



a community development publication of the Federal Reserve Bank of Philadelphia

## Community Coalitions Help Low-Income Families Obtain Earned Income Tax Credit and Build Assets

By Keith L. Rolland, Community Development Advisor, Community and Consumer Affairs Department, Federal Reserve Bank of Philadelphia

Forty nonprofit-led community coalitions around the country are helping low- and moderate-income employees and their families obtain free tax preparation, apply for the federal earned income tax credit (EITC), and use the resulting funds for asset-building goals.

Increasingly, the nonprofits are linking related services as well — financial-literacy classes, bank accounts, individual development accounts (IDAs), and homeownership counseling — and informing the families about other benefits

for which they may be eligible, such as food stamps, health insurance for children, and subsidized day care.

In 2000, 19 million employed individuals and families obtained EITCs totaling \$31 billion. The EITC lifted 4.7 million people — including 2.6 million children — above the federal poverty guideline in 1999, according to the Center on Budget and Policy Priorities, a Washington, DC-based nonprofit that conducts research on fiscal policy issues.

Nonprofits usually work with IRS Volunteer Income Tax Assistance (VITA) sites where IRS-trained volunteers prepare federal and sometimes state tax returns without charge from January to April each year. There are about 500 VITA sites in Pennsylvania, New Jersey, and Delaware.

The IRS, for its part, is playing an untraditional role by facilitating broad-based local coalitions that organize volunteers to provide tax preparation and inform low-income employees about the

...continued on page 2

### CONTENTS

- 2 Message from the CAO
- 5 Area Nonprofit Organizes Financial Literacy Seminars
- 6 Philadelphia Campaign Encourages Residents to Increase Savings
- 6 Nonprofit Builds New Houses in Chester, PA
- 8 Local Government Agencies Increase Collaboration to Leverage Funds
- 9 Sam McCullough Shares Insights from Banking and Public-Service Career
- 12 Pennsylvania Brownfields Fund Seeks Investors While California Fund Makes Initial Loans
- 13 Calendar of Events
- 14 District News
- 15 Regulatory Issues:  
Loans to Insiders - Be Careful!

## Nonprofits Launch Earned Income Tax Credit Campaign

By Keith L. Rolland, Community Development Advisor, Community and Consumer Affairs Department, Federal Reserve Bank of Philadelphia

A Delaware nonprofit is expanding its federal earned income tax credit (EITC) campaign statewide while new EITC coalitions are being launched in Philadelphia and Camden, NJ.

The Delaware nonprofit, Nehemiah Gateway Community Development Corporation, organized volunteers who prepared 2001 tax returns at two IRS Volun-

teer Income Tax Assistance (VITA) sites in New Castle County. About 75 percent of the individuals who received assistance at the VITA sites applied for the federal EITC, explained Mary Dupont, the CDC's executive director. In its second year of this effort, the CDC will work on a statewide basis to organize volunteers at 10 VITA sites and promote awareness about the EITC through the media, state and

...continued on page 3

## Message from the Community Affairs Officer

Last year, we devoted an entire issue of *Cascade* to highlighting organizations and individuals who were providing financial education to adults and children in the Third District. We were surprised by the number of organizations but knew the need for them was great. In this issue, we write about nonprofit coalitions that are taking financial education to a new level. The coalitions are pro-

viding free tax preparation and assistance in applying for the earned income tax credit (EITC) and are also offering related services, such as financial-literacy classes, bank accounts, and individual development accounts (IDAs). Consumers can use the EITC refund and IDA funds to buy a house, start a business, or increase their skills by attending college.

This fall, the Commonwealth of Pennsylvania loses one of its great leaders with the retirement of Sam McCullough. As a bank CEO and the secretary of community and economic development, he has influenced a great deal of community development. We will miss his expertise and dedication to our industry.



## Community Coalitions Help Low-Income Families Obtain Earned Income Tax Credit and Build Assets *...continued from page 1*

EITC and the availability of free tax preparation. The IRS generally acts as a facilitator to bring together disparate players and then transfers leadership of the VITA sites to a local nonprofit sponsor, explained Mark Pursley, director of the IRS's stakeholder partnerships, education and communication division.

The IRS is working to establish local coalitions in cooperation with such organizations as the National League of Cities, U.S. Conference of Mayors, United Way of America, and the Annie E. Casey Foundation. As part of this effort, the IRS has signed a memorandum of understanding with the Federal Deposit Insurance Corporation (FDIC), which will use the FDIC Money Smart financial-literacy curriculum at eight VITA sites. Under another IRS memorandum, the National Credit Union Admin-

istration (NCUA) will assist in EITC education and outreach through NCUA offices and individual credit unions.

The Center on Budget and Policy Priorities has provided EITC-related education and outreach to about 7,000 nonprofits, government agencies, job-training agencies, and employers around the country since 1989, according to John Wancheck, the Center's earned income credit campaign coordinator. Wancheck said that many residents "who are at or near the poverty line are paying high fees to commercial tax preparers to claim the EITC and obtain 'quick refunds' — fees that

drain the value of the credit." Commercial tax companies prepared 68 percent of tax returns involving EITCs for the 1999 tax year, according to the IRS.

This year, the Center for Economic Progress (CEP) in Chicago, which operates one of the largest community-based programs providing free tax preparation, organized 800 volunteers who prepared 14,723 federal income tax returns at 25 sites in Illinois. J.C. Craig, director of the Center's tax-counseling project, said that the EITC program "is a great gateway for low-income families to start IDAs or homeownership counseling and to find out about other

**The EITC program "is a gateway for low-income families to start IDAs or homeownership counseling and to find out about other programs for which they are eligible, such as food stamps."**

## Community Coalitions Help Low-Income Families Obtain Earned Income Tax Credit and Build Assets *...continued from page 2*

programs for which they are eligible, such as food stamps." He noted that EITC refunds total nearly \$1 million at some CEP sites and can have a significant economic impact in those neighborhoods.

