

COMMUNITY *Connections*

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F E D E R A L R E S E R V E B A N K o f K A N S A S C I T Y



CAO'S NOTE

*By Tammy Edwards,
Vice President, Community
Development*

INFORMATION IS POWER

This summer, members of the Bank's student board of directors, along with staff, are conducting Summer @ The Fed camps for hundreds of young people. The campers are gaining valuable information about the purpose and proper use of money.

Seeing the excitement on their faces as they participate in various exercises has been a great reminder of how powerful the right information can be when delivered in an engaging and meaningful way.

This issue of *Community Connections* highlights examples of how the Kansas City

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Financial Inclusion: Making It Work for the Benefit of All

*By Steven Shepelwich, Senior Community Development Advisor,
and Kelly D. Edmiston, Senior Economist*

Some 30 million households in the United States have limited or no relationships with banks. Instead they often rely on alternative financial service providers for money orders, payday loans, check cashing services and other transaction services.

In focus groups conducted by the Federal Reserve Bank of Kansas City, underbanked consumers seemed largely satisfied with how they met their transaction needs through these services.

However, this satisfaction comes with its costs and limitations. Many focus group participants recognized they could benefit from relationships with mainstream financial institutions to achieve medium and long-term financial goals such as building savings and accessing credit.

Most identified a desire to budget, save for retirement and have access to credit from banks at some point to support their common goals of buying a home, helping their children attend college, or attending college themselves. Importantly, respondents reported that their cash-based money management methods made it more difficult to save money safely.

Financial inclusion is about providing financial services that help individuals and families achieve these goals. Access to supportive and appropriate financial services allows a family to better manage its resources and plan for the future. This is important for banks because it creates a stronger customer and a larger market for bank products.

Who are the underbanked? Probably not those who typically come to mind.

Underbanked consumers are about as likely to be in middle-income households with incomes between \$30,000 and \$50,000 as they are in households with annual incomes of less than \$30,000, according to a 2009 FDIC household survey. They lack a substantial financial cushion and are liquidity constrained.

Continued on next page

CAO's NOTE *(Continued)*

Fed delivers information to various audiences. Featured are recently published guides for employees and employers on the effective use of paychecks, a program that provides valuable information to small business owners and new foreclosure delinquency maps that inform policymakers on the health of local housing markets.

Community Development Advisory Council member Alex Romero, president and CEO of the Albuquerque Hispano Chamber of Commerce, is also featured. Alex discusses the impact of the economy on small businesses and the need to retrain workers for new jobs.

Please review the calendar for upcoming events, visit our website and follow us on *Twitter: @KansasCityFed*. Please contact me at tammy.edwards@kc.frb.org with your comments or suggestions.

FINANCIAL INCLUSION: MAKING IT WORK FOR THE BENEFIT OF ALL *(Continued)*

An increasing segment of the financially underserved population previously had substantial relationships with banks and other financial service providers, but recently have fallen victim to economic pressures arising from the financial crisis and severe recession.

Respondents to the Kansas City Fed's quarterly survey of organizations serving low- and moderate-income households report that high debt levels, delinquent accounts, seriously eroded credit histories, and account closures have left many without access to credit for the first time in their adult lives. In response, larger numbers of consumers have transitioned to alternative financial services.

Not surprisingly, the underbanked population has grown significantly over the last several years, and will therefore make up increasingly larger shares of the population in banks' market areas. Alternative service providers have recognized and benefitted from this phenomenon with high revenue growth in areas such as Internet-based payday lending and general purpose reloadable prepaid cards.

The failure to engage this market may significantly undermine customer growth in the future, especially as the economy improves and many of the currently underbanked get better financial footing.

Banks face many challenges in this market such as legacy systems, and institutional connections and resources. However, innovations in business models, delivery systems and products, both by alternative financial service providers and regulated banks, are showing that engagement with this market can be successful.

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FORUM WILL FOCUS ON *Wealth Building*

The Kansas City Fed will co-sponsor a forum in St. Louis on **OCT. 25-26** entitled *Promising Pathways to Wealth-Building Financial Services*, which will focus on issues facing the unbanked and underbanked.

The forum is designed to assist communities and practitioners explore opportunities to help underbanked households connect with wealth-building services. Among the key issues to be addressed, include:

- *What do we know about underbanked consumers?*
- *What financial products exist to meet their needs?*
- *What channels are available to distribute these products?*

Other forum sponsors include the Federal Reserve Bank of St. Louis, the U.S. Department of the Treasury and the Center for Financial Services Innovation (CFSI). Registration will be available in early August.

