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Predatory Lending

*By Governor Edward M. Gramlich**

This should be a time of great satisfaction for the advocates of low-income and minority borrowers. As a result of the good economy, various technological changes, and innovative financial products, credit to low-income and minority borrowers has exploded in recent years. Between 1993 and 1998, conventional home-purchase mortgage lending to low-income borrowers increased nearly 75 percent, compared with a 52 percent rise for upper-income borrowers. Conventional mortgages to African-Americans increased 95 percent over this period and to Hispanics 78 percent, compared with a 40 percent increase in all conventional mortgage borrowing. A significant portion of this expansion of low-income lending appears to be in the so-called subprime lending market. This market has expanded considerably, permitting many low-income and minority borrowers to realize their dream of owning a home and to have a chance for acquiring the capital gains that have so increased the wealth of upper-income households.

But with the good news there is also bad news, or at least sobering news. Just as the expansion of subprime lending has increased access to credit, the expansion of its unfortunate counterpart, predatory lending, has made many low-income borrowers worse off.

The distinction is important. Subprime lending refers to lending to borrowers who do not qualify for "prime" rates, those rates reserved for borrowers with virtually blemish-free credit histories. Prime loans are often described as "A" credits, and the mortgage industry has adopted a grading scheme for subprime that extends from A-minus through D. Premiums range from about 1 point over prime for A-minus loans to about 6 points over prime for D loans. These premiums have been questioned, and some have argued that many low-income borrowers are still charged too much; but long-run forces may eliminate inappropriate spreads. We would normally expect that premiums in a market as competitive as mortgage lending would at least move toward appropriate levels over time.

This optimistic story goes out the window for what is known as predatory lending. Because the practices are shady, information is incomplete and anecdotal. No one knows how significant a problem, national or local, that predatory lending really is. But we hear distressing reports of abusive practices that include outright fraud, excessive fees and interest rates, hidden costs, unnecessary insurance, and deceptive uses of balloon payments. Self-explanatory labels from the predatory markets are "loan flipping" and "equity stripping." Horrifying anecdotes of predatory lending have been standard fare for television exposés and include a notable congressional testimony of a witness with a bag over his head. Recently a number of housing and banking agencies, including the Federal Reserve, have announced their intention to study possible restrictions on predatory lending. The Department of Housing and Urban Development (HUD) has set up a

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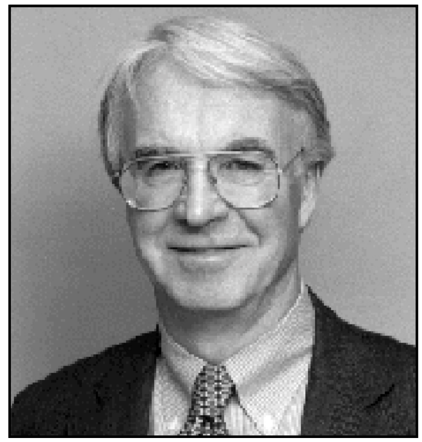

Edward M. Gramlich

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Message from the Community Affairs Officer

Everywhere you turn these days, predatory lending is making the headlines in the national and local press—and with good reason. When proven, instances of predatory lending offer particularly ugly evidence that some people are willing to make a buck regardless of the harm it causes another.

I personally came to understand these details at a conference held on April 10, 2000, that was organized by The Reinvestment Fund and sponsored by the Ford Foundation. Attorney Irv Ackelsberg of Community Legal Services detailed the abusive practices seen over and over again in North Philadelphia, and Ira Goldstein of The Reinvestment Fund mapped the suspected extent of the problem from HMDA data. Other speakers from New York and North Carolina made it clear this problem is not limited to Philadelphia.

Despite the particularly egregious nature of predatory lending abuses, the solution is not simple. In this issue of *Cascade,* we have reprinted a speech by Federal Reserve Governor Edward Gramlich that describes just how difficult it will be to legislate a solution without eliminating the positive expanded credit opportunities provided by subprime lenders.

Regardless of whether there is a legislative solution, it is clear that many consumers are unfamiliar with standard financial services and cannot determine what fees and terms are appropriate. The need for financial literacy continues despite efforts over the past decade to expand credit availability to low- and moderate-income communities. At the Fed, we will continue to support financial literacy through the Greater Philadelphia Urban Affairs Coalition and Jump$tart programs sponsored by the banking departments in this District.

We also need a solution for the families victimized by predatory lenders. In Chicago, Neighborhood Housing Services stepped to the plate and helped 300 families avoid losing their homes through foreclosure. Now a group of bankers in that city is bringing its resources to

the table to make a similar financial commitment. In future issues of *Cascade,* we will detail those programs for replication here.

We hope you will join our efforts to combat financial illiteracy and be part of the solution for reaching low- and moderate-income families with credit that helps them achieve their dreams, not destroy them.

Dede Myers

Predatory Lending

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national task force on the topic. Members of Congress on both sides of the aisle have bills that limit predatory practices.

The ultimate difference between subprime and predatory lending comes back to the competitive assumptions. If one is a market optimist and believes that both lenders and borrowers are rational and well-informed, then subprime credit markets with proper rate differentials will open up. If one is a market pessimist and believes that borrowers are not well-informed and may not be fully rational, then some lenders will have opportunities to exploit these borrowers with predatory practices. Distinguishing positive subprime lending from negative predatory lending is obviously important, particularly for regulators trying to encourage one type of lending and discourage the other.

Who Does Subprime or Predatory Lending?

Subprime lending tends to be done primarily by nondepository institutions, either finance companies or mortgage companies that are not subject to routine regulatory compliance audits and connected with regulated financial institutions. These subprime lenders generally raise money directly from bond or equity markets and make subprime loans. In the mortgage market relatively few of these loans are for first-time mortgages—mostly they are for mortgage refinancings, second mortgages, or consolidating debt. Often these loans are securitized and sold to investors such as insurance companies and pension funds.

HUD compiles an annual list of the subprime lenders that report data under the Home Mortgage Disclosure Act (HMDA). For 1998, this list showed 239 subprime lenders, of which 168 were regulated only by the Federal Trade Commission (FTC). Thirty-six of these institutions were banks or subsidiaries of banks and savings and loans that were regulated, and the remaining 35 were banks or subsidiaries of bank holding companies, where the holding company was regulated but the subsidiary operated with some freedom from the holding company and its regulator.

As mentioned earlier, one distinguishes predatory lending from subprime lending by the features of the loan and, importantly, by whether the borrower understands the terms of the loan. Thus, there is no ready way to distinguish predatory from subprime lending, to identify predatory lenders, or to measure amounts. Yet most anecdotal reports or legal cases against predatory lenders have involved subprime lenders, and it is certainly logical to expect these practices to flourish where the regulators are more remote. And the numbers given above suggest that most subprime lenders are reasonably sheltered from the normal bank regulatory apparatus.