In a joint three-year program offered by CEP and ShoreBank, free tax preparation was offered at several ShoreBank branches, CEP provided basic information on bank accounts, and EITC refunds were deposited directly into newly established savings accounts. This program has been expanded on a pilot basis with a half dozen other banks. About 300 accounts have been opened at ShoreBank, and another 100 have been opened at the other banks, Craig said.

Banks are involved in EITC campaigns by being represented at or hosting VITA sites, partici-

pating in financial-literacy programs, providing IDA savings accounts, and including EITC materials with statements and other customer correspondence.

*Banks, nonprofits, or government agencies interested in developing local partnerships should contact Darrell Lloyd, chief of financial-institution partnerships in the IRS' stakeholder partnerships, education and communication division, at (404) 338-7731 or [darrell.lloyd@irs.gov](mailto:darrell.lloyd@irs.gov).*

*Information on nonprofit EITC campaigns is available from John Wancheck at (202) 408-1080, [wancheck@cbpp.org](mailto:wancheck@cbpp.org) or [www.cbpp.org](http://www.cbpp.org); the Annie E. Casey Foundation at [www.eitc.info/marketing/default.asp](http://www.eitc.info/marketing/default.asp); and J.C. Craig at (312) 252-0280, [jccraig@centerforprogress.org](mailto:jccraig@centerforprogress.org) or [www.centerforprogress.org](http://www.centerforprogress.org). A recent study on the EITC by The Brookings Institution is available at [www.brookings.edu/urban/publications/berubekimeitcexsum.htm](http://www.brookings.edu/urban/publications/berubekimeitcexsum.htm).*



*A client is assisted by a volunteer from the Center for Economic Progress (CEP) in Chicago, which operates one of the largest community-based programs providing assistance in claiming the federal earned income tax credit (EITC). CEP is organizing a national community tax coalition of nonprofits and individuals interested in the EITC. (Photo provided by Tax Counseling Project, a program of the Center for Economic Progress 2002.)*

## Nonprofits Launch Earned Income Tax Credit Campaign

*...continued from page 1*

private employers, and supermarkets.

Nehemiah's second-year educational effort seeks to link recipients of tax return assistance with bank accounts, financial-literacy workshops, and Delaware's state-wide individual development account program. Several banks are among the funders for its current educational effort.

Meanwhile, a newly formed EITC effort in Philadelphia plans a dual approach of arranging for free tax preparation at 25 VITA sites and working through employers, such as labor unions, to inform eligible employees about EITCs. Michael DiBerardinis, executive director of the Campaign for Working Families, said that the campaign seeks to maximize the number of people who applied for the EITC and preserve the

value of the credit through asset-building programs.

The Philadelphia campaign, which is based at the University of Pennsylvania's Fox Leadership Center, received a \$534,000 grant from The Pew Charitable Trusts. It is working closely with the AFL-CIO, the Greater Philadelphia Urban Affairs Coalition, the Transitional Work Corporation, and

*...continued on page 4*

## Earned Income Tax Credit Boosts Income of Low-Income Taxpayers

The earned income tax credit (EITC), approved by Congress in 1975 in part to provide a work incentive, primarily benefits low- and moderate-income taxpayers who are raising children. However, very low-income workers between the ages of 25 and 64 can also obtain a small EITC.

The credit is designed to offset the impact of payroll, sales, and excise taxes on family income, as well as supplement the earnings of very low-income workers. Taxpayers who claim and qualify for the credit can receive a refund even if they have no income tax liability. If they owe income tax when filing their return, the remaining tax will be subtracted from the EITC refund and the taxpayer will receive the balance.

Part-time workers and self-employed individuals are eligible to claim the EITC, which is determined by income and family size. In the 2002 tax year, families with two or more children and an earned income of \$33,178 or less can obtain an EITC up to \$4,140. Families with one child and an earned income of \$29,201 or less can obtain an EITC up to \$2,506 while individuals or couples without children who have an earned income of \$11,060 or less can obtain an EITC up to \$376. The income limits for married workers are \$1,000 higher in each of the categories mentioned above.

Amended returns can be filed for the three prior years if a taxpayer has not yet claimed the EITC. For example, the deadline for an amended 1999 tax return is April 15, 2003.

The EITC has its own unique complexities involving dependents and residences. Moreover, there are frequent changes in EITC regulations.

Sixteen states, including New Jersey, offer state EITCs based on the federal credit.

For information, visit [www.irs.gov](http://www.irs.gov).

## Nonprofits Launch Earned Income Tax Credit Campaign ...continued from page 3

other organizations, DiBerardinis said. It plans to establish an IRS-funded legal clinic where people can get assistance on audits and IRS inquiries.

In addition, the Women's Association for Women's Alternatives (WAWA) in Swarthmore, PA, will educate potential EITC claimants in Delaware and Philadelphia counties by working with community-based organizations and churches.

Finally, in Camden, Respond, Inc., a 35-year-old social-service nonprofit, is organizing a coalition of about 30 organizations to provide tax preparation at a dozen VITA sites and provide linkages to asset-building and financial-literacy programs. As part of the effort, three PNC Bank branches in Camden and Pennsauken, NJ, will host VITA sites on Saturdays during the upcoming tax season, and the bank will offer a course on budgeting and meeting financial goals. Judy Everts, director of adult services at Respond, Inc., said that the



*Twenty volunteers from JPMorgan Chase Bank helped prepare tax returns in the 2002 tax season as part of a campaign by Nehemiah Gateway Community Development Corporation to help low-income Delaware residents claim the federal earned income tax credit. The volunteers included Jeannette A. Perry, credit professional, Shayla A. Gosa, vice president, and S. Renee Roberts, assistant vice president in JPMorgan Chase's community-development group, who are shown reviewing plans with Mary Dupont, Nehemiah's executive director (seated).*

campaign's goal was to prepare 1,500 returns throughout Camden from January to April 2003.