For more information, visit: www.stlouisfed.org/HFS_Forum

BANK ON COALITIONS *Grow* IN NUMBER

The numbers of Bank On coalitions that help unbanked and underbanked residents gain access to mainstream financial services are on the increase.

The coalitions bring together government agencies, financial institutions and community organizations to develop low-cost 'starter' accounts and financial education services for low- and moderate-income residents.

The first Bank On program began in San Francisco in 2006. Since then, some 65 additional programs have started. Each program is tailored to the needs of a local area. For more information, visit: www.joinbankon.org.

Three Bank On programs exist in the Tenth District. They are:

- *Bank On the Heartland:*
<http://www.bankontheheartland.com/>
- *Bank On Denver:*
<http://www.bankondenver.org>
- *Bank On Save Up Kansas City:*
<http://www.bankonsaveupkc.org/>



FINANCIAL INCLUSION: MAKING IT WORK FOR THE BENEFIT OF ALL (Continued)

If done well, results likely include improved social outcomes of communities, financial outcomes for the underbanked, and economic outcomes of the banking sector itself.

The following actions are key tactics to help make this happen:

Provide solutions to real and perceived needs: Assuming that underbanked consumers will become customers if they are only better informed of existing bank products and services is not sufficient. Reaching this market requires the same work as for other segments—providing solutions to real and perceived needs.

Focus on simplicity of use and transparency: Predictability, simplicity and transparency are qualities clearly desired across a range of issues. Identification requirements for opening and using accounts, features and fee structures of products, and triggers for penalties and other expenses need to be simple and transparent. Appropriate hours, accessible locations and professional staff that understand and relate well to local markets is important.

Offer targeted savings products: The ability to offer insured savings products is an important advantage in serving this market. The limited income and thin cushion against financial shocks makes a dramatic difference in the financial lives of this market segment. An account promoting emergency savings that is focused on security and accessibility could be a unique offer.

Provide “second chance” programs and dispute resolution assistance: Small events often turn into major problems for people living with a thin financial cushion. Account features and “second chance” programs that support customers in maintaining their accounts are needed. Consumers often feel disadvantaged when trying to resolve account disputes. A bank that treats them openly and equally when working through disputes can avoid misunderstandings, mistrust and account closures.

Review regulatory requirements and guidance: Banks have regulatory requirements and guidance for addressing many of the issues that impact underbanked consumers, such as establishing policies for identification requirements and funds availability. Developing a stance for interpreting and applying these and related policies from the underbanked consumer’s perspective can make a critical contribution in improving access to financial services.

Develop holistic approach to services: The underbanked meet their financial service needs within the context of complex social and cultural settings. Financial needs and strategies are closely connected to the constraints and opportunities consumers face in their personal lives, their families and neighborhoods. A holistic understanding of these connections is needed to design appropriate products, and more importantly, appropriate delivery systems. Banks can increase their financial success by partnering with organizations that address related needs of customers.

Efforts to include currently underbanked consumers in the financial mainstream benefit not only the underbanked, but also the communities in which they live and work, and importantly, the institutions that offer them services. Experience shows that the approaches discussed above are likely to lead to good outcomes for all.

For more information on the underbanked and to read a full report of the Kansas City Fed’s research, visit: <http://kcfed.org/research/community/unbanked.cfm>.

Delinquency Maps are Launched for Tenth District

By Lara Brooks, Research Associate

The Kansas City Fed has launched a quarterly series of maps that track the rate of seriously delinquent mortgages, those that are 90 or more days past due or in foreclosure, across the Tenth Federal Reserve District.

