

COMMUNITY *Connections*

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MAY 2010

FEDERAL RESERVE BANK of KANSAS CITY



CAO's NOTE

*by Tammy Edwards,
Assistant Vice President and
Community Affairs Officer*

Welcome to the first issue of Community Connections – a Federal Reserve Bank of Kansas City online publication that provides timely and relevant information on community and economic development issues.

As a regional headquarters of the nation's central bank, the Kansas City Fed is responsible for linking the communities of our seven-state region to the work of the Federal Reserve.

Through Community Connections you will learn of upcoming programs, emerging issues and research relative to community and economic development issues facing the low-and moderate-income and small business

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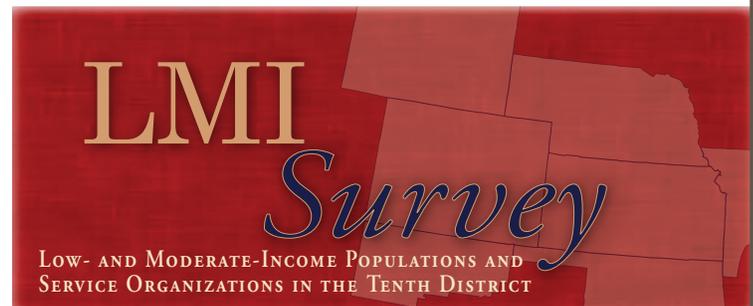
Survey Provides Insights into Low- and-Moderate-Income Families

by Kelly Edmiston, Senior Economist

The Federal Reserve Bank of Kansas City has launched a quarterly survey providing insight into the economic conditions of financially vulnerable populations.

The Low- and Moderate-Income (LMI) Survey asks selective questions concerning the economic status of the Tenth District's more at-risk populations. These questions focus on such necessities as the demand for social services, access to affordable housing, job availability and access to credit.

The survey also asks about the adequacy and availability of financial and nonfinancial resources among the 100 to 130 participating organizations that serve the LMI population within the seven-state district. Survey responses are used to meet the need to track economic conditions affecting the LMI community.



BENEFITS

The most recent survey findings reveal that the recession has hit the economically vulnerable LMI population hard. For instance, unemployed LMI workers have remained jobless for longer periods than has been typical in past recessions. The survey also shows that jobs formerly held by LMI workers have been taken by higher-skilled individuals who had lost more-lucrative jobs during the recession. This shift has resulted in fewer opportunities for the typically lower-skilled LMI job hunters.

Continued on next page

CAO's NOTE (Continued)

communities across the Tenth Federal Reserve District, which encompasses all or part of Colorado, Kansas, Missouri, Nebraska, New Mexico, Oklahoma and Wyoming.

In this issue you will learn more about our new low- and moderate-income survey, a barometer for groups assisting vulnerable populations; read about efforts to discern why some individuals choose a limited relationship with a bank, or none at all; and learn about a movement to combine positive social change with entrepreneurial success.

I look forward to hearing from you about ways we can make Community Connections a valuable resource. Please send your comments to me at tammy.edwards@kc.frb.org.

In addition to reading Community Connections, I also encourage you to visit our Bank's website, www.kansascityfed.org, for information about the Federal Reserve Bank of Kansas City and other programs, research and publications available to you.

SURVEY PROVIDES INSIGHTS into LOW- AND MODERATE-INCOME FAMILIES (Continued)

Indexes used in the survey range in value from a low of 0 (indicating the most deterioration in conditions) to a high of 200 (indicating the most improvement in conditions). Thus, a value of 100 is neutral, or an indication of little or no change.