In the Camden effort, student volunteers from Rutgers University's School of Law and School of Business will prepare tax returns. The effort is funded in large part by the Annie E. Casey Foundation.

People interviewed about EITC campaigns around the country said that nonprofits thinking of becoming involved should be aware that EITC campaigns have

# Nonprofits Launch Earned Income Tax Credit Campaign

...continued from page 4

substantial educational, VITA-site marketing, and tax-preparation components — each of which is a time-consuming organizational challenge, especially if campaign staff have other primary responsibilities. They recommended that such nonprofits form or join EITC

community coalitions, start small and gain experience, and define objectives, measure success, and establish a data-reporting process.

*For information, contact Mary Dupont at (302) 655-0803 or [mary@marydupont.com](mailto:mary@marydupont.com); Michael*

*DiBerardinis at (215) 746-7119 or [mdiberar@sas.upenn.edu](mailto:mdiberar@sas.upenn.edu); Jane Eeley of WAWA at (610) 543-5022 or [jeleey@womensassoc.org](mailto:jeleey@womensassoc.org); or Judy Everts at (856) 365-4401 or [idmsense@yahoo.com](mailto:idmsense@yahoo.com).*

## Area Nonprofit Organizes Financial Literacy Seminars

The Greater Philadelphia Urban Affairs Coalition (GPUAC) recently held its first financial literacy seminars for low- and moderate-income residents in Delaware County and is organizing other seminars in the Philadelphia area.

GPUAC, with a William Penn Foundation grant, is offering the seminars in Bucks, Chester, Delaware, and Montgomery counties. The two-part, six-hour seminars cover such topics as budgeting, savings, bank products, and credit issues.

GPUAC held two initial seminars for 19 residents in Chester, PA, this fall in conjunction with a microenterprise affiliate of the Philadelphia Development Partnership (PDP) and the Community Action Agency of Delaware County (CAADC). An instructor from the Consumer Credit Counseling Service of Delaware Valley, Inc., taught the seminars using the FDIC's Money Smart curriculum.

GPUAC conducted a seminar in November with the Darby Community Development Corporation in Darby, PA, and will hold

seminars in January and February in Delaware County with CAADC and in Philadelphia with the Acts Assembly of God and the Black Alliance for Educational Options. GPUAC is looking for other community-based organizations to host the seminars in the four suburban counties and Philadelphia.

Don Kelly, GPUAC's recently appointed director of community and economic development, said that some nonprofits that host the seminars will organize financial advancement network (FAN) clubs. The clubs are designed to sustain residents' interest in financial literacy and asset-building through continuing education and peer support. Banks and other organizations will be invited to provide speakers. The first such club has been organized with the PDP affiliate.

GPUAC will also participate in the newly formed Campaign for Working Families in Philadelphia, which will assist eligible residents in applying for the federal earned income tax credit (EITC). GPUAC will invite banks to send representatives to provide product information at IRS volunteer income-

tax-assistance sites, and it may hold EITC-related financial literacy workshops, Kelly said.

The seminars are guided by a financial literacy coalition coordinated by GPUAC. The coalition has a short-term goal of helping residents better use their limited financial resources, avoid predatory loans, and manage their credit, and a long-term goal of helping them build assets and wealth, Kelly said.

The financial literacy coalition is chaired by Christine Joes, vice president of compliance management at Commerce Bank, N.A.; Dede Myers, vice president and community affairs officer at the Federal Reserve Bank of Philadelphia; and Dan Shah, Esq., director of the center for community nonprofit organizations at Temple University's Beasley School of Law.

Kelly was accredited as a financial counselor by the Association for Financial Counseling and Planning Education in Upper Arlington, OH, in September.

*For information, contact Don Kelly at (215) 851-1738 or [dkelly@gpuac.org](mailto:dkelly@gpuac.org).*

## Philadelphia Campaign Encourages Residents To Increase Savings

The Consumer Credit Counseling Service of Delaware Valley, Inc. (CCCSDV) is organizing several pilot workshops in a campaign intended to motivate Philadelphia-area residents to set financial goals and begin regular savings plans.

Participants in the program, Philadelphia Saves, will attend a one-hour motivational workshop, set financial goals, and have the opportunity to meet with a financial planner.

Patricia Hasson, CCCSDV's president, said, "CCCSDV is extremely excited to be involved in this important area-wide campaign. Through encouragement, assistance, and information, the

campaign will motivate and assist savers to pay down debt, build an emergency fund, or save for a home, education, or retirement."

CCCSDV hopes to enlist 1,500 residents in the program by the end of 2003. Over 30 organizations, including the Federal Reserve Bank of Philadelphia's Community and Consumer Affairs Department, are presently participating in the campaign.

The Philadelphia-area effort is based on an America Saves campaign initiated by the Consumer Federation of America Foundation. The campaign, which has enrolled 2,400 savers in Cleveland, OH, during the past two years, is

operating or under development in 10 other cities.

In Philadelphia Saves, for-profit and nonprofit employers are hosting motivational workshops for employees and are serving on administrative, marketing, services, financial products, and fund-raising committees. CCCSDV will ask employers to provide workshop speakers and "coaches" to make telephone calls to encourage and assist savers.