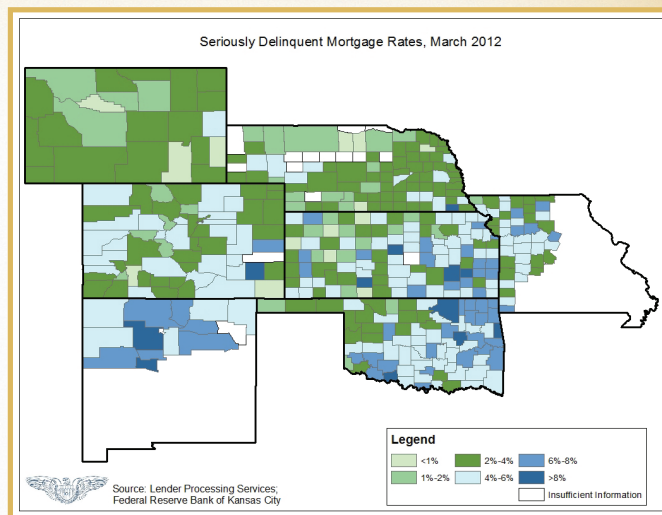
The state maps measure delinquent loan information down to the county level in all seven states that comprise the Tenth District. The maps include 11 major metro areas with information provided down to the ZIP code level. The data is provided by Lender Processing Services Inc.

The new series of delinquency maps offer spatial insight into the health of local and regional housing markets, providing a planning and informational tool for community leaders, policymakers, housing organizations and the general public.

The Web-based maps are accessible in PDF format and can be downloaded and shared for analysis, presentations and grant applications.

The quarterly delinquency maps can also be used to supplement data already published in the Bank's Quarterly Consumer Credit Reports, also available on the Bank's Community Development Web site.

To access the most recent delinquency maps, please visit: <http://www.kansascityfed.org/research/community/delinquency-maps.cfm>.



Putting Your Paycheck to Work

By Steven Shepelwich, Senior Community Development Advisor

The Kansas City Fed has developed a new financial education resource to help employees understand and make the most of their paychecks.

Called *Putting Your Paycheck to Work*, the new resource includes fact sheets that explain, among other things, how to understand a paycheck statement, manage withholding and deductions, make decisions about direct deposit and access other benefits and services.

Resources for employers have been developed to reinforce information provided in the fact sheets. Employers can access sample newsletter articles, statement stuffers and flyers to develop a quick and easy educational program for their workforce.

All materials are available at <http://paycheck.kcfed.org>.



Small Biz Day Events Link Entrepreneurs with Their Community

By Dell Gines and Paul Wenske, Senior Community Development Advisors

A burning desire to start your own business is one thing. Knowing where to go to get the necessary technical and financial assistance is another.

The opportunity to gain access to the information and resources they need to begin realizing their dreams attracted more than 250 people to Small Biz Day in Kansas City, held at the Westin Crown Center on April 21.

Jeanine Smith of Kansas City, who is developing an online art gallery, was typical of the many budding entrepreneurs who came. "I wanted to see what is important in taking me in the right direction," she said.

Participants benefitted from workshops, demonstrations and networking opportunities. They connected with experts who provided free technical, budgetary and funding advice—and they learned where to go for continuing help.

"Most of these people are in the start-up phase," said Brande Stitt, of KCSOURCELink, which seeks to connect entrepreneurs to helpful resources in the community. "Many of them are just unaware of the resources that are out there."

The Small Biz Day event is one of a series of small business programs the Kansas City Fed sponsors with community partners throughout the Tenth District.

Research by the Bank indicates that small businesses contribute significantly to job growth, enhancing a community's wealth and vitality. For example, stage two businesses, generally those that have reached a level of growth at which they employ 10 to 99 employees, create the majority of net new jobs.

Other research suggests that entrepreneurship-based economic development can counter loss of population in rural communities by attracting and retaining younger individuals and families.

Small business owners also lead the way in boosting income. According to research by Kansas City Fed Senior Economist Kelly Edmiston, small business owners, on average, have higher incomes than wage and salary earners.

The Kansas City event was hosted in partnership with officials from Missouri and Kansas, including Missouri Fifth District U.S. Rep. Emanuel Cleaver II, Missouri State Sen.

Kiki Curls, Missouri State Rep. Gail McCann Beatty and the Missouri Office of Administration. Additional support was provided by Kansas Third District U.S. Rep. Kevin Yoder.

"We are delighted to be a part of this," Sen. Curls said. "We hope these events help entrepreneurs find the information they need. Small business is a driver of employment and economic development in the state."

Additional Small Biz Day programs are planned for Oklahoma City on Nov. 3, Denver on Dec. 1 and Omaha on Dec. 8.

Visit www.KansasCityFed.org/community for more details.



Brande Stitt of KCSOURCELink talks about entrepreneurial resources with two participants at Small Biz Day in Kansas City.