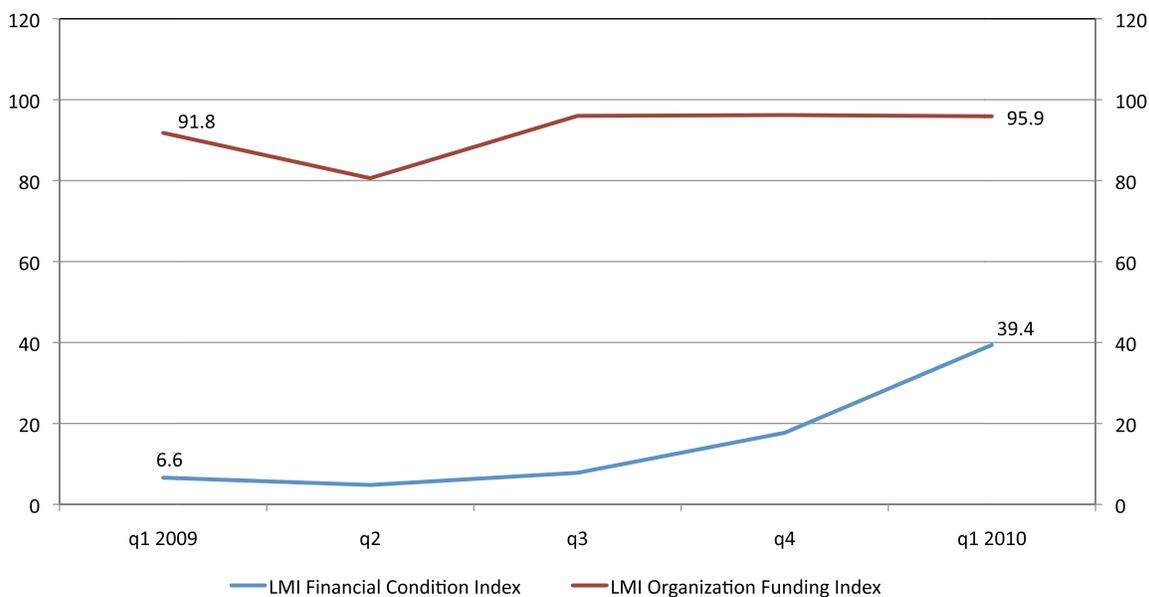
Some of the most valuable information comes in details that lie beneath the numbers. The survey has so far documented significant increases in the demand for services by LMI families and communities.

As with other individuals across the nation, access to credit has been severely restricted in the LMI community. As a result, LMI borrowers are increasingly utilizing alternative financial services, such as payday lenders and pawn shops.

Even so, the survey has recorded positive signs. For example, it has shown that access to affordable housing has deteriorated only modestly in the Tenth District, despite significant demands arising from unemployment, falling incomes and widespread home foreclosures. Further, the nonprofit organizations serving the LMI population, as a whole, have not reported significant deterioration in resources, despite lower incomes and shrinking wealth for their donors.

The first quarter 2010 survey report was released April 30. Second, third, and fourth quarter 2009 survey reports are also available online at our website (www.KansasCityFed.org), where you can subscribe to the survey.

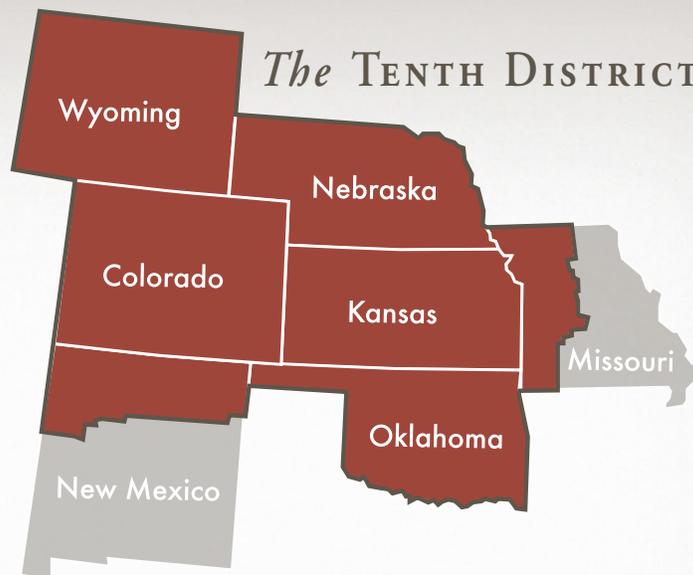
Selected Quarterly LMI Diffusion Indexes



The survey suggests that the overall financial condition of LMI consumers continued to deteriorate (remaining below 100) but at a slower rate in the first quarter of 2010. Funding for LMI service organizations remained largely unchanged.

Region Roundup

The TENTH DISTRICT



FINANCIAL EDUCATION *in* THE WORKPLACE

A Kansas City Fed program on Jan. 22 highlighted a multi-year research project by Community Affairs Senior Economist Kelly Edmiston entitled, “Weighing the Effects of Financial Education in the Workplace.” The project documented the effectiveness of employer-supported financial education programs in the workplace. The event was videocast to 14 Federal Reserve sites around the country. To view the research paper, go to: <http://www.kansascityfed.org/publicat/com-aff/rswp/carwp09-01.pdf>.

