10,000 to $300,000. The loans are given at a fixed rate of seven percent interest for a term of ten years, with six to eight loans outstanding at any given time.

One of the most important features of the Child Care Capital Investment Fund is the extensive technical assistance given to each borrower. Recognizing that childcare providers are not in the business of real estate development, CCCIF staff provide an average of 40-50 hours of technical assistance which includes assistance to identify architects and contractors, manage financing and business expansion and determine the borrower's debt service capacity.

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San Francisco Childcare Facilities Fund

The San Francisco Childcare Facilities Fund (CCFF) is a public-private partnership whose goal is to increase the quantity and improve the quality of childcare in San Francisco. Since its inception in 1998, $15 million has been raised for childcare facilities already benefiting 120 family home providers and 30 centers. To date, over 2000 childcare spaces have been financed, including 1400 new spaces, through grants and loans totaling almost $7 million.

The San Francisco Childcare Facilities Fund offers three core programs:

1) The Family Childcare Assistance program provides grants of $1,000 to $5,000 to meet one-time capital expenses of family (in-home) childcare providers.

2) The Childcare Center Assistance Program provides pre-development and planning grants, grants for equipment, working capital to stabilize business and construction to permanent loans through the award winning Section 108 Community Development Loan Program.[6]

3) Technical assistance is also provided to boost the facilities expertise and business management skills of childcare providers.

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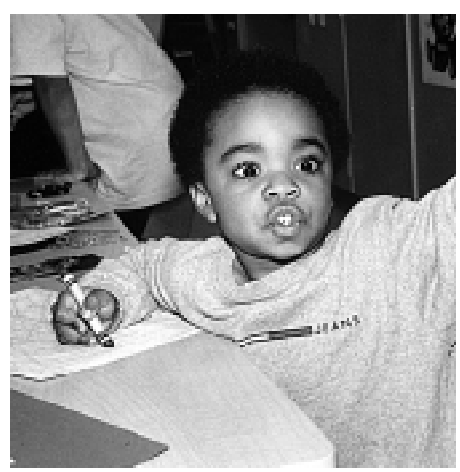
Cascadia Revolving Fund

Cascadia is a certified CDFI that provides loans, bookkeeping and technical assistance to businesses that do not qualify for traditional bank financing. Their support of start-up and existing childcare businesses has contributed to both the capacity and profitability of this highly specialized sector. Cascadia's loans enable childcare providers to renovate or expand their facilities, and make other improvements such as purchasing playground equipment or installing a fence for an outdoor play area. Their loans also help providers increase the number of kids they are certified to serve, which positively impacts the provider's annual income and improves the availability of licensed care for parents. Loan amounts range from $1,000 to $150,000 with low interest rates and a two percent loan fee plus closing costs.

6 *Section 108 is a HUD program that enables States and local governments to obtain federally guaranteed loans to support large economic development and revitalization projects. Current and future CDBG funds are pledged as security for the loans. Funding childcare facilities is one of the most unique uses of this program, with CCFF being perhaps the only example.*



About the Author

Jodi Nishioka is planner for Project Lift-Off, a community-based initiative that seeks to create a system of early care, education and out-of-school-time activities that are affordable, easy to access and highly effective for the children of King County, Washington. She co-staffs the Project Lift-Off working group whose aim is to "revolutionize the financing of child care and out-of-school-time programs," along with other components of the Project Lift-Off action agenda. As part of her work in childcare finance, she is helping the Federal Reserve Bank of San Francisco facilitate a childcare finance initiative with Washington bankers. Ms. Nishioka has a bachelor's degree in finance from Boston University, and a law degree from George Washington University. Ms. Nishioka practiced law for six years, primarily representing women and children, before leaving the practice of law to focus her efforts on advocating for women and children outside of the courtroom.

Cascadia manages its high-risk lending successfully. Eighty percent of their borrowers are still in business and their loan loss rate is less than one percent. These impressive figures are largely the result of the technical assistance and personal attention the staff provides to their borrowers. Its loan funds come from individuals and institutions that invest in Cascadia at below market rates. This approach offers banks a convenient, lower risk way to make CRA eligible small business loans to childcare providers.

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Bank of America Childcare Plus

Bank of America has shown leadership in addressing work and family issues for their employees. Depending on the employee's eligibility, Bank of America will reimburse up to $152 a month per child. They have found that helping employees pay for childcare has decreased turnover by fifty percent for those employees using the program. The savings to the bottom line created by the lower turnover, more than justifies the $22 million this benefit costs Bank of America annually. Bank of America also offers inclement weather and summer care programs at some locations and near-site childcare centers in some cities.

Childcare Facilities Financing Program (California)

The California Department of Housing and Community Development (HCD) offers loan guaranties up to 80% to encourage private sector lenders to finance childcare facility development. Because priority is given to applicants who are primarily serving children from "welfare to work" or other low-income families as one of the criteria, banks can be certain that the loans would be eligible for CRA Lending Test credit.

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The Value of Technical Assistance

The biggest barrier to expanding childcare services may very well be the childcare providers themselves. While the programs discussed above have helped a number of childcare providers and created many new slots for children in their communities, it remains a struggle to encourage childcare providers to take out loans. Technical assistance can provide the information they need to make a wise and practical decision to borrow funds for their childcare program.

Childcare providers are reluctant to take on the responsibility of servicing a loan commitment because they either cannot afford the monthly loan payments, are intimidated by the lending process or are afraid to incur additional debt. Yet, many childcare providers use high-interest credit cards to pay for playground equipment and improvements to their facilities. Programs that offer grants report a great demand for these funds. Bundling loans with grants is a way of leveraging these limited funds by enticing childcare providers to explore the possibility of borrowing.

Many banks that have undertaken loans to childcare providers have expressed a need for outreach and education about budgeting, financial management, as well as ongoing assistance for the borrower once they embark on a facilities project. The lending programs discussed above are administered by nonprofit intermediaries whose supplemental support from foundations, municipalities and other concerned parties enable them to provide such assistance. Investing through intermediaries is a cost effective and efficient way to support childcare. ***CI***

Using CDFIs to Reach the Unbanked

By John Olson, Community Affairs Specialist;
Federal Reserve Bank of San Francisco

Introduction by Kirsten Moy and Alan Okagaki

The relationships among capital, community development and poverty alleviation are complex and significant. Research from the Community Development Innovation and Infrastructure Initiative (CDIII)[1], a national research project designed to evaluate the future of community development finance and intermediaries, revealed that while there is more capital and fewer gaps for community development lending than at any other time over the last 20 years, there are significant gaps in consumer financial services and products. The gap issue is not so much access as suitability and cost of the products and services offered.