*For information, contact Maureen Keown, marketing director of CCCSDV, at (215) 563-5665, ext. 3338, or mkeown@cccsv.org. Information on America Saves is also available at [www.AmericaSaves.org](http://www.AmericaSaves.org).*

## Nonprofit Builds New Houses in Chester, PA

*By Keith L. Rolland, Community Development Advisor, Community and Consumer Affairs Department, Federal Reserve Bank of Philadelphia*

The nonprofit Chester Community Improvement Project (CCIP) has sold all 16 of the single-family townhouses it developed in the first new-construction homeownership project built in Chester, PA, in the past 15 years.

CCIP's primary focus continues to be homeownership education coupled with acquisition and rehabilitation on Chester's west side. Since its inception in 1978, it has counseled more than 1,836 low- and moderate-income residents in Delaware County and has acquired 71 vacant houses, rehabilitated 66, and sold 61.

In a new challenge, CCIP plans to begin rehabilitating larger single-family properties on Chester's east side. These houses will have higher rehabilitation costs and will carry somewhat higher sales values than properties that CCIP previously rehabilitated, but the nonprofit believes that this initiative will have a stabilizing impact in the eastern portion of Chester.

Annette Pyatt, CCIP's executive director, grew up in public housing in Chester and became construction manager at CCIP in 1991 and executive director in

1998. Pyatt states: "CCIP is an opportunity to give something back to my hometown."

Pyatt believes that Chester's economic outlook has brightened in recent years. Promising signs include a major office development on the Delaware River (Rivertown) and a joint technology-park venture of Widener University and Crozer-Keystone Health System. Pyatt expects that an increase in residential sales values will accompany a growing number of commercial developments. In its \$2 million new-con-

## Nonprofit Builds New Houses in Chester, PA ...continued from page 6

struction project, CCIP sold three-bedroom townhouses for \$46,000 to \$48,000 and four-bedroom townhouses for \$52,500. CCIP is looking for opportunities to construct other for-sale units.

Banks can work with CCIP by originating home mortgages and home-improvement loans, participating in pre- and post-closing homeowner-counseling workshops (including financial literacy components), making grants for homeowner counseling and general operating expenses, and providing technical assistance in accounting, family selection, and other areas, Pyatt said.

About a dozen different banks have made mortgages to buyers of CCIP-rehabilitated properties in recent years. The banks' loan officers often meet the buyers at CCIP's office, which uses down-payment and closing-cost programs of the city of Chester and Delaware County.

CCIP is located in a colonial courthouse in Chester that was built in 1724 and is the oldest public building in continuous use in the U.S. CCIP has a six-member staff with a housing-development



*Annette Pyatt, executive director of the Chester Community Improvement Project (CCIP), stands in front of one of 16 units developed by CCIP in the Central Avenue Townhomes Project.*

budget of \$710,000 and operating budget of \$260,000.

John Caskey, CCIP board member and professor of economics at Swarthmore College, commented that the 16-unit new-construction project had "a big psychological impact" in Chester and that CCIP will continue to develop "strategically located smaller projects that fill development gaps."

Cecilia Senatore, a private

**"CCIP builds a close relationship with families in preparing them for homeownership and in assisting them afterwards. It wants to keep them in the community."**

mortgage banker with Wells Fargo Private Mortgage Bank, has worked with CCIP since 1991 and serves as its board president. Senatore, who is based in Media, PA, said, "I'm impressed with the scope of what CCIP does in terms of housing rehabilitation and homeownership counseling. CCIP builds a close relationship with families in preparing them for homeownership and in assisting them afterwards. It wants to keep them in the community.

"CCIP is particularly effective because it has a first-rate staff and because the organization works so well with a wide range of banks, nonprofits, and government agencies."

*For information, contact Annette Pyatt at (610) 876-8663 or ccip@snip.net.*

# Local Government Agencies Increase Collaboration To Leverage Funds

By Keith L. Rolland, Community Development Advisor, Community and Consumer Affairs Department, Federal Reserve Bank of Philadelphia

In a national trend, counties, cities, boroughs, and townships are increasing their collaboration with other government agencies and nonprofits to meet housing and community-development needs, according to Scott Dunwoody, a division chief in Pennsylvania's Department of Community and Economic Development (DCED).

He said that the local government entities "are thinking more holistically and more creatively" as a result of increased demand and shrinking supply of funds. For example, when an agency plans a homeownership development, it now also provides for homeowner education and counseling, social services, and possibly infrastructure improvements.

Working with an increasing

number of partners is very time-consuming and needs to start in the planning stage, Dunwoody noted. Also, financing packages have become more complex and layered than ever before.

Dunwoody observed that:

- Nonprofits have easier access to program information provided on web sites and can quickly reach program staff through e-mail; and
- Nonprofits and residents have become more astute in relating existing programs to a wide variety of community needs and advocating for those needs.

In one example of resourcefulness, Ray Guernsey, executive director of the Redevelopment Authority of the County of Monroe (RACM), said that RACM used the state's urban redevelopment law (Title 35, Chapter 1701) to acquire a vacant summer camp, demolish part of the facility, and sell it to an affiliate of the Economic Development Authority of the County of Monroe for development as a business-office park. RACM then assembled a financing package for acquisition and construction that consisted of a state capital-assistance grant and loans from Mellon Bank, N.A., PPL Corporation, and Monroe County. "Only once or twice before has one county agency

used the law to obtain blighted property and sell it to another county agency for redevelopment," Guernsey said.

On another project, RACM made modifications or major systems repairs to the houses of 15 elderly residents by combining federal grants distributed through Pennsylvania's Department of Aging and DCED grants. Later, when RACM had funds for materials but lacked money for labor costs, it used volunteers through the county's retired senior volunteer program to install ramps and "grab bars" in five houses.

In another example, Chris Gulotta, executive director of the Housing and Redevelopment Authority of Cumberland County, recently enlisted DCED and Orrstown Bank to provide financing for the renovation of a vacant 1890s drugstore in Newville, PA, and worked with county commissioners to develop a new façade-improvement program in the town. Gulotta now hopes to turn a vacant building into a community arts center and initiate a Newville Main Street program.