What Do Predatory Lenders Do?

Predatory lending is made possible by inadequate information or, in technical jargon, asymmetric information held by lenders and borrowers. The fundamental weakness is the desire of low-income, uneducated borrowers for cash up front. In part, this desire reflects the ever-present needs of these low-income borrowers for cash, often for badly needed home repairs. In part, it reflects what might be called myopia, the illogical balancing of relatively small up-front amounts compared with huge downstream borrowing costs. In part, it reflects the lack of understanding of complex credit terms or conditions in which insurance is and is not needed. In part, it reflects bargaining imbalances where borrowers are subjected to outright fraud, falsifications, and even forgery.

A significant component of predatory lending involves outright fraud and deception, practices that are clearly illegal. The policy response should simply be better enforcement. But the harder analytical issue involves abuses of practices that do improve credit market efficiency most of the time. Mostly the freedom for loan rates to rise above former usury law ceilings is desirable, in matching relatively risky borrowers with appropriate lenders. But sometimes very high interest rates can spell financial ruin for borrowers. Most of the time, balloon payments make it possible for young homeowners to buy their first house and match payments with their rising income stream. But sometimes balloon payments can ruin borrowers who do not have a rising income stream and are unduly influenced by the up-front money. Most of the time the ability to refinance mortgages permits borrowers to take advantage of lower mortgage rates, but sometimes easy refinancing means high loan fees and unnecessary credit costs. Often mortgage credit insurance is desirable, but sometimes the insurance is unnecessary, and sometimes borrowers pay premiums up front without the ability to cancel the insurance and get a rebate when the mortgage is paid off. Generally advertising enhances information, but sometimes it is deceptive. Most of the time disclosure of mortgage terms is desirable, but sometimes key points are hidden in the fine print.

Apart from outright fraud, these are the fundamental characteristics of predatory lending. Mortgage provisions that are generally desirable, but complicated, are abused. For these generally desirable provisions to work properly, both lenders and borrowers must fully understand them. Presumably lenders do, but often borrowers do not. As a consequence, provisions that work well most of the time end up being abused and hurting vulnerable people enormously some of the time. Similarly, lenders outside the bank regulatory system may help improve the economic efficiency of low-income credit markets most of the time, but act as unregulated rogue elephants some of the time. Both factors make the regulatory issues very difficult. Again, apart from outright fraud, regulators and legislators feel understandably reluctant to outlaw practices, if these practices are desirable most of the time. Lenders can sometimes be brought into the bank regulatory system, but others always could spring up outside this system. The FTC is there to regulate trade practices in general, but that agency has a huge job in policing all loan contracts.

What Can Be Done?

In response to earlier reports of fraudulent lending, the Congress in 1994 passed the Home Ownership Equity Protection Act (HOEPA). HOEPA defined a class of “high cost” home purchase loans, loans that charge closing fees of 8 points or more, or have an annual percentage interest rate (APR) 10 percentage points above prevailing Treasury rates for loans with comparable maturities. For these HOEPA-protected loans there are thorough disclosure requirements and prohibitions of many practices. There can be no balloon payments in the first five years of a loan. Certain prepayment penalties are prevented, as are negative amortization loans and some advance payments. While most analysts consider HOEPA to have been effective, we hear reports of lenders skating just below the HOEPA requirements and still engaging in egregious practices.

The logic of HOEPA is that in this high-cost corner of the mortgage market, practices that are generally allowable are not permitted, because the possibilities of abuse are too high. Most present attempts to deal with predatory lending try to broaden the HOEPA net, by lowering the threshold cost levels and by preventing more practices. On the Democratic side of the political aisle, Senator Sarbanes and Representative LaFalce, from neighboring Buffalo, broaden the HOEPA definition of high-cost loans to those with an APR 6 points above Treasury rates for comparable maturities and [those that] prevent life insurance that is paid for with a single up-front premium. On the Republican side, Representative Ney from Ohio broadens the HOEPA definition to loans with an APR 8 or 9 points above Treasury rates and tightens the rules on prepayment penalties. There are several other bills, gener-

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ally taking similar approaches to the problem.

Many states have also attempted legislative remedies. Last July, North Carolina enacted amendments to its usury laws that also broaden the HOEPA net. North Carolina's law prohibits prepayment penalties, loan-flipping, and single-premium credit life insurance on most home loans. For high-cost loans, defined as loans with up-front fees greater than 5 percent of the loan or an APR of 10 percentage points above the comparable Treasury rate, the law requires borrower counseling before closing and prevents a number of practices: balloon payments, negative amortization, lending without consideration of the ability to pay, and financing of up-front fees or insurance premiums.

Many other states are now using this North Carolina legislation as a model for statutes of their own. The list includes Illinois, Kansas, Maryland, Minnesota, Missouri, South Carolina, Utah, and West Virginia. One such bill has been introduced in New York State, but here the primary focus has been regulatory. Last year the State Banking Board approved a regulation patterned after HOEPA. It would apply to home-improvement loans and have lower APR and point thresholds than the federal statute has.

Other federal statutes address predatory lending less directly. The Truth in Lending Act requires all creditors to calculate and disclose costs in a uniform matter. Under this statute, lenders must disclose information on payment schedules, prepayment penalties, and the total cost of credit, expressed as a dollar amount and as an APR. The Real Estate Settlement Procedures Act prohibits lenders from paying fees to brokers that are not reasonably related to the value of services performed by the broker. The Equal Credit Opportunity Act prohibits discrimination in lending on the basis of a number of "prohibited basis characteristics" such as age and race. The Federal Trade Commission Act prohibits unfair and deceptive practices.

And yet, with all this legislation, predatory lending seems to go on. Struck by these potential weaknesses in the regulatory nets, the Federal Reserve last fall convened a nine-agency working group to come up with other approaches or common approaches. The relevant agencies are the five that regulate depository institutions (the Federal Reserve, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, and the National Credit Union Administration), two that regulate housing (HUD and the Office of Federal Housing Enterprise Oversight), and two that regulate or prosecute deceptive trade practices in general (the Department of Justice and the FTC). The complete regulatory net of these agencies would cover all predatory lending, though the FTC, for example, might be hard pressed to go after all lending operations outside the primary depository institution net. The aims of the group are to tighten enforcement of existing statutes, to identify those predatory practices that might be limited by tightened regulations or legislative changes, and in general to establish a coordinated attack on predatory practices.

HUD has also recently announced a task force to combat predatory lending. HUD administers RESPA and may be envisioning tightening its procedures. HUD's Federal Housing Administration (FHA) has also recently started requiring mandatory testing of real estate appraisers and an assessment of the physical condition of properties in its own lending programs.