The growth of financial service and credit providers that the unbanked have come to rely on such as check cashing outlets, "fringe banking" operations (e.g. payday lenders and pawn shops), and other consumer finance companies (e.g. rent-to-own) point to the clear need for financial services in these communities. However, long-term use of these services doesn't offer an opportunity for the unbanked to build a financial foundation that will ultimately promote asset building, such as establishing credit.

1 *The Community Development Innovation and Infrastructure Initiative (CDIII) was incubated at the John D. and Catherine T. MacArthur Foundation during its initial three-month research period. It was officially launched in December 1999 with support from the Ford, Surdna, Citigroup and ARCO Foundations, and additional assistance from J.P. Morgan and the Neighborhood Reinvestment Corporation. The second phase of the project seeks to raise capital to encourage research and development, to create innovative programs and build the infrastructure of the community development finance industry. Further information about the project is available from Kirsten Moy at (312) 565-9690,* **kirstenmoy@worldnet.att.net** *or Alan Okagaki at (406) 829-1575,* **alanokagak@aol.com.**

Extensive research confirms that there are many reasons aside from lack of proximity or limited hours that cause low-income individuals not to use banks; for example, fear that financial matters will be disclosed to creditors and deposit accounts liened, potential embarrassment of denial for loans or even applications for checking accounts. Other reasons are perhaps more straightforward such as a desire for privacy, high fees, high minimum balance requirements, discomfort in dealing with banks and, perhaps most significantly, a lack of education about banking. So despite the availability of low-cost or "lifeline" accounts offered by most banks, the use of "fringe" providers persists.

We coined the term Credit Plus to characterize a comprehensive approach of providing services beyond basic low-cost accounts to meet the needs of the unbanked. Such services include: financial literacy, credit repair, counseling, as well as convenient bill paying services and small emergency loans, which are the two basic financial services most in demand by low-income individuals in addition to check cashing. The supplemental services covered under Credit Plus are instrumental in preparing the unbanked to participate in the mainstream financial system by tearing down the inadvertent wall of intimidation and mistrust that discourages them from using banks. Given the range of products and services mentioned, it seems unlikely that any one institution can reasonably and profitably provide them all. Innovative collaborations, partnerships and strategic alliances, such as with CDFIs and other community-based organizations, are required.

Research results of the CDIII project suggest that the most critical role CDFIs play is not the direct provision of financial services and capital, but rather, pioneering new markets, human development through training and technical assistance, product and program innovation, championing populations and communities to conventional financial institutions, and generally creating links to the mainstream economy. Yet, some investors expect CDFIs to act like banks with greater emphasis placed on their portfolios and technical proficiency as lenders, rather than on their overall impact on community development and poverty alleviation.

CDFIs can play a valuable role in building the bridge from unbanked to traditionally bankable, which is essential to asset building. Several creative partnerships are highlighted in the article that follows that show how some banks are utilizing CDFIs and other financial service providers to reach the unbanked.

Using CDFIs to Reach the Unbanked

The Treasury Department estimates that as many as 11 million low-income American families do not have bank accounts. A 1995 Federal Reserve study revealed that an estimated 25 percent of low- and moderate-income families had no bank account. Other studies put the number of "unbanked" Americans (also known as "cash consumers") at a higher or lower number. What is clear, though, is that people without bank accounts tend to be poor, minority, and/or single heads of household. Families without bank accounts are subject to myriad fees associated with being a cash consumer. Every dollar consumers spend on fees for paying bills and cashing checks is a dollar that could have been used for savings or for improving the individual's quality of life. Having a bank account is also an important tool to help families manage their assets and increase savings.

Increasing the availability of basic financial services to cash consumers is an area of ongoing concern for financial institutions. Recent years have seen a proliferation of low-cost bank accounts, as well as an increase in the availability of basic banking education for consumers, as banks attempt to reach unbanked populations. There remain, however, certain segments of the unbanked population that are more difficult for traditional financial institutions to reach. These segments often struggle with social, language and economic barriers that make them unlikely to seek out traditional bank services.

Providing services directly to these segments requires a special understanding of the needs and requirements of these consumers. The staffs of traditional financial institutions may not possess the specialized training necessary to, for example, provide financial services to a homeless person receiving general assistance. The question of delivery cost is also relevant. Often it simply is not economically feasible for traditional financial institutions to provide the labor-intensive services desired by the "persistently" unbanked.

But are these segments completely unreachable? A number of innovative pilots and successful models underway throughout the 12th District clearly show that banks can serve, and are serving, this population by working with CDFIs, community based organizations and other financial services providers. These partnerships, by filling the expertise gap, offer banks the opportunity to reach the unbanked while receiving additional benefits such as the ability to serve the credit needs of its entire community, the opportunity for CRA credit, and the possibility of "graduating" these consumers to traditional financial services.

One example of such a partnership is the relationship that the Commerce Bank of Washington has developed with the Compass Center of Seattle, Washington. This program illustrates an effective means of providing banking services to the homeless (Box 1). A similar program serving the homeless and very low-income customers also exists in San Francisco. Like the Compass Center, the Northeast Community Federal Credit Union, which was established in 1981, provides support and counseling as part of their service to customers.

Homelessness is one barrier to participating in the mainstream financial system. Another barrier may be limited English or banking skills. Partnering with a community-based financial intermediary or organization may be an especially effective method of reaching this segment. Partnering with a Community Development Credit Union (CDCU) such as Chicanos por la Causa in Phoenix, Arizona, which specializes in serving multi-lingual communities, can provide financial institutions with an edge in serving these segments.

There are a couple of ways in which traditional financial institutions can partner with a CDCU. Banks can make direct investments in CDCUs through a deposit or an equity investment. Banks can also invest indirectly through the National Federation of Community Development Credit Unions (NFCDCU), who then passes the money on to a CDCU in the investor's geographic area. The NFCDCU offers a secondary capital program, a non-member deposits program and a grant program to facilitate investment in credit unions. Investments and deposits in CDCUs are eligible for consideration under the Investment Test as qualified investments. If the CDCU has also been certified as a CDFI, the bank's investment may qualify for a Bank Enterprise Award (BEA). Banks can also qualify for Service Test credit by providing technical assistance such as training tellers or assisting bank management. According to Suzanne James of the NFCDCU, providing assistance with activities like teller training has a much greater impact than deposits.

"Often it simply is not economically feasible for traditional financial institutions to provide the labor-intensive services desired by the "persistently" unbanked."

A portion of the unbanked population, perhaps a significant portion, have a knowledge gap, or perhaps an awareness gap that prevents them from entering the financial mainstream and as a result resort to frequenting check cashers. This group may be ready for traditional financial services but do not possess the financial literacy to competently utilize bank services, or simply may not be aware that their financial circumstances could be improved by using mainstream services. Another segment may be locked out of the banking system due to a scarred checking account record or blemished credit history.