Finally, Penny Eddy, executive director of the McKean County Redevelopment & Housing Authority (MCRHA), initiated a lease-purchase program that enabled 10 tenants to buy houses. The Pennsylvania Department of Public Welfare selected clients, the  
*...continued on page 12*



A vacant 1890s drugstore that occupied a prominent corner in downtown Newville, PA, was renovated and converted into a soda fountain and luncheonette through a multisector partnership initiated by the Housing and Redevelopment Authority of Cumberland County.

## Sam McCullough Shares Insights from Banking And Public-Service Career

*The Honorable Sam McCullough served as Secretary of Community and Economic Development for the Commonwealth of Pennsylvania from May 1997 to October 2002. He spent nearly 20 years of his 40-year banking career as CEO of Meridian Bancorp Inc. and American Bank and Trust Company of Pennsylvania. He has been active in many civic and professional organizations and has received numerous awards and honorary degrees.*

*At the Pennsylvania Department of Community and Economic Development (DCED), he led a major Commonwealth effort to make investments that support advances in technology. He helped create the Pennsylvania Technology Investment Authority and played a key role in the development of Pennsylvania's Life Sciences Greenhouse Initiative.*

*Under his leadership, DCED adjusted its financing programs to support technology as well as manufacturing businesses, introduced a single application for all of the agency's programs, implemented the Keystone Opportunity Zones program, and led the Pennsylvania Stay Invent the Future campaign.*

*Cascade asked McCullough the following questions about community and economic development. Keith Rolland of the Community and Consumer Affairs Department interviewed McCullough shortly before he retired from his position as Secretary of Community and Economic Development.*

**Q: Are there particular opportunities that you see for banks to make loans and investments or provide personal assistance in community and economic development?**

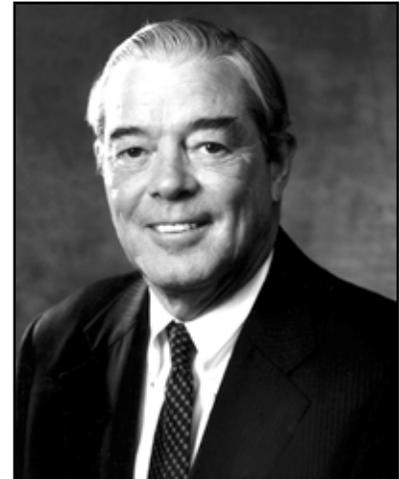
A: My first reaction is — stay home! When I was with Meridian, even when we got to be a \$17 billion bank, we rarely made a loan outside our region. A bank can do a lot more good by investing in its own community.

I always had a particular affinity for and interest in downtowns. In our headquarters community of Reading, PA, we got together with seven or eight partners and built a new office building, completely on speculation. A steel erection company, an architect, and others partnered equally just to get something going in downtown Reading. Ultimately, Meridian wound up occupying the whole 10-story building because the bank needed the space. The "spec" building led to a federal office building and several major businesses being located downtown. A lot of our downtowns have problems, and banks can

**"Outreach is important, too...We learned a lot about what the community needed and the local practitioners learned what was available at DCED."**

sometimes take a leadership role in initiating downtown development.

Banks and others must work with people at the local level to be successful in community and economic development. That means



*The Honorable Sam McCullough*

community development financial institutions and economic developers. Outreach is important, too. DCED had many field trips in which 60 to 70 staff members traveled to local communities. We learned a lot about what the community needed and the local practitioners learned what was available at DCED.

**Q: Are there community or economic development strategies in Pennsylvania that have particular promise?**

A: You can't have successful economic development without successful communities, and vice versa. That's why we merged the Department of Community Affairs and the Department of Commerce into DCED.

We have worked very hard at job development through our greenhouse initiative and international trade missions. They're directed at companies in information technology, life sciences, and

*...continued on page 10*

## Sam McCullough Shares Insights from Banking And Public-Service Career *...continued from page 9*

biomedicine. From 1994 to 2002, we've increased the number of the Commonwealth's foreign trade offices from four to 17 while Pennsylvania companies have increased exports from \$6 billion to \$23 billion.

We have to create economic development for the 21<sup>st</sup> century, and that requires substantially different strategies than we used in the past. We took an idea and developed an exciting strategy to make Pennsylvania one of the country's leading biomedical and bioscience industrial centers. We launched three life science greenhouses in Philadelphia, Pittsburgh, and Hershey, PA, in which the research of teaching hospitals is commercialized into medical technology, new drugs, and software. The greenhouses are developing new organ replacements and tissue and blood substitutes, and they have pioneered in medical robotics. In Pittsburgh, we now have 30 partners and have created 800 new jobs.

We funded the greenhouses with \$100 million, which is part of the money that Pennsylvania will receive from its settlement with major tobacco companies. We have also invested an additional \$60 million from the settlement in a venture-capital fund that will invest in early-stage companies launched as a result of greenhouse initiatives. *(Editor's Note: The fund was reconstituted in October 2002 into three funds — Saturn Life Sciences Partners, Pennsylvania Early Stage Fund, and Quaker Bioventure.)* We're partnering with other venture-

capital firms and expect that a total of \$200 million to \$300 million will be invested in early-stage companies.

We've created a Pennsylvania Technology Investment Authority and merged it with the Ben Franklin Partnership, which creates the country's biggest program for equity investments and others that help develop new commercial processes in early-stage companies.