Secondary mortgage institutions such as Fannie Mae and Freddie Mac also plan to enter the subprime business. If Fannie and Freddie were merely to buy subprime loans without added inspection, these secondary market institutions could actually subsidize predatory lending. But if Fannie and Freddie were to inspect the practices of subprime lenders from whom they purchase loans, or to limit purchases of certain types of loans, they might effectively extend the domain of subprime regulations.

A final factor is consumer education. Predatory lending would not exist, or would be relatively rare, if prospective borrowers understood the true nature of their loan contracts. The Neighborhood Reinvestment Corporation has an active borrower education program to promote just that type of understanding, and many other public and quasi-public agencies are thinking of following suit. To this point, efforts to extend consumer financial education into high schools have proven very disappointing, but there have been some successes with stock market simulation exercises. Perhaps some of these efforts could be extended to predatory lending issues.

Conclusion

Predatory lending is a difficult issue. It causes obvious difficulties for borrowers, it is difficult for enforcers to track down, and it is difficult to regulate. So far as we can tell, predatory lenders generally operate outside the main financial regulation network. These lenders are sometimes fraudulent, but probably more often they take advantage of loan terms that are useful for many borrowers but can become destructive if misunderstood by some borrowers. They also take advantage of low-income and less-educated borrowers who need cash up front and are unlikely to understand the provisions. When and if borrowers default, they can either lose their house or be induced to sign up for still more exploitative terms.

Because predatory lenders are less regulated and predatory loans are often difficult to identify and define legally, it becomes both a regulatory and an enforcement challenge to stop predatory practices. Currently, nine agencies are meeting to design a coordinated attack on the problem, and a number of legislative options are under consideration in both the federal and state legislatures. The goal is to eliminate or limit some sorry practices that are the unfortunate byproduct of recent efforts to democratize credit markets.

(Editor's Note: See the article on pages 13-15 for information on ways to combat abusive lending practices.)

**Federal Reserve System Board of Governors. Governor Gramlich made these remarks in a speech to the Fair Housing Council of New York, Syracuse, New York, April 14, 2000*

Does a Consortium Make Sense? *By Dede Myers**

Several months ago, a group of bankers in the Federal Reserve's Third District asked the Community and Consumer Affairs staff to help them understand how loan consortia work and what the advantages or disadvantages may be. At the same time, in another part of the District, a government economic-development official was discouraged that his local lenders were not interested in a countywide consortium. Why the difference in opinion?

Loan consortia exist in many communities across the country. They were created to respond to a variety of local credit needs: first mortgages to low- and moderate-income families; small-business loans; equity investments in low-income rental housing; construction loans; and permanent loans for multifamily or commercial projects. What makes some consortia work and others not? Why do lenders concur in one location, but not in another? The answer lies in why and how.

The most successful consortia have been created to address an unmet credit need by sharing risk. In New York City, for example, multifamily properties, particularly occupied buildings in need of rehabilitation, pose the biggest challenges. Some 30 years ago, the Community Preservation Corporation (CPC) set out to solve this problem of credit need by setting up a consortium of lenders, and it has since become the acknowledged leader in lending for this type of property. While CPC started as a consortium, it soon evolved into a nonprofit mortgage company that has lines of credit from more than 100 financial institutions. It has succeeded because it identified a credit need, determined how to underwrite the risk, and then created products and a process that were acceptable to borrowers and lenders alike. CPC's success led to the creation of a similar entity, the Community Investment Corporation, in Chicago.

This multifamily complex, Christina Farms, Newark, Delaware, was funded by DCIC.

Similarly, several decades ago, a group of lenders in California agreed to make mortgages to low- and moderate-income families. These days, that may seem like ordinary fare, since first-mortgage loans to low- and moderate-income families now account for more than 40 percent of HMDA-reporting originations. But at the time, this market was virtually unknown to bankers and was considered high risk. Eventually, the California consortium became so successful in identifying customers and underwriting the risk that its members competed with it. Sensing it had outlived its original purpose, it moved on to new territory: low-income rental housing that needed equity and long-term debt. It became the forerunner of similar consortia established in other states across the country. Locally, the Delaware Community Investment Corporation responds to the same type of credit needs (low-income rental housing) with funds provided by 30 banks and other corporations.

How a consortium is structured to operate is another feature critical to its success. In addition to determining which credit needs they will meet, consortium participants must decide how to operate. Will there be predetermined or a limited list of products with identified underwriting and terms? Who will meet with the customer, who will present the deals, and who will close and service the loans? A very significant question is: should participants establish a delegated pool and give a loan committee the authority to decide whether to fund deals, or should participants make the decision case-by-case? Also, if there are staff members, how will they be paid?

In the late 1980s, eight financial institutions agreed to make small-business loans in the city of Camden to business owners who did not meet conventional bank standards. They lent their funds in participation with the Cooperative Business Assistance Corporation (CBAC), a nonprofit lender now certified as a community development financial

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institution. CBAC funded its share of each loan with public dollars raised for that purpose and took a subordinate position to the bankers' share. The bankers agreed they would consider all requests, but only those approved by all participants would be funded. Although the process sounds cumbersome, success was possible because of the staff's expertise and the commitment of the lenders.

CBAC's success led a variety of other local communities to create small-business loan consortia. Despite a similar public-private partnership participation, many did not thrive because their creators could not or did not clearly identify a market—customers who were unbankable by normal standards, but acceptable on a shared-risk basis. Or the process was too involved for the small volume of loans and the size of individual loans. For example, eight lenders considering four loans totaling $100,000 could expect, at best, $12,500 in originations after spending a morning considering the deals.

Despite the operational issues, many consortia have evolved and become sophisticated in responding to low- and moderate-income communities' credit needs. Consortia can be a sensible means of meeting community-development objectives if the market is clearly defined, a product line is developed accordingly, the underwriting is predetermined, and the customer contact, loan presentation, closing, and servicing are handled by experienced staff. Once a consortium's objectives are clear, both borrowers and lenders will be clear on the opportunities and the risk.

**Dede Myers is vice president and community affairs officer, Federal Reserve Bank of Philadelphia.*

Pennsylvania Utilities Form Renewable Energy Funds

*By Sally Burke**

The issue of clean, renewable energy has been on the agenda of environmentalists for a long time. And now that utilities in Pennsylvania, like those in many other states, have been deregulated and have restructured the way they deliver power, renewable energy has moved further up the national agenda.

In fact, deregulation in Pennsylvania caused a coalition of environmental and consumer groups (known as "The Environmentalists") to intervene in five utilities' cases for restructuring: PECO, Allegheny, Duquesne, PPL, and GPU. In the end, Pennsylvania's Public Utility Commission (PUC) issued orders for restructuring, but unhappy with the terms, four of the utilities (Duquesne accepted the orders) appealed the PUC's order to Commonwealth court. The Environmentalists intervened. Finally, in 1998, PUC Chairman John Quain asked the disputing parties in the PECO case to negotiate and reach a settlement. One by one, each of the other utilities also settled.