The difficulty of reaching this segment of the unbanked population has been addressed in a unique and straightforward way by the partnership of a financial institution with a check casher. Because check cashers do not have community development as their primary purpose, a partnership may not be eligible for CRA credit; however, they potentially offer other worthwhile benefits. Check cashers generally have the physical distribution, network and customer profile to effectively reach consumers without bank accounts. The partnership between Union Bank of California, Nix Check Cashing and Operation Hope leverages the customer base of a check casher to introduce unbanked consumers to traditional financial services. Union Bank of California has its own teller window at select Nix locations, in addition to ATM services and financial planning information for customers. Operation HOPE's role will include overseeing consumer protection and community education.

This partnership with Nix is based on another innovative program developed by Union Bank of California to penetrate significantly underserved areas: *Cash & Save*. *Cash & Save* incor-

A New Revolution in Banking: The Compass Center Bank

The Compass Center, a social service agency in Seattle, Washington, is leading a revolution in banking by providing services normally inaccessible to low-income and homeless people. Support from area banks and the surrounding community is making this possible.

The Compass Center Bank opened in the early 1970s to serve low-income and homeless individuals who for a variety of reasons could not use a traditional bank. Many of the people who use the banking service suffer from mental health problems, drug and alcohol addiction, and/or a poor credit history.

At first, the bank was very basic. Tellers, who were really social workers, recorded transactions in carbon receipt books while a bookkeeper controlled a drawer of money in a back office and balanced the books and receipts by hand at the end of the day.

Two years ago, John Kephart from The Commerce Bank in Seattle visited the Compass Center and recognized a need for the bank to move into the 21st Century. He knew that the federal government was going to mandate a complete transfer from paper checks to electronic direct deposit of government benefits into an individual's bank account. The Commerce Bank, along with five other area banks: Key Bank, Wells Fargo, Bank of America, Washington Mutual, and the Federal Home Loan Bank of Seattle, donated time, money and equipment so that the Compass Center could become fully automated. The Commerce Bank also donated the bank accounts for Compass Center clients. Other banks' staff has provided extensive training on the ITI and EZ Teller systems and offer ongoing support with problems ranging from accounting to supplies.

The Compass Center Bank, with a special consideration from the Federal Reserve, now functions as a "branch" of The Commerce Bank, communicating through the ITI system to record account activities and any account problems that need to be solved. An ACD machine disperses money directly to the "tellers." Clients can now receive payments through the ACH from the Federal Reserve or Social Security, and employment checks can also be directly deposited.

The response from the community and clients has been positive and supportive. The clients now feel less marginalized and have some of the same benefits one would receive through a traditional bank. The self-worth of the clients can grow now that they have a progressive system to safeguard their money. While Compass Center clients remain vulnerable to muggings, drug and alcohol addiction and domestic violence, they are spared further possible trauma caused by the loss of their month's income.

It is important to remember that Compass Center employees are social workers, not bankers, and as such have a special relationship with their clients. The bank's regulations state that transactions may be refused at the discretion of Compass Center staff. A worker can and will invoke this clause if he or she thinks that a client is too drunk or high, that someone is being coerced into withdrawing their money, or that in some way the client is going to use the money to hurt his or herself. The bank is just one part of the Compass Center's Client Services Office where homeless and low-income adults receive a multitude of services including mail, representative payee services, free budgeting assistance, and information and referral.

The Compass Center Bank is a bank in only the most basic and the simplest definition of the word. Clients do not have access to checking accounts or investment opportunities. Their savings accounts do not earn interest. The bank charges a small two percent check-cashing fee to help with the cost of operating the bank. Staff encourages those clients who are able to open accounts in a traditional bank to do so. The Compass Center offers those, for whom that is not an option, a safe place to receive and keep their money.

(continued from page 9)

porates a three-step introduction to traditional financial services with the goal of converting check cashing customers into depository customers. First, the customer has access to products that meet essential financial services needs, such as check cashing, money orders, money transfer, and bill pay. Second, *Cash & Save* personnel, working with community organizations such as Operation HOPE, conduct basic banking seminars and presentations to educate customers on the benefits of establishing a banking relationship. Third, *Cash & Save* works with the customer to determine which account will best serve their financial needs. Once a banking relationship is established and the client has demonstrated discipline in handling a bank account, the client then transitions to conventional bank products. Union Bank of California reports that the transition rate for repeat *Cash & Save* check-cashing clients, who now hold bank accounts, is 40 percent.

The success of these unique partnerships makes clear that while some consumers are more difficult for traditional financial institutions to reach, none are out of reach when a bank partners with a community-based organization. The transaction cost to serve some segments of the unbanked is often too high for mainstream banks, and is better outsourced to CDFIs whose mission enables them to provide the *credit plus* services cost-effectively. Some of the models presented may be considered risky or experimental, thus banks are encouraged to thoroughly undertake due diligence and carefully evaluate the risk relative to the benefit. Partnering with third parties to add value to a relationship, create new relationships, or perform a service cost effectively, is not a new idea. This familiar practice, applied to the goal of reaching unbanked consumers, can help banks meet community credit needs, satisfy their CRA obligations, and create new customer opportunities. ***CI***

For more information on the above-mentioned programs, please contact the following:

NAT'L. FEDERATION OF COMMUNITY DEVELOPMENT CREDIT UNIONS
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UNION BANK OF CALIFORNIA
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COMPASS CENTER
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OPERATION HOPE
Reks Brobby
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ABOUT THE AUTHOR

JOHN OLSON joined the Community Affairs unit of the Federal Reserve Bank of San Francisco as a community affairs specialist in March 2000. Prior to joining the Federal Reserve, Mr. Olson spent almost four years as a Community Reinvestment Act analyst for Wells Fargo in San Francisco. He received his bachelor's degree in philosophy from the University of California at Berkeley.

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, Juan Aguilar of Washington Mutual in Seattle, Florence Franklin of Nordstrom Bank in Phoenix and Keith Land of Farmers & Merchants Bank in Lodi.

Juan Aguilar, Vice President & CRA Manager
Washington Mutual; Seattle, Washington

I am a native Washingtonian, born in Yakima and raised and educated in Sunnyside, a rural farming community in central Washington. My involvement in banking was preceded by a varied background that included small business ownership of a restaurant, an asparagus/grape farm and two convenience stores. At the same time, I became involved in community activism starting as a community aide with Lyndon Johnson's "War on Poverty-Equal Opportunity Programs." From there, I moved on to state employment with the Departments of Employment Security and Labor & Industries and the Washington Public Power Supply System. Eventually, my public sector experience lead me to the private sector, where I worked in human resource management with General Instrument De Jalisco in Guadalajara, Mexico.