HELPING *to* MAKE THE CENSUS COUNT

In partnership with the U.S. Census and other regional partners, the Kansas City Fed conducted full-day training and information forums in Kansas City, Denver and Oklahoma City on using census data for communications, marketing, fundraising and program design to benefit the nonprofit sector.

HUD EASES GUIDELINES *on* REO PROPERTIES

On Jan. 22, the U.S. Department of Housing and Urban Development (HUD) issued new Neighborhood Stabilization Program guidelines allowing Community Development Corporations (CDCs) to enter contingency contracts to buy foreclosed properties before completing required environmental reviews. The Kansas City Fed earlier co-hosted a forum with the Federal Deposit Insurance Corporation and Legal Aid of Western Missouri in De-

cember at which CDCs told a HUD representative that the reviews delayed their ability to compete with private investors to buy foreclosed properties. <http://www.hud.gov/offices/cpd/communitydevelopment/programs/neighborhoodspg/policyguidance/index.cfm>

FED ADDRESSES SMALL BUSINESS NEEDS

The Kansas City Fed is helping small businesses meet the challenge of accessing credit with a series of events designed to identify

promising practices. The Fed has hosted two such events to date: the Minority Entrepreneurship Forum in Omaha on Feb. 23 and the Guaranteed Lending Program in Denver on Feb. 24. Included among the small-business needs cited at the forums were financial management skills assistance for minority entrepreneurs, more support for alternative financing methods and increased marketing information about lending programs. To learn more about how the Federal Reserve is helping small businesses, visit www.federalreserve.gov/newsevents/testimony/duke20100226a.htm.



Dan Hannaher, (left) regional administrator for the U.S. Small Business Administration in Denver, addresses bankers at a Guaranteed Lending forum moderated by Senior Community Affairs Advisor Ariel Cisneros (right) at the Kansas City Fed — Denver branch.

GOING AFTER FORECLOSURE SCAMS

The Kansas City Fed is working with community partners in the Tenth District to help troubled homeowners avoid scam artists.



Posters, mailings and media advertisements were used in Kansas City to alert consumers to the threat of loan-modification scams.

On March 8, Attorneys General Chris Koster of Missouri and Steve Six of Kansas joined with C. Steven Baker, Midwest Regional Director of the Federal Trade Commission, to help launch a campaign in Kansas City against foreclosure-rescue scams. Other key partners include the Local Investment Commission, NeighborWorks America, Mid-America Regional Council and United Way of Greater Kansas City.

At an Oklahoma City forum on March 11, Jane Wheeler, head of the Oklahoma Attorney General's Consumer Protection Unit told attendees, "It seems like the only people who really make money in a recession are the scammers." Missouri, Kansas and Oklahoma are using 2-1-1 help lines, managed by United Way agencies, to direct homeowners to HUD-approved housing counselors.

In Colorado, the state's Foreclosure Hotline has helped thousands of people get the help they need. State efforts coincide with the national NeighborWorks America Loan-Modification Scam-Alert: www.LoanScamAlert.org. For more about local foreclosure prevention efforts go to www.KansasCityFed.org and click on Foreclosure Resource Center.

MONEY SMART WEEKS HELD ACROSS DISTRICT

by Erika Ramirez, Community Affairs Advisor

April was National Financial Education Awareness Month.

April also marked the kick-off of the Federal Reserve Bank of Kansas City's annual Money Smart Week, held throughout the Tenth District and designed to provide consumers with a wide range of financial education opportunities.

Money Smart Week offers free financial education classes, forums, workshops and informational resources provided by a collaboration of organizations that include financial institutions, businesses, schools, libraries, non-profit organizations, government agencies and the media.

Topics include credit and debt repair, retirement planning, wealth building, avoiding identity theft, budgeting secrets and successful investment strategies.

Money Smart Week in Colorado, Oklahoma and metro Kansas City were held in late April. More Money Smart activities are scheduled in November for various cities across Nebraska. Consumers can visit the websites for their respective region to view a calendar of free events. Organizations interested in becoming involved in future programs can also find information on the websites.

Community Affairs Advisor Paul Wenske leads a consumer financial assistance session during Money Smart Day at the Fed in Kansas City.