As a result of these separate settlement agreements, four renewable energy funds were established. Each fund is governed by a board composed of six members from among the Environmentalists and one from the utility. The mission of these four funds is to develop renewable and advanced energy technologies and to support businesses that design, manufacture, install, or service these technologies. Three of the power companies—PECO, PPL, and GPU—are in the Third Federal Reserve District. These sustainable energy funds, supported by a small surcharge on consumers' utility bills, basically have the same mission: to promote the use of renewable-energy and clean-energy technologies and energy conservation and efficiency.

In Philadelphia, PECO Energy's fund has several projects under way. The Reinvestment Fund (TRF), a Philadelphia-based community development financial institution, has been selected to manage that fund. In Allentown and Harrisburg, PPL's and GPU's funds, although still in the early stages, hope to have specific projects selected by the end of the year. The PPL Sustainable Energy Fund has hired Thomas Tuffey as executive director. The GPU fund has set up an advisory board, and its bylaws were approved by the PUC in April.

PECO Energy: Sustainable Development Fund

The most active fund right now is TRF's Sustainable Development Fund (SDF). Under the original agreement between the PUC and PECO, the fund would receive a total of $11.2 million over seven years. In 1999, the SDF received $1.6 million in initial funding. Now that PECO has announced a merger with UNICOM, the Chicago-based parent of Commonwealth Edison Company, the terms of the agreement may change, and the SDF may receive a lump sum payment instead.

Primarily, the SDF will fund loans or grants to companies whose principal business is energy or to nonenergy companies or organizations that install or purchase energy-conservation systems for their projects. Some of these loans may be eligible for SBA guarantees, as well. As of June 2000, the SDF had approved five loans and six grants (see box). In addition, the SDF will also consider near-equity or equity financing arrangements as well as royalty financing.

PPL: Sustainable Energy Fund

Although this $20-million fund had its bylaws approved by the

PUC just this past June, it is already actively looking for projects and partners. Investment targets are comparable to those of The Reinvestment Fund's SDF.

Executive Director Tuffey hopes to get some projects rolling soon. He says that at least 5 percent of PPL's money will go to grants, and approximately 70 percent will be loans of different types. The rest will be split between equity and royalty financing. Other areas that Tuffey finds particularly promising include fuel cells, wind farms, green buildings, and solar energy.

PPL's fund would also like to finance redevelopment of brownfields (environmentally damaged land) or grayfields (former mining land). Tuffey envisions what he calls "brightfields," reclaimed land on which PPL's Sustainable Energy Fund can help manufacturers of new energy technologies expand. If successful, these efforts could bring jobs to Pennsylvania's Lehigh and Susquehanna valleys.

The fund offers attractive incentives but also demands a return designed to recycle money into new ventures for many years.

GPU: Sustainable Energy Fund

Following a seven-month wait for its bylaws to be approved, GPU Energy's Sustainable Energy Fund is now up and running. The fund money has been transferred to two regional administrators: $5.7 million to the Berks County Community Foundation and $6.4 million to the Community Foundation for the Alleghenies. A business plan, which is being put into final form, will outline opportunities consistent with the purpose of the fund: the development and use of renewable energy and clean energy technologies, energy conservation and efficiency, sustainable energy businesses, and projects that improve the environment in GPU Energy's Pennsylvania service territory. Funds may be invested as equity investments or as loans; grants will also be awarded. Several proposals are under consideration.

Solar houses use clean and renewable energy technologies.

Economic Development

How do these funds promote economic development? Roger Clark, TRF's manager for Technology and Policy for the Sustainable Development Fund, states that renewable and more efficient energy will allow businesses and families to

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Loans and Grants Approved by the Sustainable Development Fund

Loans	
• Resources for Human Development (passive solar townhouses in West Philadelphia)	$250,000
• Horizon Signal Technologies (solar photovoltaic-powered road signs)	$ 50,000
• Glenmar Manufacturing (geothermal ground-source heat pump system for a manufacturing plant)	$ 70,000
• Energy Unlimited (predevelopment costs for a wind energy project in Hazleton)	$ 250,000
• Solar Energy / Energy Star (consumer loan program)	$ 500,000
Total	**$ 1,120,000**
Grants	
• Resources for Human Development (contingency fee for solar townhouse development)	$46,759
• Community Energy, Inc. (wind energy marketing business plan)	$22,650
• Energy Coordinating Agency (energy conservation / solar business plan)	$ 15,000
• The Enterprise Center (high performance green building design)	$25,000
• Philadelphia Municipal Energy Office (high performance green building blueprint manual)	$20,000
• Intelligent Buildings, Inc. (motor controller test equipment)	$25,709
Total	**$115,118**
Source: The Reinvestment Fund/Sustainable Development Fund (approvals as of June 2000)	

Social Compact Develops New Tools for Analyzing Urban Neighborhoods

*By Keith Rolland**

Social Compact, a coalition of business leaders who recognize and help bring about business success in underserved communities, has pioneered an innovative series of market analysis tools designed to unveil business opportunities in inner-city neighborhoods. Lynn Whiteside, president and CEO of Social Compact, will discuss these tools at a Federal Reserve Bank of Philadelphia conference on minority entrepreneurship on September 27.

Social Compact, headquartered in Washington, D.C., tested and launched its market profiling tools in three Chicago neighborhoods. Whiteside said that over the past year, Social Compact's work has resulted in comprehensive demographic and economic profiles that dramatically challenge traditional market analysis.

She explained that fundamental to Social Compact's success is the degree to which it integrates a spectrum of data sets, creating excellent information at the market and household levels, and the extent to which it continually adapts the best of private-sector market analysis tools to respond to the realities of the inner city.

Whiteside said that Social Compact is expanding its work beyond Chicago to serve selected parts of Harlem and selected neighborhoods in Houston and Washington, D.C., and expects to add two markets in the coming year. She said that Social Compact is typically retained by local collaboratives of banks and other corporations and government agencies. She said that the communities selected for this early rollout of Social Compact's work are prototypical of neighborhoods across the country and that Social Compact's objective is to create methodologies and to report findings that are applicable to many other communities with similar characteristics.

Social Compact's Emerging Neighborhood Markets Initiative, launched in Chicago in 1997, views lower income and underserved neighborhoods as competitive emerging markets in which to do business. It uses business data to identify indicators of market strength and potential with the goal of attracting sustainable investment and financing for commercial, retail, and home-ownership development. It sizes markets in terms of concentrations of consumers with similar demographic and behavioral characteristics, natural and man-made boundaries, and nontraditional views of trade areas and market flows. Some main features of this process include identifying natural and distinct market clusters; understanding customers within the market area in terms of ethnicity, age, and household formation patterns as well as the size and growth of the population; and analyzing consumer buying power and the cash economy.