In 1989, a study I had the opportunity to prepare and present to Security Pacific Bank (now Key Bank) on the Hispanic Market and how to more effectively outreach to the Hispanic consumer led to my current position. My hope was to be hired as a consultant to the bank and instead I was hired as a "Personal Banker Trainee" that started my eleven-year career as a consumer/commercial lender. Within eleven months I was promoted to branch manager, and by 1992 I was back in the Yakima Valley—where I was born—managing the Zillah, Washington branch. A very short year later I was promoted to AVP and awarded the Community Lender Award. This recognition brought me to the attention of the bank's corporate CRA manager, who gave me the chance to become the CRA-Community Outreach Officer with responsibility for 34 branches in central and eastern Washington.

In 1997, Washington Mutual Bank offered me a position as their VP-CRA Manager for the Commercial Banking Division (Western Bank) covering the states of Washington, Oregon, Idaho, Utah and more recently, California. Our CRA group has twelve CRA managers whose primary role is affordable housing and related community advocacy. My responsibilities as a CRA officer involved in small business and economic development provide a unique opportunity to work with nonprofit organizations and to source out their business/commercial banking needs. It is both challenging and rewarding to educate commercial lenders about the "real" business needs of non-profits—many of whose operating budgets of $5 to $100 million make them ideal commercial bank customers.

In my role as a CRA Officer, I was successful in bringing together Washington Mutual and SeaMar, a nonprofit that operates 20 community health centers in western Washington that serve low-to moderate-income individuals and families—most of whom are Mexican migrant farm workers. SeaMar had located a remodeled assisted living center that they wanted to convert into transitional farm worker housing. The negotiated purchase price was $1.2 million. SeaMar used its own funds for the down payment and Washington Mutual's Commercial Banking Division financed the balance with a conventional loan. This is the first non-subsidized farm worker housing project of its kind proving again that when banks and nonprofits sit at the table with the willingness to understand each other, they can make deals work. I am very proud to have been involved in this transaction.

Another role I have taken on recently involves working closely with many different Sovereign Tribes to ascertain how to meet their banking needs. Washington Mutual has been very supportive of the Federal Reserve's *Barriers to Sovereign Lending* initiative and the North American Native Bankers Association as they work to form a SBA Small Business Investment Corporation (SBIC) to finance tribally owned community banks in Indian country.

My advice to other CRA officers is to be true to yourself and the letter and intent of the "Community Reinvestment Act", and to provide guidance to your bank and community(s) on how to use CRA to best access each other's resources.

Florence Franklin, Vice President & CRA Officer
Nordstrom Bank; Phoenix, Arizona

My banking career started in 1991 as a management trainee with Wachovia Bank in South Carolina. I had served in the branch system as an assistant branch manager for four years when one day the regional manager came to me with "an offer I couldn't refuse." Wachovia Bank owned a savings bank on Hilton Head Island, Atlantic Savings Bank, and they were in need of a CRA Officer. I served as the CRA Officer for Atlantic Savings Bank from 1995–1997, which became the impetus for continuing in CRA after my husband's job relocated us to Phoenix, AZ. Since 1995, I have served as a CRA officer at three different financial institutions; each institution has been unique and my experiences have all been extremely rewarding.

In November 1999, I came on board with Nordstrom fsb as its vice president of CRA. At the time, we were Nordstrom National Credit Bank—one of the first limited purpose banks to be granted a thrift charter. My function as the CRA officer for Nordstrom fsb has been that of an advisor to senior management and relationship liaison with key community development corporations (CDCs) in the greater Phoenix area. My responsibilities in this regard include, but are not limited to, monitoring lending distribution to low-and moderate-individuals and communities, collecting/reporting CRA data, preparing reports for the board and senior management, and keeping the public file updated. I have also been involved with the thrift charter approval process as it relates to CRA requirements, as well as the development of the deposit platform and mortgage lending entity.

Nordstrom fsb's CRA program exemplifies belief in the spirit of CRA and allows me the flexibility to focus on why CRA was enacted in the first place—the need for access to capital in low-and moderate-income communities. I serve on the board of the Local Initiatives Support Corporation (LISC), a nonprofit organization that works to help stabilize community-based organizations. In 1999, Nordstrom fsb awarded a $100,000 donation to LISC to assist their funding efforts to various nonprofits. Being involved with these groups helps keep me focused on the positive impact that CRA has made in many communities. CDCs are taking courageous steps to reclaim their communities. We should also take active steps to assist with the revitalization of these communities as well.

It's important as a CRA officer to keep the big picture in front of you at all times, that is helping to make a real difference in someone's life. By helping to create homeownership for someone who never thought they could own a home or assisting a small business owner who wants to take a big step and expand his business, you're involved with helping to turn around blighted communities. All of these initiatives can at some point cause some frustrations, but nothing worth doing is ever easy and this is truly a job to love.

Keith Land, Community Development Officer
Farmers & Merchant Bank; Lodi, California

My professional training was in the insurance industry, but I decided to change careers in hopes of doing more for the community in which I live. After retiring from the insurance industry, I wanted to work for a company that is well respected and recognized as a leader in giving back to the community. My first choice was Farmers & Merchants Bank.

The position of community development officer seemed to be designed especially for me. My responsibilities include: developing and maintaining written profiles for the communities the Bank serves, advising management of identified community needs, providing suggestions for new/revised products and services, and participating in community development meetings and outreach efforts. My extensive involvement with myriad programs and organizations throughout Lodi are very complementary to the work that I do and offer a heightened awareness of the area's needs. I currently serve as a member of the Lodi City Council; Board of Director, Lodi Redevelopment Agency; Commissioner, San Joaquin County Parks and Recreation; and Commissioner, San Joaquin County Housing Authority. I am the past President of Lodi Chamber of Commerce, Lodi Boys & Girls Club, Kiwanis Club of Greater Lodi, and past Board of Director for Lodi House (homeless shelter for women with children). I also served as Mayor for the City of Lodi.

I am proud of several CRA programs in which the Bank is playing a leadership role. In particular, to help the aforementioned Lodi House open its doors in a timely fashion, Farmers & Merchants purchased the home and is leasing it to Lodi House, a newly formed nonprofit. Lodi House will receive approximately $25,000 in CBDG funds to buy down the lease, which is renegotiated as the funds are applied. Lodi House is a desperately needed shelter whose presence will provide a stable environment for women and children, connect them to established city, county, state and federal resources and ultimately enhance the quality of their life by providing structure, education, occupational and spiritual support.

The Bank's participation in the Individual Development and Empowerment Account 2000 (IDEA) program offers a unique opportunity to achieve our investment goals by promoting homeownership opportunities for very low-, low-and moderate-income households. In another program, we have committed $3.7million in a private placement bond to construct a 56 unit apartment complex in Modesto—Woodstone Apartments. These units are intended for entry-level workers earning 50 to 60 percent of area median income.