Region Roundup

COMMUNITY LEADER ROUNDTABLE

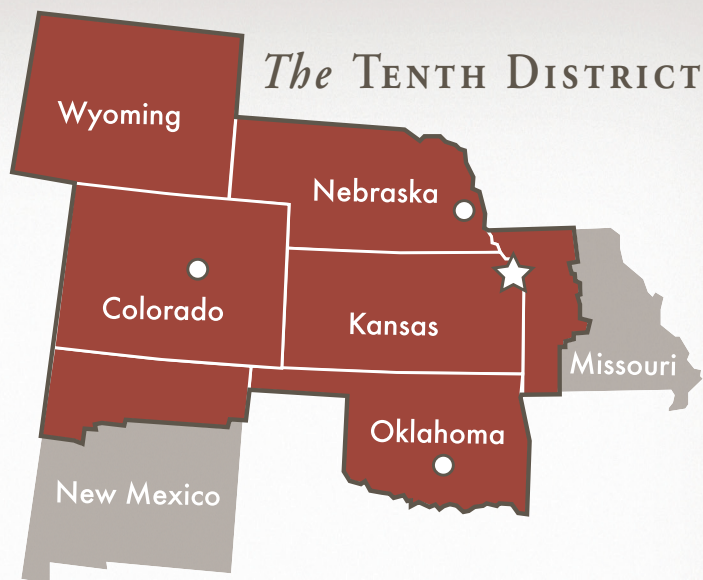
The Kansas City Fed hosted a roundtable in Kansas City for community leaders on April 17 that featured an overview of Community Development research and resources, and a presentation by Brent Stewart, president and CEO of the Greater Kansas City United Way, on the Kansas City Chamber's new Urban Neighborhood Initiative. More details about the initiative and its implementation will be provided at a symposium scheduled for Oct. 4 at the Kansas City Fed. For more information on the initiative, visit: http://www.united-waykc.org/our_work/urban_neighborhood_initiative.html.

COMMUNITY REINVESTMENT ACT ROUNDTABLES

Community Reinvestment Act (CRA) Roundtables were held for lenders in Las Cruces, NM on April 17; in Omaha, NE on May 10; in Kansas City, MO on May 11; and in Denver, CO on May 15. Sessions featured community investment opportunities and discussions with regulators from the Federal Reserve, the Office of Comptroller of the Currency and the Federal Deposit Insurance Corporation.

LOW- AND MODERATE-INCOME (LMI) SURVEY

The first quarter LMI Survey report released on April 27 showed significant improvement for indicators of economic and financial conditions across the Tenth District.



The job index showed a substantial boost, rising above neutral for the first time in the survey's history. To view the current and past surveys, visit: <http://kcfed.org/research/indicatorsdata/lmi/index.cfm>.

GREATER OKLAHOMA CITY AFFORDABLE HOUSING LUNCHEON

The Kansas City Fed's Oklahoma City Branch hosted an affordable housing luncheon on May 8 that featured an economic forecast for the region, a review of affordable housing trends and a discussion of local housing market opportunities for lenders, developers and low-income housing advocates. A demonstration of the Kansas City Fed's Web-based mapping tool, *Map Your Community*, was also provided. For more information about the mapping tool, visit: <http://kansascityfed.org/community/regional-profiles.cfm>.

INVESTMENT CONNECTION

The Kansas City Fed held Investment Connection events in Oklahoma City on May 17 and in Omaha on June 14. At each

event, eight nonprofit organizations presented CRA eligible proposals to banks and other funders. Proposals related to affordable housing, small business development and community facilities in both rural and urban areas. To date, more than \$2.9 million has gone to nonprofit organizations that presented at Investment Connection programs last year in Denver and Kansas City. See the calendar for upcoming programs.

WORKFORCE DEVELOPMENT WEBINAR

The Bank hosted a webinar on June 21 that summarized findings from workforce development roundtables held earlier in the year. The presentation allowed participants to respond to the findings and provide additional input on the activities planned by the Federal Reserve. <http://kansascityfed.org/community/workforce/index.cfm>

For information about other events, visit: www.kansascityfed.org/community.

Q&A: Alex Romero

Alex Romero has been president and CEO of the Albuquerque Hispano Chamber of Commerce since 2004, having also chaired the Chamber in 1998. Mr. Romero has more than 32 years of banking experience. He entered Albuquerque National Bank's management training program in 1972 and has held various leadership positions within the bank, including executive vice president for retail banking and marketing. He remained with the bank, which was later acquired by Bank of America, until his retirement in 2002.