For 10 years, Social Compact has sponsored awards that recognize successful business performance and investment in the country's underserved neighborhoods.

More than 20 corporations and organizations have been supportive of the initiative, and many are providing relevant data for the initiative. They include Ameritech; Applebee's; Bank of America, N.A.; Blockbuster Video; Burrell Communications Group; Commonwealth Edison; Chase Manhattan Bank, N.A.; The Consumer Bankers Association; Delray Farms; Deutsche Bank; Dime Bancorp, Inc.; Fannie Mae; First American Real Estate Information Services; Harris Bank; Home Depot; Inner City Entertainment; Mortgage Bankers Association of America; PMI Mortgage Insurance; Principal Financial Group; The Prudential Insurance Company of America; State Farm Fire and Casualty Company; and Walgreens.

For further information, contact Lynn Whiteside, President and CEO, Social Compact, 5225 Wisconsin Avenue, N.W., Suite 204, Washington, DC 20015, 202-686-5161; fax: 202-686-5593; e-mail: lynn@socialcompact.org.; web site: www.socialcompact.org.

**Keith Rolland is a community development advisor in the Community and Consumer Affairs Department of the Philadelphia Fed.*

Bank, CDFI Form Economic Partnership

Blue Ball National Bank, a community bank in Blue Ball, Lancaster County, Pennsylvania, has presented a check for $125,000 to Community First Fund, a community development financial institution. Community First, central Pennsylvania's only community development loan fund, will use the money for economic development in Lancaster and Berks counties. In particular, Community First will use the money from its partnership with Blue Ball to expand technical assistance and loans to entrepreneurs in the two counties.

Community First also works to improve the quality of life in central Pennsylvania by helping to create and retain jobs and by offering social services and affordable housing to members of underserved communities.

Blue Ball National Bank has 15 offices and more than $872 million in assets.

The bank and the CDFI were originally brought together at a meeting of the Federal Reserve Bank of Philadelphia's South-Central Pennsylvania Council of Community Affairs Officers.

Philadelphia Fed to Host Minority Entrepreneurs Conference

*By Keith Rolland**

An all-day conference dedicated to capital needs of minority entrepreneurs will take place September 27, 2000, at the Federal Reserve Bank of Philadelphia.

The conference responds to minority business owners' long-held concerns that they cannot obtain needed financing. It is designed for new and would-be entrepreneurs seeking information about available financial and technical resources and for businesses and financial institutions looking for new markets and customers. Dick Vermeil, chairman of the Advisory Committee of Bridge Tech Partners, L.P., and retired head coach of the Philadelphia Eagles and the St. Louis Rams, will introduce an equity fund for minority-owned technology businesses.

Other speakers will discuss equity programs, including those that can be used by entrepreneurs in low- and moderate-income communities; small-business loan products and services of banks and community development financial institutions; research by Social Compact on business opportunities in inner-city neighborhoods; federal, state, and local business assistance programs; business incubators; technical assistance providers; training programs; and franchise business opportunities.

Organizations involved include Bridge Tech Partners, L.P.; Chase Manhattan Bank, N.A.; Social Compact; GE Capital Corporation; GS Capital, L.P.; Local Initiatives Support Corporation; New Jersey Economic Development Authority; Pennsylvania Department of Community and Economic Development; The Enterprise Center; The Reinvestment Fund; Small Business Development Centers; and U.S. Small Business Administration.

The conference, which is being organized by the Community and Consumer Affairs Department of the Philadelphia Fed, will be held from 8:30 a.m. to 5:00 p.m. Space is limited. Inquiries about the conference may be directed to Betty Carol Floyd by telephone at 215-574-6458 or e-mail: betty.c.floyd@phil.frb.org.

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Pennsylvania Utilities Form Renewable Energy Funds *...continued from page 7*

cut utility expenses, thereby leaving more money for other items. Furthermore, funding companies that produce or support clean or renewable energy technologies could well mean expanded businesses, new businesses, and new jobs. "The creation of jobs is not an explicit goal of SDF," Clark adds, "but building a sustainable energy future is certainly a necessity if we are to enjoy long-term economic development—and jobs—in this region."

For more information about these sustainable energy funds, contact Roger Clark, Sustainable Development Fund (PECO Energy), Philadelphia, at 215-925-1130, ext. 227, or clarkr@trfund.com; Tom Tuffey, PPL Energy Fund, Allentown, at 610-740-3182, ext 482, or Tomtuffey@aol.com; or Chuck Mowbray, GPU Fund, Reading, 610-921-6903. Also for the GPU fund, contact Kevin Murphy, Berks County Community Foundation, 610-685-2223; or David Kraybill, Community Foundation for the Allegheny, 814-536-7741.

**Sally Burke is senior editor and publications manager in the Research Department of the Philadelphia Fed and the editor of* Cascade. *She thanks Ned Raynolds and Chuck Mowbray at GPU and Tom Tuffey of PPL's fund for their generous assistance in preparing the article. Special thanks go to Roger Clark of the Sustainable Development Fund for his time and input and for his patient answering of many questions.*

State Tax Credits Proposed for Building Affordable Housing, Revitalizing Neighborhoods in New Jersey

*By Carlos Peraza**

Preserving and revitalizing low- and moderate-income communities is a major challenge for the state of New Jersey. Residents and community groups in many such neighborhoods have struggled to develop and implement strategies to improve the quality of life for themselves and their families.

Unfortunately, the gap between the resources needed for improvement and those available has remained stubbornly wide. Funds are needed not only to rehabilitate or create new housing and re-energize commercial corridors but also to provide amenities such as parks and open spaces that will fill other holes in the fabric of these neighborhoods.

Creating a targeted funding source to help restore the vitality of these neighborhoods would go a long way toward improving residents' quality of life and reversing deterioration and its companion, suburban sprawl.

Solution Proposed in New Jersey

The Housing and Community Development Network of New Jersey (CDN, formerly the Affordable Housing Network of NJ), the New Jersey Multi-Cities Local Initiatives Support Corporation (LISC), and key private-sector and nonprofit leaders have spearheaded a two-part initiative. This initiative offers a potential solution to the problems of housing and neighborhood blight through the establishment of a Neighborhood Revitalization State Tax Credit Program (S.1138 / A.2592) and a New Jersey Multi-Family Housing State Tax Credit Program (S.1137 / A.2591).

A state neighborhood revitalization tax credit program would allocate $10 million in state tax credits annually for corporations to leverage $20 million in private dollars to help nonprofits serving low- and moderate-income neighborhoods in which an overall neighborhood preservation or revitalization plan or program is already in effect. Under the proposed legislation, private corporations would make financial contributions to qualified nonprofits in exchange for a 50 percent tax credit against its state corporate-tax liability. This money would also qualify for federal tax deductions as charitable contributions.