Finally, the Bank committed $350,000 for 2000 to the Sacramento Housing and Redevelopment Agency's (SHRA) Commercial Revitalization Program (CRP). CRP is a flexible lending program designed to support commercial revitalization throughout targeted areas in Sacramento County. It has already proved so successful in helping to meet credit needs in our assessment area that the Bank will be increasing our future commitment by $200,000. These are only a partial representation of the innovative projects we participate in to serve the citizens of our community and help improve the quality of life for generations to come.

I would encourage bankers involved with CRA to meet with their local, state and federal officials to help identify their community's needs. I have also found city and county community development officials to be a wealth of information and in touch with the vision for community development of locally elected officials.

2000 CRA CONFERENCE

IN APRIL 17, 2000, representatives of the Federal Reserve, the Office of Thrift Supervision, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation gathered as part of the 2000 Community Reinvestment Conference to participate in a question and answer session. Conference attendees were asked to present some of their most perplexing questions regarding CRA, community development and other examination and regulatory concerns. Below are the questions and answers from the session, which have been edited for publication. Thank you to John Gilliam of the OCC, Gregory Imm of the Federal Reserve Bank of San Francisco, George Neeld of the FDIC, and Dave Meders of the OTS for providing the answers, and to Dick Ranftle of the FDIC for moderating the session.

Q *Are grants to organizations that serve minority groups, like the Hispanic Chamber of Commerce or Native American Health Services, qualified investments?*

A Grants to organizations that serve minority groups are only eligible for CRA consideration if you can show that the group served by the organization is predominantly low- and moderate-income in your community.

Q *If ten banks form a consortium, and the consortium provides seminars for affordable housing developers, can member banks get service test credit?*

A Financial institutions receive credit for community development services when an employee *of the institution* provides a service related to the provision of financial services to an organization whose primary purpose is community development. In this case, the organization's primary purpose is community development, but if it were the staff *of the consortium* conducting the seminars, the member financial institutions would not be eligible for service test credit. If, on the other hand, a financial institution lent some of its staff to conduct the seminars, that service would be eligible for consideration as a community development service.

Q *Can CRA-qualified investments be reported under "other assets" on bank financial statements? Do the regulators care where they are placed?*

A The call report dictates how assets are reported. Different types of investment activities may be reported in different places on financial statements. Some investments may be classified as "securities" and others as "other assets". Refer to your CPA or internal accountant to determine how to report different types of investments. Examiners will evaluate qualified investments on their community development attributes, not on where they are located on the financial statement.

Q *What changes in processes or procedures related to CRA could a bank expect to see if its charter is collapsed?*

A There are two scenarios:

- The charter being collapsed is wholly owned by the surviving company for the entire time of the review period. The surviving bank would then get consideration for the CRA activities of the collapsed charter for the entire review period.

- If the charter is acquired during the review period, and the acquiring company decides to collapse it, this is more complicated. The surviving bank gets credit for the collapsed charter's activities from the date of the purchase. Nothing prior to that date is considered.

  Examiners would look at the loan-to-deposit ratio created by the surviving charter in the host state. For example, if a charter in California collapsed a charter in Nevada, examiners would look at how much lending the bank was still doing in Nevada, and compare that amount to the deposits in Nevada. This is compared to the annually-updated list that provides the standard loan-to-deposit ratios for each of the 50 states. The loan-to-deposit ratio of the California bank's activity in Nevada must be at least 50% of the Nevada standard.

Q *Do SBA loans over $ 1 million count as community development loans?*

A If a loan qualifies as a community development loan, it qualifies. SBA loans are not given special consideration.

Q *Would a community development loan made outside an assessment area 40 miles south count towards a "satisfactory" CRA rating? How about an "outstanding" rating?*

A Yes, a financial institution would be entitled to count that loan assuming that the performance inside the assessment area is up to par. If the institution has done a poor job in its assessment area, it won't matter what it does outside its assessment area.

Q *Under Arizona law, a spouse must be notified of a credit being entered into by the other spouse in order for the bank to receive payment from any community property assets in the event of default. How can a bank meet the requirements of Regulation B and still protect its position for collectability under the state laws?*

A A simple notification doesn't violate the provisions of Regulation B. Provisions of Regulation B, at 202.7, subsections (b)2, 3 and 4, give creditors the right to require the signature of a non-signing spouse on any instrument that is necessary, or reasonably believed by the creditor to be necessary, under any applicable state law to make a property being offered as security available to satisfy a debt in the event of default.

Regulation B at 202.5 (c)2, (b)1 provides creditors with the ability to inquire about spousal information and

marital status, if the property being relied upon for repayment is in a community property state. So, if Arizona is a community property state, you have safeguards built into Regulation B that allow this notification without any adverse repercussions under the regulation.

Q *What is the most efficient and preferred way to present exam information to examiners?*

A It's easiest, especially with small business and small farm micro-loan data, to submit it on disc or CD-ROM, which allows examiners to slice and dice the numbers to the extent necessary. Examiners have seen community development information presented in a wide variety of tables, charts and lists that convey the necessary information. Ideally, the important pieces are presented in a list that contains at least the following:

- Identifies the borrower;
- Tells which component of the community development definition the transaction falls under, for example: affordable housing or economic revitalization;
- Explains how the transaction meets the community's need including the percentage of low- or moderate-income served;
- Identifies the transaction as a loan or investment and includes the dollar amount.

Examiners can easily review this list, and if it's clear that the transaction qualifies, there might not be a need to report additional details.

Q *For HMDA reporting, a borrower's income on a purchased loan is an optional item. If a bank decided not to report this item under HMDA, would the bank still receive credit if the borrower was low- or moderate-income, provided this information is available in the borrower's file?*

A You could still receive credit as long as you provide the necessary documentation for the examiners during the review.

Q *Explain the logic of not including letters of credit in the "community development" loan category.*

A Letters of credit do in fact "count" under the community development loan category. The regulations state that the examiner, in addition to considering originations and purchases, "will also consider any other loan data the bank may choose to provide, including data on loans outstanding, commitments and letters of credit."

Q *If interest is credited back to a certificate of deposit, must the bank provide a notice of this activity to the account holder per Regulation DD?*

A Generally, adding back or crediting earned interest isn't a triggering action requiring predisclosure per Regulation DD. The only case where you would have to disclose this is if you were providing periodic statements for time deposits. If there is one, the bank must show the earned interest on the periodic statement [Sec. 230.6(a)(2)].

What concessions, if any, are given under the service and investment tests for a financial institution that is making the transition from a small to a large institution? What is the ultimate impact on the CRA rating?

Concessions can be made depending on the totality of the circumstances. The contextual data that go into the evaluation for the large institution test take into account things factors such as business strategy, unusual growth, competition in the marketplace, and any other unusual elements within the marketplace that might impact performance. For an institution in transition from small to large, any of these factors can be used to explain any unusual numbers or what would appear to be a negative trend.