Mr. Romero serves on the Tenth Federal Reserve District's Community Development Advisory Council (CDAC), which meets with the Bank president and senior Bank management to offer insight on economic and community development issues in the District's seven states. Community Connections periodically features CDAC members and other leaders committed to community and economic development. An edited interview with Mr. Romero follows:

WHAT IS THE MISSION OF THE ALBUQUERQUE HISPANO CHAMBER OF COMMERCE?

The Albuquerque Hispano Chamber of Commerce (AHCC) is organized to promote economic development, with an emphasis on enhancing economic opportunities and providing business and workforce education within the Hispanic and small business communities.

HOW DO YOU SEE YOUR MISSION WITHIN THE LARGER CONTEXT OF THE NEW MEXICO ECONOMY?

We work very closely with other business organizations in New Mexico, including the Association of Commerce and Industry, the Greater Albuquerque Chamber of Commerce and the Albuquerque Economic Development Association. We work together to create a joint business agenda each year prior to the State legislative session in Santa Fe to ensure we are all on the same page, in terms of legislation that impacts business.

WHAT ARE CURRENT CHALLENGES FACING SMALL BUSINESS OWNERS IN YOUR REGION?

There is general frustration in terms of overall confidence in our economy. Small businesses are reluctant to take on additional risk. They are still scaling back plans to hire and purchase equipment. In



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general, however, small businesses are resilient and optimistic. Economic development leaders at the state and city levels continue to work closely with and support the business community.

WHAT IS BEING DONE IN NEW MEXICO TO HELP EDUCATE AND TRAIN WORKERS FOR NEW JOBS?

We are working with small businesses to provide more computer training for employees. We are also assisting laid-off workers in writing resumes and acquiring more soft skills. In addition, we are conducting a survey of small businesses about their training needs, with the goal to develop programs to address those needs. We will then work with our partners under the Workforce Investment Act to obtain funding as we provide the training.

WHAT CONCERNS, IF ANY, DO YOU HAVE FOR SMALL BUSINESS GROWTH IN THE COMING YEAR?

The biggest challenges are still the economy and an uncertain political climate. I think people are just waiting to see what's going to happen in November. This will be an interesting election; we'll see what happens.

Providing Lifelines to Vulnerable Homeowners

By Ariel Cisneros and Paul Wenske, Senior Community Development Advisors

Foreclosure-rescue scams continue to prey on distressed and vulnerable homeowners, even as the housing crisis appears to be easing.

That's the message from experts who participated in foreclosure-rescue scam and housing assistance forums hosted by the Kansas City Fed in Denver on June 27 and in Kansas City on June 20. The Bank is planning a similar event on Aug. 14 in Omaha, as part of a series of Tenth District housing-related forums.

KEY MESSAGES FOR *avoiding* A LOAN MODIFICATION SCAM:

- Avoid anyone that asks for a fee in advance
- Avoid anyone that guarantees they will stop a foreclosure or modify a loan
- Avoid anyone that tells you to stop paying your mortgage company and to pay them instead

For more information and for useful resources on loan scams go to www.loanscamalert.org or call 888.995.HOPE (4673)

The Denver forum was held in partnership with the Colorado Foreclosure Hotline and featured a training session that attracted more than 60 foreclosure counselors from around the state.

The Colorado Foreclosure Hotline is one of the oldest and most active hotlines in the nation, and typifies the strong partners that have joined with the Kansas City Fed to address foreclosure and loan modification scams.

Since October 2006, the Colorado Foreclosure Hotline has received more than 155,000 calls, and currently averages 1,300 calls a month.

The hotline, **1-877-601-HOPE**, has 26 affiliated agencies across Colorado, covering both urban and rural populations. The Denver session highlighted the help the hot line provides to callers seeking legitimate foreclosure relief. One example is contained in a letter that singles out Hernan Lozano-Rivera, a housing counselor for the Adams County Housing Authority, and a hotline partner:

"I cannot tell you enough how much his assistance, guidance and support has helped me through the last few months," the caller wrote.

"I could not have done this on my own, although I tried initially to do just that!"

Such words of thanks do not surprise Shannon Peer, hotline administrator and director of housing for Brothers Redevelopment, Inc.

Peer said that major reasons why homeowners are still falling behind on their payments include loss of income or unemployment, household budget changes or major life changes, such as a divorce or medical problems.