These funds could be used to turn vacant structures into affordable rental or for-sale housing, stabilize occupied housing, revitalize neighborhood business areas, or finance the creation of public open spaces and community facilities such as playgrounds, recreation centers, and child-care centers. At least 60 percent of the funds would be designated for affordable housing and economic development; up to 40 percent of the funds could be used by the nonprofit for other neighborhood revitalization activities.

A New Jersey multifamily housing state tax credit program, which would be similar in concept to the successful federal low-income-housing tax credit program, would create a stable source of funding for the production of affordable rental housing, allocating an additional $10 million in tax credits annually for this purpose. The New Jersey Housing and Mortgage Finance Agency (HMFA) would administer the program.

Legislation Has Broad-Based Support

The coalition leading the effort to pass the state tax credit bills includes many partners from both the private and the nonprofit sectors. The legislation has been endorsed by trade and corporate partners such as the New Jersey Bankers Association, the New Jersey Chamber of Commerce, First Union National Bank, Fleet Bank, PNC Bank, Prosperity New Jersey, and PSE&G, as well as nonprofits such as the American Association of Retired Persons (AARP), the New Jersey Catholic Conference, and the League of Women Voters.

Both pieces of legislation, which are being treated as a package, have moved steadily through the legislative process. The coalition is optimistic that the bills will be signed into law sometime this fall. In June, prior to the legislature's summer recess, the New Jersey Senate's Budget and Appropriations Committee unanimously released S.1137 and S.1138 from committee. The bills now head to the full Senate for a vote.

The bills will be heard before the Assembly's Housing Committee this fall. If released as anticipated

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The renovation of this building, called Magnolia Mall, in northern New Jersey was made possible in part by federal tax credits for low-income housing. Brand New Day, Inc. oversaw the renovations, which include rental housing on the second floor and retail space at street level.

from the Housing Committee, the bills will proceed to the Assembly's Appropriations Committee, then to the full Assembly for a vote.

Other States Offer Useful Models

A number of other states have Neighborhood Assistance Programs (NAPs), which, like the proposed Neighborhood Revitalization Tax Credit, rely on partnerships between the public and private sectors and encourage corporations to make contributions to nonprofits for community-redevelopment work in exchange for tax benefits.

At least 12 states now have NAPs: neighboring Pennsylvania and Delaware, Connecticut, Florida, Illinois, Indiana, Kansas, Maryland, Missouri, Nebraska, Virginia, and West Virginia.

In addition, at least seven other states—Arkansas, California, Hawaii, Massachusetts, Missouri, Utah, and Virginia—have enacted low-income-housing tax credit programs to augment the federal program.

Tax Credits Bring Benefits to New Jersey

Housing built with the help of federal low-income-housing tax credits serves households in more than 60 communities throughout New Jersey, from large cities to suburban towns. New Jersey housing tax credits would follow the same model and would be open to communities statewide.

An economic analysis by Dr. Donald Scarry of New Jersey Economics reveals that if the Multi-Family Housing State Tax Credit is enacted, New Jersey can expect to reap the following benefits in the **first** year:

- Tax credits will make possible the creation of up to 2700 additional affordable rental units for lower income working families, the elderly, and disabled people earning less than $30,000 per year.
- The tax credit program will create more than 2500 jobs for New Jersey residents and generate $87 million in new wages. These will be good jobs, each paying in excess of $34,000 a year.
- The tax credit program will increase regional business sales more than $192 million.

Similarly, if the Neighborhood Revitalization Tax Credit bill is enacted, $20 million in new private resources will be made available each year for revitalizing struggling New Jersey neighborhoods. Funds would be flexible and tailored to the needs of local communities. A contribution of $250,000, for instance, could help fix up 10 run-down houses, get a neighborhood grocery store under construction, or provide the equity to develop a much-needed community center with a staff person who would work with neighborhood youth.

Dr. Scarry's analysis shows that in the first year the Neighborhood Revitalization Tax Credit will:

- create up to 1100 new jobs;
- generate up to $31 million in wages; and
- increase regional business sales up to $63 million.

These bills represent an important step in addressing a pressing need for revitalizing New Jersey's low- and moderate-income communities and providing decent affordable rental housing for low- and moderate-income families throughout the state.

For more information, please contact Arnold Cohen of CDN at (609) 393-3752 or Carlos Peraza of LISC at (609) 392-4300.

**Carlos Peraza is program director, New Jersey Multi-Cities LISC Program, Trenton, New Jersey.*

Identity Fraud, Microenterprise Are Topics of Fed Videos

The Federal Reserve Banks of Boston and San Francisco have released a video on identify theft, entitled "Identity Theft: Protect Yourself." The video, which was produced by Richard Walker, vice president and community affairs officer at the Boston Fed, was developed in conjunction with the interagency Identity Fraud Task Force. The video details how easily personal financial information can get into the wrong hands, allowing criminals to unlawfully obtain credit in an unsuspecting consumer's name. It also outlines what to do if a consumer suspects that he or she has been a victim of identity theft. Copies of the 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 1-800-409-1333 or writing to: Public & Community Affairs Department, Attention: Identity Fraud Video, P.O. Box 2076, Boston, MA 02106-2076. Please make checks or money orders payable to the Federal Reserve Bank of Boston.

The Federal Reserve Bank of Cleveland has created a concise and simple microenterprise training kit designed for trainers and technical assistance providers to use during business orientation and instruction sessions. The training package includes one 12-minute videotape featuring three microentrepreneurs who share details of their real-life experience, an instructor's guide, 10 student workbooks, and one diskette that can be used to reproduce extra workbooks. The video, entitled "I Love Being Self-Employed," can be used to stimulate discussion, challenge assumptions, and provide motivation or to educate bankers or others about microenterprise.

Each training package costs $25.00. Mail payment to: Federal Reserve Bank of Cleveland, Attention: Community Affairs Department, P.O. Box 6387, Cleveland, OH 44101-1387. The Cleveland Fed cannot accept credit cards or cash. If you have questions, please call Laura Kyzour at 216-579-2846.

Financial Resources for the Environment (FRE) Develops Mission Statement

Previous articles in *Cascade* have described the proposed brownfields financing fund in Pennsylvania. Recently, the bankers and industry and government representatives participating adopted the following mission statement:

FRE will serve as a new, dedicated, and self-sustaining source of private-sector financing to fund community land restoration efforts in the Commonwealth of Pennsylvania. By recycling back into fuller productive use land whose redevelopment is hindered by real or perceived contamination, FRE will achieve four equally important and interrelated goals:

- **Community and Economic Development:** revitalizing and stabilizing neighborhoods by growing and attracting new businesses, creating or retaining jobs and job training opportunities, providing affordable housing, supporting community services, and supporting related community development efforts;
- **Sustainable Growth:** promoting economic development that uses and upgrades existing infrastructure or impaired lands, while discouraging sprawl growth, thereby preserving open space and protecting natural resources;
- **Public Health and Enviromental Protection:** reducing or eliminating environmental risks to communities and the environment through site assessment, characterization, and remediation, thereby allowing people to live and work in a safer and cleaner environment;
- **Economic and Environmental Stewardship:** supporting cleanup and redevelopment efforts in disadvantaged areas, minority communities, low- and moderate-income neighborhoods, and / or areas targeted for redevelopment by federal, state, or local governments.