The Tenth District is home to four financial education weeks:

- Jump\$tart Your Money Week in Oklahoma (APRIL 20 – 26, 2010)
www.kansascityfed.org/OkFinEd/JYMWeek
- Money Smart Week of Greater Kansas City (APRIL 23 – 30, 2010)
www.moneysmartkc.org
- Money Smart Week Colorado (APRIL 24 – MAY 1, 2010)
www.moneysmartcolorado.org
- Money Smart Nebraska (NOVEMBER 8 – 14, 2010)
www.moneysmartnebraska.org

Omaha Branch Hosts Forum on Social Entrepreneurship

by Molly McGrath, Community Affairs Advisor



Stephen Vogel, CEO of Grameen America, delivers the keynote speech.

More than 300 participants attended the Social Impact Forum Omaha (SIFO) on Feb. 26, where they learned how to relate entrepreneurial enterprises to social challenges, particularly in underserved communities.

The Omaha Branch of the Federal Reserve Bank of Kansas City joined with Creighton University to host the event.

The conference highlighted the Grameen social business model, which typifies a self-sustaining organization that generates income while at the same time addresses social challenges. The Grameen Bank was founded by Professor Muhammad Yunus in Bangladesh and is internationally recognized for its approach to microfinancing: “Loan poor people money on terms that are reasonable, teach them sound financial principles, and they will achieve financial self-sufficiency.” In 2006, Professor Yunus and the Grameen Bank won a Nobel Prize.

Creighton University’s Social Entrepreneurship Program was also featured. Dell Gines, an Instructor in Creighton’s program,

defined a social entrepreneur as someone “who seeks to satisfy a social need” by identifying a market opportunity that “will simultaneously provide both social change and organizational revenue.”

SIFO will be hosting events throughout 2010 to assist attendees in these ongoing efforts.

PLANS to EXPAND CONCEPT

In his keynote address, Stephen Vogel, CEO of Grameen America, said the organization has been successful in providing loans and other financial services “to entrepreneurs living below the poverty line in the United States.”

The Grameen Omaha Branch boasts a 99 percent repayment rate on nearly 300 loans. These are small loans, such as a \$1,500 loan for a home business. Borrowers start a savings plan and meet weekly with other members for peer support.

Vogel, the former CEO and founder of Synergy Gas Corporation, a company he grew to more than \$300 million in annual revenues, is applying his business experience to helping Grameen America expand. Grameen currently has two U.S. branches, one in Omaha and the other in New York City. It plans to open branches in 50 cities and to make loans to 1 million low-income entrepreneurs.

To date, Grameen America has disbursed more than \$4.8 million in microloans to nearly 2,500 entrepreneurs. It reports an outstanding portfolio of \$1.9 million and states that borrowers have built up nearly \$300,000 in savings.

For more about the conference, go to <http://www.socialimpactomaha.org>, and for more about Grameen America, visit <http://grameenamerica.com/>.



Audience members listened to pitches from entrepreneurs and then voted on the top ideas that also have a positive impact on social issues.

Focus Groups Ask Why Consumers Spurn Banking Relationships

by Steven Shepelwich, Senior Community Affairs Advisor

Some 692,000 households in the Federal Reserve's Tenth District do not have a bank savings or checking account.

Most people say they understand that a bank account can help reach desired goals, such as owning a home, buying a better car, saving for college, creating a nest egg or improving their credit. Still, many choose to forego bank accounts in favor of more informal, if less secure and often more costly, ways of handling their money.

unbanked and under-banked and that offer alternatives to payday-loan, check cashing and title-loan stores that often charge high interest rates.

Working with professional facilitators, the Bank conducted focus interviews with 76 consumers in Kansas City, Denver, Oklahoma City and Omaha, representing a broad range of ages, ethnicities and family compositions.

For the study, unbanked individuals were defined as those who lack a checking or

people. They recognized the need for savings, a good credit history, managing their debt and being disciplined about making and sticking to a budget.

Many agreed that a bank could help them with these needs. But misinformation, or simply a lack of financial understanding, became barriers.

Surprisingly, all of the unbanked participants said they once had accounts. Many said their parents opened accounts for them before they were ready, and they got into trouble after they were on their own. Misunderstandings about how checking accounts work and what causes hefty overdraft and bounced-check fees raised the greatest frustrations.

For some participants, negative banking experiences made alternative financial providers seem more appealing.

One participant told of incurring \$120 in overdraft fees after making four debit card transactions in one day. Because of the difficulty in correcting the problem, he closed the account, explaining that he didn't "even want to bother with it anymore."