Pennsylvania carries out economic development in ways that are different from those in other states. For example, Virginia, a much smaller state, has about 2,000 people working in economic development whereas DCED has 323. We rely on about 400 economic-development professionals who are working at the local level. They're part of the Pennsylvania Economic Development Association. We think it's better that these local practitioners identify opportunities and come to us, rather than the other way around. That's

**"If you're a part of things, you may be able to make a difference."**

important in Pennsylvania, which has regions that are so different that they could be separate states.

**Q: Which are the key issues and future challenges in community and economic development in Pennsylvania?**

A: Rural areas face big challenges in the digital age. We have 67 counties in Pennsylvania — one

has only 4,000 people — and we need to get them "connected."

Another issue is the survival of hospitals in small towns and rural areas. This issue, which partly involves medical malpractice insurance costs, has important consequences for economic development. For example, a major paper-products manufacturer that is interested in doubling the size of its workforce to 5000 at a Pennsylvania facility wants assurance that a small local hospital will continue to exist so that its employees will have access to medical services. As a result, we've made this a DCED issue. It's not just a Pennsylvania Department of Health matter. Another challenge is addressing the needs of Pennsylvania's large population of older people.

**Q: What is the state of leadership in the banking, nonprofit, and government sectors in economic and community development?**

A: Bank startups, as well as much larger banks, are providing leader-

ship in Pennsylvania. If you lose the headquarters of a Meridian or CoreStates, there definitely is an impact on Reading and Philadelphia, respectively. I worry when we lose headquarters of companies because that means a departure of money and leadership. The smaller banks tend to be more community conscious, but bankers overall are generally community-conscious and are local leaders. I was in-

# Sam McCullough Shares Insights from Banking And Public-Service Career *...continued from page 10*

involved in the formation of a recent startup, Millennium Bank in Malvern, PA.

Business leaders can play a valuable role in serving on boards of directors and advisory committees of government entities. I've served for eight years on the board

boards and even run for part-time public office.

**Q: As Pennsylvania's administration undergoes a transition, which suggestions do you have for your successor?**

**A:** My advice to the next governor is — hire a CEO who has run a large corporation! Such a person will understand the issues of business leaders. If he or she has run a large firm successfully, there's some leadership quality there. Getting a man or woman who is nearing the end of his or her career and is financially secure and can afford to take a public position can be a good resource for the governor. My experience is — it really works!

of many examples, a firm that makes aircraft parts and had never invested outside the United Kingdom opened a plant in Johnstown, PA. About 2,000 foreign companies are investing in Pennsylvania. And we've started a biomedical industry that has enormous potential for long-term job growth.

One of the legacies of the Ridge-Schweiker administration is the Pennsylvania Stay Invent the Future campaign, which DCED spearheaded. We went to 30 campuses to find out why young college graduates left Pennsylvania and what it would take to keep them here. With their help, we created an image of the state designed to attract them to live and work here, although they may take their initial job outside Pennsylvania.

One of the first things I did at DCED was meet with my counterparts at the other government agencies in Pennsylvania. I told them that we must work together and that we're all responsible for economic development. We cannot operate in separate "silos."

I'm very pleased about my time here. I'm incredibly impressed with the quality of the DCED staff, many of whom work long days and travel extensively. I'm looking forward to my retirement, although I'll stay involved in the field in some way.



*Sam McCullough, Pennsylvania Secretary of Community and Economic Development, presents a \$1.75 million check to assist in construction of a 40,000-square-foot \$6 million building in a Keystone Opportunity Zone (KOZ) in downtown Scranton, PA. From left to right: Christopher Doherty, mayor of Scranton; Austin Burke, president of the Scranton Chamber of Commerce; Nancy Jackson Matthews, president of the Scranton Lackawanna Industrial Building Company; Secretary McCullough; and Joseph Corcoran and Randy Castellani, Lackawanna County commissioners.*

of directors of the Pennsylvania Public School Employees' Retirement System, which has holdings of about \$43 billion. Business leaders are needed on such boards. If you're part of things, you may be able to make a difference. I urge business people to join school

**economic development field have been the most satisfying to you?**

**A:** Some 500,000 net new jobs, including many high-technology positions, have been created in Pennsylvania during the Ridge-Schweiker administration. In one

## Local Government Agencies Increase Collaboration To Leverage Funds *...continued from page 8*

McKean County Housing Authority purchased houses on behalf of the clients, MCRHA rehabilitated and upgraded the houses using DCED grants, and Northwest Savings Bank helped determine affordable sales prices.

Dunwoody concluded, "I expect that the counties, cities, boroughs, and townships will continue to experience pressure to do more with fewer resources, so they'll need to work with a wide range of government and other nonprofit partners in the future."

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## Pennsylvania Brownfields Fund Seeks Investors While California Fund Makes Initial Loans

*By Keith L. Rolland, Community Development Advisor, Community and Consumer Affairs Department, Federal Reserve Bank of Philadelphia*

Organizers of Financial Resources for the Environment (FRE), a proposed public-private purpose brownfields-financing fund in Pennsylvania, are enlisting FRE investors. Meanwhile, in California, a predecessor of FRE approved its first four loans totaling \$2.6 million this year.

FRE was originally conceived by the Phoenix Land Recycling Company (Phoenix), a Harrisburg, PA-based nonprofit developer that purchases options on contaminated land. Phoenix retained The Development Fund (TDF), based in San Francisco, CA, to organize a process to develop FRE.

Interested investors are reviewing a private placement memorandum on FRE. A TDF spokesperson expressed optimism that FRE would be launched with at least \$25 million in commitments by the first quarter of 2003. TDF and Phoenix staff members are to meet in November and December with individual banks

that are seriously considering investment in FRE.

TDF and Phoenix have pursued a dual track of recruiting investors and interviewing CEO candidates. An executive search committee of FRE that included several prospective investors recently selected its first-choice candidate to become president and CEO once FRE receives a minimum level of investor commitments. The first-choice candidate has not been publicly identified.