Objectives

FRE will achieve these goals by meeting the following objectives:

- Providing an innovative financing mechanism that enables financial institutions, corporations, and public entities to fund land recycling projects that would not otherwise be served, consistent with safe and sound business practices;
- Operating a financially sound program that provides reasonable returns to participants and a permanent source of dedicated capital for the community;
- Offering a vehicle that works in partnership with a broad range of private, public, and nonprofit interests to balance the diverse financial, regulatory, and community needs associated with environmentally impaired lands;
- Providing a model in Pennsylvania and nationally for financial institutions, corporations, and public entities to expand their financing of environmentally impaired lands in the mainstream marketplace;
- Developing and presenting information in support of projects to redevelop particular environmentally impaired lands.

For additional information or to participate, please call Keith Welks, Phoenix Land Recycling, at 717-230-9700, or Sid Johnston, The Development Fund, at 415-981-1070, ext. 12.

NJRA Issues Request for Proposals

The New Jersey Redevelopment Authority (NJRA) is making available a total of $15 million to 68 urban municipalities in New Jersey for acquisition, cleanup, and redevelopment of brownfield sites. Brownfields are former or current commercial or industrial sites that are abandoned, vacant, or underused and on which there has been or may have been a discharge of contaminants. (See photograph.)

NJRA has issued a request for proposals, and applications are being reviewed until the funds are depleted. The agency will provide a maximum grant of $1 million per project.

For further information, contact David Scheck, Director of Finance, NJRA, at (609) 292-3739.

Financial Literacy Initiative Under Way for Underserved Communities

*By Dan Shah**

Financial literacy has come to the forefront of the national agenda for encouraging economic empowerment. Amid recent high-publicity initiatives to combat predatory lending, programs aimed at increasing financial literacy are being promoted at the national, state, and local levels as the most promising means of enabling people to acquire wealth and avoid engaging in practices that perpetuate poverty. At the heart of the federal government's interest in financial literacy is its concern with unfair mortgage lending practices. But financial literacy has another important goal: savings and asset development. In Philadelphia, we have organized a nongovernment-sponsored, citywide initiative to promote financial literacy.

This initiative started at a roundtable discussion that the Center for Community Non-Profit Organizations (CCNO) at Temple University hosted on October 29, 1999. Taking part in the discussion were representatives from banks, credit unions, nonprofits, and community development financial institutions (CDFIs) from around the city.

Our goal was to bring together participants in the financial industry—both lenders and clients—to establish strategies for developing alliances between banks and nonprofits so that collaboratively we could make a unified effort to enhance financial services in Philadelphia's underserved low-income neighborhoods.

To set the stage, Andy Frishkoff, executive director of the Pennsylvania Low Income Housing Coalition, presented different models for collaborations between banks and nonprofits; his presentation highlighted the successful Delaware Valley Mortgage Plan. The focus then turned to an analysis of the alternative financial sector. Law students Ted Won and Judy Lee from the CCNO presented research showing how the alternative financial sector (commonly referred to as check cashers) has grown rapidly over the past 15 years by using techniques such as flexible hours and quick-and-easy short-term, low-principal loans; by joining tax services with traditional services; and by offering personalized and pragmatic services tailored specifically to low- and moderate-income clients. The law students also showed how community development credit unions across the country had successfully steered clients away from their alternative-financial-sector competition by combining strategies borrowed from that sector with financial literacy training.

Because financial literacy serves the interests of banks, credit unions, and low-income clients, supporting this goal provides an opportunity for collaboration between nonprofit organizations and banks by uniting them in an effort to eliminate a common adversary: the check-cashing outlet. Furthermore, the opportunity to discuss collective concerns and priorities in breakout groups designated by professional affiliation prompted roundtable participants to speak honestly and openly about their interests and "bottom lines." Participants also had a chance to join forces in developing a way to design and implement the most effective mechanisms to educate low- and moderate-income people in the Philadelphia region about financial-service options and cultures.

From the initial meeting three working groups were created, the leaders of which demonstrate the breadth of the financial industry's commitment to this initiative. Jose Rivera Urrutia, executive director of Ceiba, a coalition of Latino organizations in North Philadelphia, is leading a group that will assess the kinds of enhancements CDFIs need to be more effective. Ira Goldstein, director of Policy and Program Assessment at The Reinvestment Fund, and I are directing a group that will link research on predatory lending with financial literacy in Philadelphia. Rosie Saez, senior vice president at First Union, chaired the committee that discussed the contents of a financial-literacy curriculum.

Curriculum

Our proposed financial-literacy training will address the benefits of avoiding the alternative financial sector and will teach low- and moderate-income people the skills required to avail themselves of the services of mainstream financial institutions. Committee members, including Christine Joes, vice president and community affairs officer at First Union, and Evette Lucas, director, Northeastern Region, Fannie Mae Foundation, obtained the endorsement of the Community Economic Development Committee of the Greater Philadelphia Urban Affairs Coalition (GPUAC). GPUAC also committed part of Mary Frances Davis's valuable time to the program. Davis is director of the Delaware Valley Mortgage Plan.

In the fall of this year, phase one of the project will get under way to test the standard curriculum of the literacy training modules developed by the National Community Reinvestment Coalition. We are choosing test groups in dispersed geographic locations, guaranteeing the inclusion of language minorities from immigrant/new American populations in the Latino corridor, and ensuring that the working poor from a large employer; very low-income, public-housing tenants; and welfare-to-work trainees are all part of the pilot groups. The curriculum for the pilot phase of the project now includes:

- Money flows and asset creation
- Basic banking
- Electronic banking and payment of government benefits
- Credit and debt management

Trainers, consisting of housing counselors, bankers, and people from nonprofits who are familiar with community-banking issues, will work in ratios of 10 trainees per trainer.

Research Study

The second phase of the financial-literacy initiative is a major research project scheduled to begin in

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the spring of 2001. This project will have implications not only for Philadelphia but for other cities as well. This project on financial literacy is a joint effort of the research and curriculum teams that are working together to develop tools to begin a research program in consultation with economist John Caskey of Swarthmore College. The project intends to create an employment-based test group from a university, major corporation, or union to receive training during working hours. By randomly assigning some employees to take the training and assigning others to not take it, we can eliminate bias due to self-selection and also establish a control group to directly measure the training's effect on behavior. The study will survey the groups before any training takes place, again after three months and one year for short-term results, and one more time after five years to assess long-term effects.