Sometimes homeowners are so deep in trouble they cannot afford to keep their homes. She said that in those cases, counselors help their clients find realistic alternatives to lessen the blow and allow them to get on with their lives.

Andy McCallin, an assistant Colorado attorney general for consumer protection, said his office supports the foreclosure hotline's efforts to steer consumers to legitimate counselors, and away from scams.

Experts at both forums said scam artists often victimize desperate consumers with hefty and illegal upfront fees, and then never deliver on their promises, leaving consumers worse off than they were before.

At the Kansas City event, Ryan S. Asbridge, an assistant Missouri attorney general for consumer protection, showed a letter sent by a scam operation out of California that purports to offer homeowners "legal" help to get money from the national mortgage settlement between the government and several large banks.

Asbridge said his office is investigating the operation, which illegally charges an upfront deposit and fees as high as \$350 an hour.

Pam Johnson, a housing counselor with the Greater Kansas City Housing Information Center, said she continues to see homeowners victimized by scams. She said the scam artists are becoming more sophisticated.

"Before, they would walk down the street and hand out flyers," she said. "Now they go on the Internet. They know how you search the Net and know how to approach you. They have mad marketing skills."

Experts said many low- and moderate-income homeowners remain vulnerable to scams in part because they are struggling to make ends meet.

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UPCOMING EVENTS

AUGUST 2012

- **August 2:** Investment Connection, Kansas City, MO.
Contact: Paul.Wenske@kc.frb.org
- **August 14:** Foreclosure Rescue-Scam Luncheon, Omaha, NE.
Contact: Dell.Gines@kc.frb.org
- **August 16:** Community Leader Roundtable, Oklahoma City, OK.
Contact: Steve.Shepelwich@kc.frb.org
- **August 29:** Teleconference: \$1 Trillion in Student Loan Debt: The Story Behind the Numbers.
Contact: www.stlouisfed.org/connectingcommunities

SEPTEMBER 2012

- **September 12:** Investment Connection, Denver, CO.
Contact: Ariel.Cisneros@kc.frb.org
- **September 12-14:** Kansas Housing Conference, Manhattan, KS.
Contact: Paul.Wenske@kc.frb.org
- **September 19-20:** Workforce Development Conference, Kansas City, MO.
Contact: Steve.Shepelwich@kc.frb.org
- **September 21:** Financial Education Youth Summits, Denver, CO; Kansas City, MO; and Washington D.C.
Contact: Tammy.Edwards@kc.frb.org
- **September 27:** Community Reinvestment Act Roundtable, Albuquerque, NM.
Contact: Ariel.Cisneros@kc.frb.org

OCTOBER 2012

- **October 4:** Urban Neighborhood Initiative Symposium, Kansas City, MO.
Contact: Paul.Wenske@kc.frb.org
- **October 11:** Community Reinvestment Act Roundtable, Oklahoma City, OK.
Contact: Steve.Shepelwich@kc.frb.org

Scott Jones, director of the United Way of Greater Kansas City's **2-1-1 help line**, said his agency is receiving an increase in calls from people who need help to pay electric bills, buy food or seek shelter because they are homeless.

Jones said the top consumer requests the United Way receives nationally are for housing, utilities, meals and food in general.

Forum participants discussed the need to raise awareness through more public forums, outreach and public service campaigns.

The Kansas City Fed seeks to build strong partnerships throughout the Tenth District to help homeowners get the legitimate assistance they need.

More information and resources on foreclosures is available at the Kansas City Fed's Web site: www.kansascityfed.org/community.

Conference will Address Challenges Facing Workforce Development

The field of workforce development is changing as it seeks to address significant economic pressures facing the nation's workforce, including: persistent high unemployment, fiscal constraints on traditional funding resources; shifts in worker demographics, narrowing employment opportunities and the nature of work itself.

The *Future of Workforce Development Conference* will tackle these and other issues affecting low- and moderate-income communities, long-term unemployed workers

and other hard-to-employ groups through presentations, panels and facilitated discussions led by national experts in the field.

The conference, sponsored by the Federal Reserve Bank of Kansas City and the Federal Reserve Bank of Atlanta, is designed for researchers, practitioners, policymakers, and community and economic development organizations.

It will be held Sept. 19 – 20 at the Federal Reserve Bank of Kansas City. For more information, visit: <http://workforce.kcfed.org>.

COMMUNITY CONNECTIONS Summer 2012

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