Participants said they often felt more in control of their finances by using money orders and paying by cash. That way they knew exactly how much cash they had available after paying for food, rent and utility bills. Besides relying more on cash, the under-banked participants reported also using prepaid debit cards.

Continued on next page

Factors that appear to encourage a bank relationship:

- A low-cost and understandable fee structure
- Limited identity requirements
- Access to funds outside normal banking hours
- Training in savings, budgeting and credit use
- Confidence that their money will be safe

Factors that appear to discourage a bank relationship:

- Unexpected fees
- Inconsistency in the availability of funds
- Lack of financial education
- Convenience of retailers compared with banks

The Federal Reserve Bank of Kansas City conducted a series of focus groups, asking people why they choose a limited relationship with a bank, or none at all. The research also asked about alternative strategies people use to manage their money. One significant finding was that family influences, past experiences and misinformation all played roles in shaping consumer behavior.

The study has national implications, considering that an estimated 7.7 percent of households lack bank accounts and an additional 17.9 percent have only a limited relationship with a bank. The work may suggest new bank products that cater to the

savings account. Under-banked individuals have a checking or savings account at a bank or credit union, but prefer non-banks for financial services such as check cashing, money orders, bill payment, remittances or borrowing.

Focus groups were kept small to allow for in-depth discussions. Participants also logged their spending patterns for a week. The research captured a wealth of information on attitudes, experiences and individual preferences.

MISUNDERSTANDINGS and FRUSTRATION

In general, participants expressed financial worries and hopes common to most

UPCOMING EVENTS

MAY 2010

- **May 18:** Community Development Speakers Series presents Dr. Eric Belsky, Executive Director of the Joint Center for Housing Studies at Harvard University, Kansas City.
Visit: <http://www.kansascityfed.org/comaffrs/speakers/speakersseries.htm>
- **May 19:** Wyoming CRA Officers Roundtable, Casper, WY, Denver Branch.
Contact: Ariel.Cisneros@kc.frb.org
- **May 26:** HOPE Now Borrower Outreach Event, Kansas City Convention Center, Kansas City.
Contact: Paul.Wenske@kc.frb.org
- **May 27:** Small Business Financing Roundtable, Omaha Branch.
Contact: Molly.McGrath@kc.frb.org

JUNE 2010

- **June 9:** Small Business Financial Management Training, Omaha Branch.
Contact: Molly.McGrath@kc.frb.org
- **June 22:** Executive Succession Planning for nonprofit organizations, Denver Branch.
Contact: Ariel.Cisneros@kc.frb.org
- **June 23-24:** Federal Open Market Committee, Washington D.C.

LOOKING AHEAD

Economic Development in Underserved Communities: Where Research and Practice Meet, September 9 – 10. The Federal Reserve Bank of Kansas City is hosting a national conference bringing together the latest research and practice in economic development in underserved rural and low-and-moderate-income urban communities. It will explore ways to help transition rural communities and low-and-moderate income urban communities into the new economy.

Contact: Kelly.Edmiston@kc.frb.org

FOCUS GROUPS ASK WHY CONSUMERS SPURN BANKING RELATIONSHIPS (Continued)

FULFILLING A NEED

Most participants expressed a general satisfaction with their informal money-management systems, despite the extra effort. On the whole, they reported the systems worked for them, with the exceptions of savings and credit building.

This recognition of a need for better savings and credit-building products could provide an opportunity for reaching out to this market. In fact, a savings account was cited by the unbanked as the desired financial

entry product.

Both the unbanked and under-banked viewed a bank relationship as a step up the social ladder, affording them access to credit for home and car purchases, or for their children's education. "I would like to be able to invest slowly, a little at a time, and start saving little by little for my children," said one mother in Denver.

The Federal Reserve Bank of Kansas City is preparing the results for presentation to bankers, financial educators and policymakers.

By the Numbers: Unbanked & Underbanked in the 10th District

	% Unbanked	% Underbanked	% Total
NEW MEXICO	11.4%	21.7%	33.1%
OKLAHOMA	9.8%	21.9%	31.6%
MISSOURI	8.2%	19.3%	27.6%
KANSAS	6.4%	17.4%	23.8%
COLORADO	6.9%	15.3%	22.3%
WYOMING	4.0%	17.4%	21.3%
NEBRASKA	5.4%	14.9%	20.2%
ALL U.S. HOUSEHOLDS	7.7%	17.9%	25.6%

Source: 2009 FDIC National Survey of Unbanked and Under-banked Households

COMMUNITY CONNECTIONS May 2010

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