Q *We have been offered below market rates for deposits in community development credit unions. Can examiners give any "recognition" for the "lost" interest on the investments?*

A No. However, one can always give contextual information on investments, including any information on "lost" interest. The examiner can consider this information, but it will not necessarily end up in any final report.

Q *Do loans to businesses located in federal or state enterprise zones automatically qualify as community development loans?*

A No. Even if the business is located in an enterprise zone, the loan doesn't automatically qualify. The loan must meet the community development definition, for instance by providing affordable housing, revitalizing the area or creating permanent jobs. Also, loan funds must help the business participate in the incentive programs of that enterprise zone, such as tax credits or training credits.

Q *To what extent does a bank's community development loan performance add to or detract from its geographic distribution performance? The lending test seems to be based solely on low- and moderate-income distribution.*

A Lending performance is primarily based on low- and moderate-income loan distribution. Community development loans add value to a large bank's performance and can help fill in weak spots. Low- and moderate-income and community development loans are analyzed separately unless they support each other.

Q *Small business loans are loans of $1 million or less or to businesses that meet SBDC/SBIC size standards. These are vastly different as the SBDC standard is $6 million in net worth with income after taxes of $2 million. How does the SBIC/SBDC standard apply?* (Follow-up question answered by Fred Mendez)

A You are correct in saying that these two standards are vastly different. That is because they apply to two different activities, small business lending and community development lending. Any loan to a business in an amount less than $1 million and reported in Schedule RC-C, part I, item 1.e and Schedule RC-C, part I, item 4.a of the Consolidated Report of Condition and Income ("Call Report") is considered a small business loan and should be reported as such. Everything else is eligible to be a community development loan, including loans in an amount less than $1 million that are not reported on lines 1.e or 4.a as mentioned above.

According to the Call Report, a small business loan is defined as:

- Loans to a for-profit entity not secured by real estate and equal to or less than $1 million;
- Permanent loans to a for-profit entity secured by nonresidential real estate and equal or less than $1 million;
- Permanent loans to a nonprofit entity secured by non-farm, non-residential real estate or production payments and, equal to or less than $1 million with or without primary purpose consistent with the definition of community development.

  The second key definition is that of community development. The regulation defines community development to mean:

- Affordable housing (including multifamily rental housing) for low- or moderate-income individuals;
- Community services targeted to low- or moderate-income individuals;
- Activities that promote economic development by financing businesses or farms that meet the size eligibility standards of 13CFR121.301 (SBDC/SBIC parameters) or have gross annual revenues of $1 million or less; or
- Activities that revitalize or stabilize low- or moderate-income geographies.

Keep in mind that the third bullet point in the definition of community development does not mention small businesses, only those activities which promote economic development.

Q *Our institution has made a public commitment, part of which is a consumer loan component. In the past we have not provided consumer loan information to examiners since it is optional. Will this commitment open up our consumer lending for review by regulators during CRA exams?*

A No. Commitments are not legally binding, but there is a risk to the bank's reputation if the bank is unable to fulfill the commitment. The bank's performance under the commitment doesn't affect the examination, but the bank might want to show the results to the examiners to demonstrate the bank's responsiveness to a variety of community credit needs. The commitment by itself doesn't trigger an examiner's interest. However, the pending Sunshine regulations may change how commitments are evaluated. ***CI***

Compiled by Bruce Ito, Associate Community Affairs Specialist

The CLOCK Is Ticking On PRIVACY

By Paul Dillard, Senior Examiner; Federal Reserve Bank of San Francisco

With the recent passage of the Gramm-Leach-Bliley Act (GLBA), financial institutions can look forward to some rather complicated gymnastics to address the issues of customer privacy under the new Privacy of Consumer Financial Information (Regulation P), and the information systems integrity portion of the statute.

Per the consumer disclosure requirements referenced in GLBA and enforced by Regulation P, financial institutions will have to provide non-business customers with:

- An initial notice describing the institution's privacy policy;
- An annual notice reiterating the privacy policy thereafter for the life of the account relationship; and
- An opportunity to "opt out" of having their nonpublic personal information shared.

Regulation P becomes effective November 13, 2000; however, mandatory compliance has been deferred until July 1, 2001. This reprieve acknowledges the time and resources required to implement the necessary information system changes to ensure full compliance, particularly for small financial institutions, which are not exempted.

Before a financial institution charges ahead, the following significant questions need to be asked:

- Does the institution currently have a privacy policy in place?
- If so, does the institution actually follow its policy? (This may sound like a silly question. But, a recent informal survey conducted by a leading industry consultant yielded the surprising statistic that no more than 50 percent of financial institutions that currently have privacy policies even follow them.)
- Does the institution want to share customer information beyond its affiliated companies?
- If so, has the institution developed the required opt out notices?

Another component of GLBA concerns the integrity of an institution's information systems. While there is no forthcoming regulation on the subject, interagency guidelines for meeting the information systems requirements with respect to customer records have been issued for comment. These guidelines require financial institutions to take appropriate action to:

- Ensure customer record security and confidentiality;
- Protect the security and integrity of customer data and information systems; and
- Protect against unauthorized access.

In addition, some financial institutions may face the specter of state initiated legislation which, if more restrictive, may preempt federal law. In response to those public advocates who feel that GLBA falls short of providing sufficient consumer privacy in such a dynamic electronic banking environment, many states have introduced their own customer privacy legislation.

As of April 21, 2000 more than 100 bills had been introduced by 41 states. The focus of this legislation has been to regulate the use of information collected online by service providers and web sites, and to ban or limit financial industry use of account related information. Another popular theme among state legislation has been an "opt in" approach as opposed to GLBA's "opt out." This creates serious programming resource implications for financial institutions operating across state lines and in an environment with different state Privacy requirements.

At a recent trade industry gathering, attendees provided a broad perspective on Privacy and made some insightful observations:

- Larger financial institutions are approaching Privacy from an "enterprise wide perspective." They are designating senior officers to oversee their Privacy efforts. Moreover, these efforts are not performed in a vacuum, but rather they are coordinated throughout the institution;
- Many stated they are starting Privacy preparations early rather than waiting until the last calendar quarter prior to mandatory compliance. This more prudent approach reflects the complexity and far reaching consequences of their task;
- Also, in an effort to minimize the potential for more restrictive state legislation, financial institutions are leaning toward self-policing. For example, some are expanding the definition of protected information beyond that stipulated in Regulation P to include a customer's medical information or credit and debit card purchases.

Whatever their final business decisions may be, financial institutions are recognizing the soundness of addressing Privacy concerns before time runs out! ***CI***

Gramm-Leach-Bliley Act of 1999

WEB ADDRESSES

PRESIDENT CLINTON signed the Gramm-Leach-Bliley Act (GLBA) into law on November 12, 1999. This landmark Act permits broad affiliations among banks, securities firms, insurance companies and other financial businesses under a holding company. In addition to the financial modernization components, GLBA also has significant provisions dealing with privacy, merchant banking and the Community Reinvestment Act. The following is a list of Internet addresses (current as of June 16, 2000) where you can view and print the Act and its implementing regulations (many of which are still in draft form as of this printing). The on-line version of this publication (found at **www.frbsf.org**) provides direct links to these Internet addresses.