FRE plans to provide financing for remediation and remediation-related purposes such as site acquisition, improvements, and rehabilitation and construction of contaminated properties in Pennsylvania. It expects to serve private- and public-sector clients that have economically viable projects but cannot obtain adequate bank and investor financing because of environmental contamination issues.



*The California Environmental Redevelopment Fund (CERF) closed its first loan for \$1 million in May 2002 to a Habitat for Humanity affiliate for construction of eight homeowner units for low-income families. Construction is scheduled for completion in October 2003.*

### California

TDF previously led a process to organize the California Environmental Redevelopment Fund (CERF) L.L.C., a statewide brownfields-financing fund that closed in May 2001 with committed funds of \$36.3 million from 14 investors. The investors were initially banks, including large institutions such as Bank of America,

## Pennsylvania Brownfields Fund Seeks Investors While California Fund Makes Initial Loans *...continued from page 12*

N.A., as well as much smaller ones. CERF was certified as a community development financial institution by the CDFI Fund in June 2002.

CERF has closed on two loans totaling \$1.7 million. The first was for new construction of eight affordable-housing units developed by a Habitat for Humanity affiliate on a contaminated site in downtown San Francisco. The other is enabling an entrepreneur to acquire and remediate a contaminated gas station in Stanton, CA, and operate it as well as a convenience store.

CERF has also made commitments totaling \$900,000 on two other projects, both of which involve the remediation and continued use of gas stations. Another \$21 million of deals are in the pipeline, explained Peter

Hollingworth, CERF's president and CEO.

Hollingworth said that three of CERF's four closed and committed loans are in low- and moderate-income census tracts and that he expected that a majority of future deals would be in such tracts as well. Two bank investors have applied to the CDFI Fund for Bank Enterprise Awards and another is expected to do so, he said.

Before joining CERF, Hollingworth served as vice president and director of special projects at the Massachusetts Business Development Corporation following a 25-year banking career that included serving as CEO of Merrimac Bancorp in Massachusetts. CERF's other full-time staff person is Roxann Middleton Burns, vice president and senior loan officer, who previously was a

vice president in community-development lending at Bank of America, N.A.

Hollingworth said that CERF has identified three market segments: operating businesses, real estate developers, and public entities, including redevelopment agencies. He said: "I believe that CERF will succeed because the market is huge — California has an estimated 90,000 contaminated sites — the market is inefficient in that the perceived risk is greater than the reality, and there is no competition."

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## Calendar of Events

### **Personal Financial-Education Curriculum for Middle- and High-School Educators**

A seminar sponsored by the New Jersey Council on Economic Education and the Federal Reserve Bank of Philadelphia's Community and Consumer Affairs Department

January 10, 2003, Trenton, NJ

For information, contact Andrew Hill at (215) 574-4392 or [andrew.hill@phil.frb.org](mailto:andrew.hill@phil.frb.org)

### **2003 Community Affairs Research Conference: "Sustainable Community Development: What Works, What Doesn't, and Why"**

A conference sponsored by the community affairs officers of the Federal Reserve System

March 27-28, Capital Hilton Hotel, Washington, DC

For information, contact Alicia Williams at (312) 322-8232 or [Academic-Systems-Conference@chi.frb.org](mailto:Academic-Systems-Conference@chi.frb.org)

## DISTRICT NEWS

**Sean Closkey**, previously executive director of Saint Joseph's Carpenter Society in Camden, NJ, has been appointed executive director of the New Jersey Housing and Mortgage Finance Agency....**Jim Shultz**, previously president and CEO of Housing Development Corporation in Lancaster, PA, has become director of site acquisition for the High Real Estate Group in Lancaster....**Caroline Glackin**, executive director and chief operating officer of the First State Community Loan Fund, has co-

authored an article that explores the feasibility of linking microenterprise loan programs and individual development accounts used to start microenterprises. The article will appear in the fall issue of the *Journal of Microfinance*....Glackin and Delaware Treasurer **Jack Markell** co-chaired the Governor's Task Force for Financial Independence, which examined asset-building strategies in Delaware. A report from the task force is available at [cations. Glackin can be reached at \(302\) 652-6774 or \[cglackin@firststateloan.org\]\(mailto:cglackin@firststateloan.org\)....](http://www.state.de.us/governor/publi-</a></p></div><div data-bbox=)

**The Community Design Collaborative** provides nonprofits in the Philadelphia area with architects and other professionals who provide preliminary design services on a *pro bono* basis. Collaborative volunteers are expected to assist 35 projects in 2002 with services valued at over \$150,000.

For information, contact Beth Miller at (215) 587-9290 or [beth@cdesignnc.org](mailto:beth@cdesignnc.org); [www.cdesignnc.org](http://www.cdesignnc.org).

## Loans to Insiders - Be Careful! ...continued from page 15

on the category of the insider. New extensions of credit to executive officers must be reflected on a report filed with call reports. Executive officers and principal shareholders must annually file reports to the board of extensions of credit from correspondent banks. These reports and many other reports and records must be maintained by the bank.

### Compliance

Every bank should have a written policy regarding all aspects of Regulation O. The policy should: identify the officers/positions considered "executive officers" as that term is defined in the regulation; identify all other insiders of the bank, the insider cat-

egory into which each person falls, and a similar list of the insiders of its affiliates; identify a Regulation O loan officer, appointed by the board of directors, who oversees all loans to insiders, and insiders' loan files should be segregated from general loan files to ensure confidentiality; and contain separate written procedures for the Regulation O loan officer, the insiders, the compliance officer, and deposit operations.