The CCNO is now in the process of obtaining funding for the research project, and CCNO students will be responsible for crafting the survey instrument and compiling the results. Using information from the pilot study, we plan to tailor the curriculum to meet community needs. We will define the parameters of the research, including the size of the survey sample, and hire a survey research firm to help us develop and administer the instrument. The proposed curriculum will include all four of the pilot project modules and will be expanded to include additional modules on lifetime financial planning and fraud prevention (including predatory lending).

Positive Outcomes

A number of Caskey's studies document the ways in which financial savings enable people to insure against uncertainty and hardship, to spend more rationally, to establish good credit, and to avoid a perpetual state of debt from reliance on the high-cost alternative financial sector.[1] Deborah Page-Adams and Michael Sherraden linked the relationship of savings to more intangible benefits, including personal well-being, civic behavior and community involvement, increased well-being of children in the home, a higher level of social status of women in the home and community, and reduced levels of domestic violence.[2] These benefits supplement the economic goals of current programs nationwide that focus on promoting financial literacy.

Despite the fact that a number of studies have linked financial literacy to financial savings, the research does not directly test to what extent financial-literacy education results in financial savings among low- or moderate-income groups. So far, the most convincing evidence of a positive relationship between financial literacy and financial savings comes from a study in which researchers Douglas Bernheim, Daniel Garrett, and Dean Maki found that individuals who went to high school in states that mandated personal financial courses reported statistically significant higher rates of savings and asset accumulation.[3] Another study by Sharon DeVaney et al. showed that almost half of those people who participated in a single financial-management class started an emergency savings account three months after finishing the course.[4] Yet another study by Bernheim and Garrett found that the effect of financial education on household savings was strongest for households with lower overall savings.[5] Therefore, it is likely that training will have a greater impact on folks without financial savings. This likelihood is supported by ethnographic research with very low-income families that showed that people believe asset limits for eligibility for government transfer programs to be lower than what those limits really are. As Caskey has pointed out, this means that informing people about actual asset potential raises the ceiling on what they believe they can save.

The Philadelphia project will build on existing research to establish the nature of the relationship between financial-literacy training and financial savings and all its benefits. Since no other study has attempted to establish this relationship, the results will be important for determining the resources that should be devoted to financial literacy; the limits of financial literacy's reach; which areas it does not effectively address—e.g., to what extent is it effective in preventing predato-

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[1] See John P. Caskey, *Lower Income Americans, Higher Income Financial Services* (Filene Research Institute, 1997); John P. Caskey, "Beyond Cash-and-Carry: Financial Savings, Financial Services, and Low-Income Households in Two Communities," Report for the Consumer Federation of America and the Ford Foundation, December 1997; and John P. Caskey and David B. Humphrey, "Credit Unions and Asset Accumulation by Lower-Income Households," preliminary draft study for the Filene Research Institute, July 1999.

[2] See Deborah Page-Adams and Michael Sherraden, "What We Know About Effects of Asset Holding: Implications for Research on Asset-Based Anti-Poverty Initiatives," Washington University Center for Social Development Working Paper (1996).

[3] See Douglas B. Bernheim, Daniel Garrett, and Dean Maki, "Education and Saving: The Long-Term Effects of High School Financial Curriculum Mandates," NBER Working Paper 6085, July 1997.

[4] See Sharon DeVaney, et al., "Cash Flow Management and Credit Use: Effect of a Financial Information Program," Financial Counseling and Planning, Vol. 7 (1996).

[5] See Douglas B. Bernheim and Daniel Garrett, "The Determinants and Consequences of Financial Education in the Workplace: Evidence from a Survey of Households," unpublished manuscript, March 1996.

ry lending relative to litigation or legislation—and which incentives, such as individual development accounts, might be necessary to encourage savings. Our results will help shape a policy approach that, over time, will have the maximum benefit for low- and moderate-income families. And if financial-literacy training results in lower rates of predatory lending and housing foreclosures,[6] then it may also become a standard part of the community-development agenda.

(See box below for a list of groups and legislation that support financial counseling for consumers.)

Financial Counseling Advocates

Following is a list of groups and legislation that support financial counseling for consumers.

- A recent HUD-Treasury report recommends changes to the Home Ownership and Equity Protection Act (HOEPA) to inform applicants for high-interest loans of the availability of home-counseling programs to educate consumers to make them less vulnerable to predatory lending.
- HUD is also recommending changes to the Truth in Lending Act (TILA) and Real Estate Settlement Procedures Act (RESPA) to improve the information provided to consumers so they can make better-informed choices regarding mortgage loans.
- The FDIC and the Office of the Comptroller of the Currency are writing guidelines to give positive Community Reinvestment Act (CRA) ratings to banks that provide consumer education about abusive practices in making home mortgage or equity loans.
- The Predatory Lending Consumer Protection Act of 2000 targets “high cost” home loans by prohibiting lending without home-ownership counseling on the advisability of the loan and its appropriateness for the borrower. A law recently passed in North Carolina provided the model for this act.
- In Brooklyn, the Department of Housing and Urban Development recently granted the Neighborhood Economic Development Advocacy Project $284,000 to educate consumers on the practices of predatory lenders to help combat those practices.
- Newly proposed federal legislation, called the First Accounts Act of 2000, appropriates $30 million to the Secretary of the Treasury to promote access to financial services by providing financial education to low- and moderate-income people and depository institutions.

**Dan Shah is director of the Center for Community Non-Profit Organizations, Beasley School of Law, Temple University, Philadelphia.*

[6] HUD Secretary Andrew Cuomo reports that 600,000 people may lose their homes in one year because of predatory loans.

Calendar of Events

Minority Entrepreneurs Conference
Federal Reserve Bank of Philadelphia
September 27, 2000
For information, call Betty Carol Floyd at 215-574-6458, or send email to betty.c.floyd@phil.frb.org.

Seizing Opportunities in a Changing Financial Landscape
Federal Reserve Bank of Chicago (co-sponsored by the American Bankers Association and the Federal Reserve Bank of St. Louis)
October 30-November 1, 2000
Westin Hotel, Michigan Avenue, Chicago
For information, call the Chicago Fed at 312-322-8232 or the St. Louis Fed at 314-444-8761.

National Community Capital Annual Training Conference
Philadelphia, November 1-4, 2000
For information, call Adina Abramowitz at 215-923-4754, ext. 205.

Predatory Lending Conference
November 13, 2000 - Grantville, PA
December 6, 2000 - Philadelphia, PA
For information, call Betty Carol Floyd at 215-574-6458, or send email to betty.c.floyd@phil.frb.org.

Federal Reserve System Conference: Changing Financial Markets and Community Development
Washington, D.C., April 5-6, 2001
For information, call Lynn Elaine Browne, Federal Reserve Bank of Boston, at 617-973-3091 or send email to Lynn.Browne@bos.frb.org.

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