GLB Act or Implementing Regulation	
Gramm-Leach-Bliley Act of 1999 (11/12/99)	www.senate.gov/~banking/conf/index.htm
Interim rule on procedures for bank holding companies and foreign banks with US offices to be treated as financial holding companies. (1/19/00)	www.bog.frb.fed.us/boarddocs/press/boardacts/2000/20000119/default.htm
Interim rule that applies to certain Section 20 operating standards to the securities affiliates of financial holding companies. (3/10/00)	www.bog.frb.fed.us/boarddocs/press/boardacts/2000/200003103/default.htm
Interim rule permitting the state member banks that qualify under the GLB to establish financial subsidiaries. (3/10/00)	www.bog.frb.fed.us/boarddocs/press/boardacts/2000/200003102/default.htm
Interim rule listing financial activities permissible for financial holding companies. (3/10/00)	www.bog.frb.fed.us/boarddocs/press/boardacts/2000/20000310/default.htm
Interim rule establishing alternative criteria for debt ratings large banks may have to satisfy in order to establish a financial subsidiary. (3/14/00)	www.bog.frb.fed.us/boarddocs/press/boardacts/2000/20000314/default.htm
Amendments to an interim rule regarding procedures for bank holding companies and foreign banks to be treated as financial holding companies. (3/15/00)	www.bog.frb.fed.us/boarddocs/press/boardacts/2000/20000315/defaul.htm
Interim rule governing merchant banking activities of financial holding companies. (3/17/00)	www.bog.frb.fed.us/boarddocs/press/boardacts/2000/20000317/default.htm
Final regulations for privacy of consumer financial information (5/10/00)	www.bog.frb.fed.us/boarddocs/press/boardacts/2000/20000510/default.htm
Proposed rule for public disclosure and annual reporting requirements … "CRA Sunshine." (5/10/00)	www.bog.frb.fed.us/boarddocs/press/boardacts/2000/200005102/default.htm

District Bulletin

— Conference & Seminars —

September 25–27
Housing Washington 2000 sponsored by the Washington State Housing Finance Commission and others; Spokane, WA. Call (360) 357-8044 or visit **www.wshfc.org/conf** for more information

October 1–13
Brownfields 2000: Research and Regionalism—Revitalizing the American Community presented by the Engineers Society of Western Pennsylvania; Atlantic City, NJ. Call (877) 343-5374 or visit **www.brownfields2000.org** for registration and information

October 3–6
22nd Annual Regulatory Compliance Conference presented by the California Bankers Association and others; Indian Wells, CA. Contact Dorothy Hong at (415) 284-6999 x215 or via email: **dhong@calbankers.com**

October 5–6
DOT.COM Affordable Housing and CRA–2K sponsored by the National Association of Affordable Housing Lenders (NAAHL); San Francisco, CA. Call (202) 293-9855 for additional information or (800) 833-1354 to register.

October 19–23
Helping Small Towns Succeed sponsored by The Heartland Center; Jackson Hole, WY. Call (800) 927-1115 or visit **www.4w.com/heartland** for registration and information.

October 30–11/3
Community and Economic Development Conference 2000 sponsored by the American Bankers Association and the Federal Reserve Banks of Chicago and St. Louis; Chicago, IL. Contact Barbara Sims-Shoulder at (312) 322-8232 or via email: **barbara.e.shoulders@chi.frb.org**

November 15–17
Revolving Loan Fund Training Conference sponsored by the Economic Development Finance Service (EDFS); San Diego, CA. Contact Bill Amt at (202) 624-8467 or via email: **bamt@nado.org**

— Investment Opportunities —

First Nations Enterprise Development Fund SBIC

The Pascua Yaqui Tribe of Arizona is in the process of establishing the first Native American Small Business Investment Company (SBIC), to be known as the *First Nations Enterprise Development Fund*. This mezzanine SBIC in formation will be managed by First Nations Capital Advisers, LLC, and will make both debt and equity investments in technology commercialization and manufacturing joint ventures located on American Indian reservations. Joint ventures in which the SBIC invests are expected to significantly benefit from the federal HUBZone, which are incentives available to minority enterprises located within the boundaries of federally recognized American Indian reservations. Participation in the SBIC is open to both regulated financial institutions as well as recognized American Indian tribes, and would be eligible for CRA consideration.

For further information contact: Kevin O'Brien, Business and Investment Analyst, Pascua Yaqui Nation by phone (520) 879-5126 or e-mail: **writerr@hotmail.com**.

CalPERS' California Initiative

On June 19, 2000, the Investment Committee of the California Public Employees' Retirement System (CalPERS) approved the creation of the California Initiative, a $500 million program that will focus on small businesses and emerging companies, especially in under served urban and rural California communities. CalPERS will be involved in setting the strategy for the investments within the vehicle, and is now in the process of finding an investment manager who will be based in California and have a dedicated staff for running the day-to-day operations of the Initiative. CalPERS may form strategic financial relationships with other leading financial institutions in order to leverage existing expertise and combine resources.

For more information on CalPERS' California Initiative, please contact Panda Hershey at (916) 341-2380 or by e-mail: **Panda_Hershey@CalPERS.ca.gov**.

Childcare Capacity Development Grant and Loan Program (Los Angeles County)

This new program is currently creating a loan pool to help increase childcare availability in Los Angeles county, with the potential for statewide expansion. The program directors are also looking for bankers to assist in an advisory capacity on the mechanics of structuring and operating the loan pool. For further information contact Daniel Tabor, manager at (877) 717-2273.

Correction: The phone number for the Arizona Native American CDC featured in the May 2000 District Bulletin was incorrectly printed. The correct number is (406) 338-2690.

District

— References, Resources & Other —

California Environmental Redevelopment Fund

The California Environmental Redevelopment Fund (CERF), LLC, an innovative new financing source for brownfields, environmental cleanup and smart growth, is now open for investments from banks and other interested corporations. CERF is the result of more than two years of work by a task force of California banks, corporations, legal advisors, banking and environmental regulators, and experts in environmental law and finance. CERF is the first of its kind in the country and has already become a national model. CERF has been facilitated by The Development Fund, with sponsorship from the Bay Area Council, the Los Angeles Chamber of Commerce and the Federal Reserve Bank of San Francisco.

For further information on CERF, please contact Susan Phinney Silver at The Development Fund: info@tdfsf.org or (415) 981-1070 x 17.