### Conclusion

Given the recent increase in the number of and changes to federal banking regulations, it might be understandable that Regulation O gets overlooked. There is a new regulation to cover privacy, home

mortgage disclosure act reporting requirements have changed, high-cost loans have been redefined, and the U.S. Patriot Act has been promulgated. But Regulation O is a regulation for which banks must ensure strict compliance — not only because vigilant examiners would probably find any violations, which could be subject to civil penalties, but also because in the current climate of public opinion, news of insider loan violations could be extremely damaging to a bank's reputation. A strong compliance program is a must!

For additional information on Regulation O, contact Don James at (215) 574-6568 or [donald.w.james@phil.frb.org](mailto:donald.w.james@phil.frb.org).



## REGULATORY ISSUES

### Loans to Insiders - Be Careful!

*By Don James, Manager, Community and Consumer Affairs Department,  
Federal Reserve Bank of Philadelphia*

"Ex-Enron Insider Pleads Guilty." "Rigas Family Acted as Though Adelphia Communications Wasn't Publicly Held." "Ex-WorldCom Controller Says He Was Told to Falsify Records." In the past year, headlines such as these rocked the financial world. Other allegations accused companies of making improper loans to insiders. Although banks for the most part have not been the subject of these improprieties, it seems like a good time for banks to review their oversight of Regulation O, which governs the credit relationship between a bank and a bank's insiders, including the types, amounts, and terms of loans made to insiders, and the various reporting requirements. While this article will not serve as a substitute for reading and understanding the regulation, it will identify the areas that need special attention and offer guidance for successful compliance.

#### Who Are Insiders?

A person is an insider if he or she is a principal shareholder, director, or executive officer of the bank or an organization that is a "related interest" of one of those people. A person is also an insider of a bank if he or she is an insider of one of the bank's affiliates.

Each of these categories is further defined in the regulation, and

they are not all treated equally regarding the various restrictions imposed. It is very important that the board of directors of the bank pass a resolution that identifies by name and/or title all of the insiders covered by the regulation and the respective category.

#### Extension of Credit

The general rule is that any transaction, such as a loan or line of credit, in which an insider becomes obligated to pay money to the bank, is an extension of credit. The bank must maintain meticulous records of each loan, including the total amount of all loans to each insider. Two principal exceptions are an open-end credit card or credit line with a limit of \$15,000 and an interest-bearing overdraft credit plan with a limit of \$5,000. Inadvertent overdrafts, which are defined as \$1,000 or less provided the account is not overdrawn for more than five business days, are also exempt.

#### Lending Prohibitions

The primary restriction is that a bank may not make an extension of credit to an insider on terms and conditions that are more favorable than similar extensions of credit made in comparable transactions to noninsiders. If the aggregate amount of an insider's loans exceed a certain amount, further loans to that insider require prior board

approval. In addition, if one of those extensions of credit is a revolving credit line, the credit line must be reapproved by the bank's board at least every 14 months. The best policy is for a bank's board to annually reapprove all insiders' revolving credit lines. I mention this specific requirement because it is one that is easily overlooked, and it also demonstrates why meticulous records need to be kept.

#### Overdrafts

The general rule is that a bank may not pay an overdraft of an executive officer or director unless the person has an overdraft credit line or the overdraft is inadvertent. This rule can be a problem from a management perspective because the director or executive officer is not prohibited from overdrawing his or her account; the violation occurs when the bank pays the item. The best way to ensure compliance with this rule is to require all directors and executive officers to maintain overdraft protection of up to \$5,000. Absent that, or if the credit line is exceeded, all overdrafts should be dishonored.

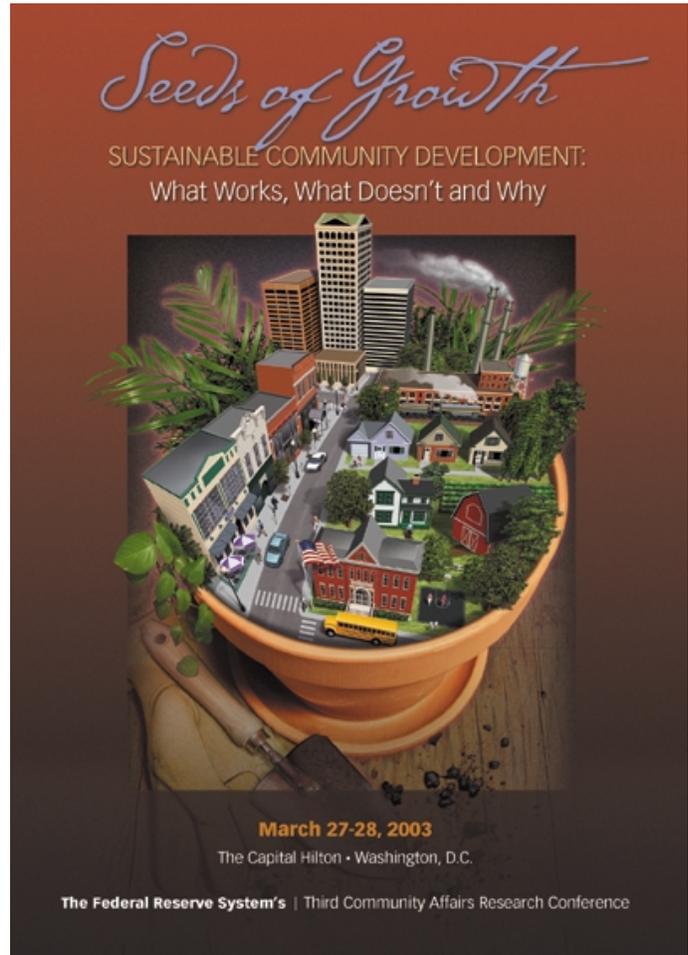
#### Reporting Requirements/ Record Keeping

There are a number of reporting requirements that differ based

*...continued on page 14*

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