Bay Area Family of Funds

The Bay Area Family of Funds (Family of Funds) is sponsored by the Community Capital Investment Initiative of the Bay Area Alliance for Sustainable Development. The Family of Funds is an amalgamation of equity-based funds that apply a market-based approach to provide an economically viable return on investment, as well as social returns that promote a prosperous Economy, quality Environment, and social Equity—The Three Es of smart growth.

Each of the funds will be operated by an investment manager—or the equivalent—and will invest in the 46 communities in the nine-county San Francisco Bay Area with the most persistent and highest concentrations of poverty. The funds are now open for investments from banking, insurance, pension, institutional investors and venture capital funds.

For further information on the Family of Funds, please contact Andrew Michael at the Bay Area Council:
amichael@bayareacouncil.org
or (415) 981-6600.

Call for Papers

Federal Reserve System Conference:
Changing Financial Markets and Community Development
Washington, D.C., April 5–6, 2001

The Community Affairs officers of the Federal Reserve System are jointly sponsoring a conference on the effects of recent changes in financial markets on low- and moderate-income (LMI) communities. The conference will bring together interested parties from academia, financial institutions, community organizations, foundations, and government to learn about recent research in this area.

Conference organizers are particularly interested in papers focusing on either the impact of changing banking technology on LMI communities, or the effect of changes in financial markets on wealth creation and neighborhood sustainability. Preference will be given to papers that may stimulate further research by introducing new data resources or innovative research techniques. Authors of all accepted papers are expected to provide executive summaries, which will be published in a conference volume.

Paper presenters and discussants will receive travel expenses. Authors of selected papers addressing key issues will receive honorariums. Individuals interested in presenting research should submit a completed paper, detailed abstract, or proposal by October 16 to:

Lynn Elaine Browne, Senior Vice President and Director of Research, Federal Reserve Bank of Boston, 600 Atlantic Avenue, Boston, MA 02106, e-mail: **Lynn.Browne@bos.frb.org**, phone: (617) 973-3091.

Demystifying FICO

A "definitive list of score factors" is available on Fair, Isaac's website at **www.fairisaac.com**. The site includes a comprehensive list of the information considered by Fair, Isaac scoring models in calculating a FICO score. The site also contains information on how lenders use FICO scores as part of the lending process, and how borrowers can use score reason codes to determine whether there are errors in the credit report and understand how to improve their scores over time.

Credit Scoring Series

The first of a five-part series that examines the impact of credit scoring on mortgage applicants is now available. This series is the product of a comprehensive survey of housing industry professionals who identified the use of credit-scoring technology in the underwriting process as a common concern. The survey was conducted by the Credit Scoring Committee of the Federal Reserve System's Mortgage Credit Partnership (MCP) project.

This first article reviews the evolution of the MCP project and some of its major achievements. It features a flow chart that illustrates the "life of a credit-scored mortgage" and how an application may potentially become derailed. Finally, it includes statements received from representatives at various organizations that reflect divergent perspectives on credit scoring and fair lending.

The full text is available on the Boston Fed's website: **http://www.bos.frb.org/comaff/html/c&b.htm#spring2000** or by calling (800) 409-1333 to request a copy of their Spring 2000 *Communities and Banking* publication.

Bulletin

"Contact Us"

A new feature has been added to the Community Affairs section of the San Francisco Federal Reserve's website (**www.frbsf.org/candca)**. Visitors to the site can now send comments, questions and suggestions to Community Affairs staff. Feel free to drop us a line with your comments, or ask a regulatory question. Questions and answers will be posted on the site and may appear in a future newsletter.

The Los Angeles One Stop Capital Shop

On June 2nd, approximately 100 community development professionals and financial institution representatives joined U.S. Small Business Administrator Aida Alvarez, U.S. Representative Juanita Millender-McDonald, and Los Angeles Mayor Richard Riordan to celebrate the grand opening of the Los Angeles One Stop Capital Shop. Located in the Watts Civic Center, the LA OSCS is intended to serve as an information clearinghouse and referral source of capital providers, as well as provide loan packaging and specialized technical assistance to develop capital readiness in businesses located in the federally designated empowerment zone and throughout Los Angeles. Since the grand opening, the LA OSCS has demonstrated its value as a resource for the community by assisting over 200 small businesses.

The Los Angeles One Stop Capital Shop is located at 10221 Compton Avenue, Suite 103. For additional information contact Kashif A. Rasheed at (213) 473-5111.

CRA Data and Analysis

A number of CRA-related studies have recently been completed and are available online. The first study, entitled *Have the Doors Opened Wider? Trends in Homeownership by Race and Income*, analyzes the trends and factors that have contributed to the rise in homeownership from 1989 to 1998. The full paper is available at the Federal Reserve Board of Governor's website: **www.federalreserve.gov/pubs/feds/2000/200031/200031abs.html**. A study by the Treasury department provides a baseline from which to measure subsequent changes to CRA resulting from the Financial Modernization Act: **www.ustreas.gov/press/releases/docs/crareport.pdf**. Another Federal Reserve Board study offers findings on the performance and profitability of CRA-related lending:
www.federalreserve.gov/BoardDocs/Surveys/CRAloansurvey.

RCAC Honors

The Rural Community Assistance Corporation (RCAC) is seeking nominations for the 2000 Yoneo Ono Award. This award honors volunteers who have made a significant improvement in the quality of life for rural communities. Past recipients have served as volunteers in many areas including housing, community facilities and community organizing. The deadline is September 30, 2000.

For further information or to obtain a nomination form, contact RCAC at (916) 447-2854.

CRC Website

The California Reinvestment Committee (CRC) has made it easier to access information about CRA issues and activities in California through their new website: **www.calreinvest.org**. The site features the latest information on CRA campaigns, bank merger activity, bank CRA commitments and other issues relating to reinvestment in affordable housing, economic development and consumer services for California's low-income and minority communities.

For information on CRC, contact Alan Fisher at (415) 864-3980.

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.

Financing Childcare and other Community Facilities

Financing Special Needs Housing (Volume 11 #1, Winter 1999)

Financing Childcare Challenges and Opportunities (Volume 10 #4, Fall 1998)

Lending to Churches: A Successful Community Development Niche (Volume 8 #2, Spring 1996)

Using CDFIs to Reach the Unbanked

CDFIs Unmasked (Volume 10 #4, Fall 1998)

Community Development Credit Unions: Partners or Competitors? (Volume 10 #1, Winter 1998)

Unbanked Citizens Draw Government Attention (Volume 9 #4, Fall 1997)

Community Development Financial Institutions: A Primer (Volume 9 #2, Spring 1997)

2000 Conference Roundtable Q&A

Qualified Investments—How to Make Investing In Your Communities Really Count! (Volume 10 # 3, Summer 1998)

CRA Data Collection—Answers to Perplexing Questions (Volume 10 #2, Winter 1998)

CRA Examination Procedures: Answers to Common Questions (Volume 9 #3, Summer 1997)

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.

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