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Financial Access and Insurance: *A Preliminary Description of Factors that Affect Immigrants*

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Profitwise News and Views

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Save the Date

Financial Access for Immigrants: New Market Opportunities

**Moline, IL
June 21, 2007**

The Consumer and Community Affairs division of the Federal Reserve Bank of Chicago will hold a conference entitled, "Financial Access for Immigrants: New Market Opportunities." This conference, cosponsored by The Latino Connection and Black Hawk College, is being held at The Mark of the Quad Cities on Thursday, June 21, 2007, and will explore the experience of the many immigrants to the Quad Cities area in accessing and obtaining financial services, including: savings and checking accounts, loans, business credit, credit cards, and remittance services, as well as other issues surrounding the financial access of immigrants, such as employment, housing, education, and social services. The speakers for this event will be area bankers, academics, regulatory specialists, immigrant leaders, and business representatives.

This event is geared toward bankers, employers of immigrant workers, researchers and academics interested in immigrant and working-poor issues, public and private agencies serving immigrants and low-income workers, and other financial institutions involved in serving immigrant populations in the area.

We hope you will be able to join us for this important discussion. To register, or for more information, visit www.chicagofed.org/community_development, or contact Barbara Sims at (312) 322-8232.

Community Development in Rural Wisconsin

**Stevens Point, WI
June 27, 2007**

The Federal Reserve Bank of Chicago will partner with Community Bankers of Wisconsin, CAP Services/WISCAP, University of Wisconsin – Stevens Point, and the Wisconsin Housing and Economic Development Authority (WHEDA) to host a conference on "Community Development in Rural Wisconsin." The conference will be held at the Holiday Inn Stevens Point Convention Center on Wednesday, June 27, 2007. Topics discussed will include the Community Reinvestment Act (CRA), and its implications for rural America; Midwest agriculture and rural development issues; and sessions on community development, economic opportunities, and financial education.

For registration and more information, visit www.chicagofed.org/community_development, or contact Barbara Sims at (312) 322-8232.

Visit the Web site of the Federal Reserve Bank of Chicago at:

 **chicagofed.org**

Around the District



Illinois

CCLF receives Community Reinvestment Award

The Chicago Community Loan Fund's (CCLF) executive director, Calvin L. Holmes, was among those honored with a Community Reinvestment Award from the Woodstock Institute, at its 2007 Community Reinvestment Reception on April 24, for his commitment to revitalizing neighborhoods across the region.

CCLF is a local nonprofit lender that finances affordable housing and community development activities benefiting low- and moderate-income communities in Chicago.

For more information, visit www.cclfchicago.org or contact CCLF at (312) 252-0440.

Indiana

Indianapolis lands 425 new Telecom jobs

Mayor Bart Peterson, Governor Mitch Daniels, Indiana state legislators, and AT&T executives recently announced a landmark deal that will bring 425 new telecommunications jobs to Indianapolis.

The State of Indiana and City of Indianapolis worked in partnership to successfully land the company's call center, defeating competitors in other states. AT&T will locate a new call center at its Indianapolis headquarters. The expansion is part of an initiative AT&T announced last September involving the relocation of customer service positions that had previously been outsourced.

For more information, visit www.indygov.org/eGov/Mayor/PR/home.htm.

Iowa

\$24.3 million awarded to communities across Iowa

On March 8, 2007, Michael Tramontina, interim director of the Iowa Department of Economic Development (IDED), announced the awarding of over \$24 million from two federal initiatives for communities across Iowa. The two federal programs are the Community Development Block Grant and HOME Investment Partnership. According to IDED, these program funds will be awarded to 82 projects

across the state for purposes such as community facilities, services, and infrastructure improvements, as well as the creation or rehabilitation of affordable housing across Iowa.

These funds also leverage more than \$41 million in local investments and provide nearly 600 construction jobs across the state, said Tramontina. These grants are funded through the U.S. Department of Housing and Urban Development (HUD). According to IDED, in the last 25 years, HUD, through such grants, has funded 3,269 programs in 650 cities and counties, and provided more than \$873 million in funding in Iowa.

For more information, visit www.iowalifechanging.com or call Iowa Department of Economic Development at (515) 242-4733.

Michigan

New MSHDA loan program for college graduates

The Michigan State Housing Development Authority (MSHDA) created the Graduate Purchase Assistance (GPA) program—a loan program designed specifically for college graduates.

The GPA program offers a 30-year fixed rate conventional loan to eligible college graduates.

For further information, visit www.michigan.gov/mshda.

Wisconsin

Port of Milwaukee award highlights its economic development potential

On April 4, the Port of Milwaukee received a "Pacesetter Award" from the U.S. Department of Transportation's St. Lawrence Seaway Development Corp. for increasing traffic by almost 100 percent from 2005 to 2006. This was the second largest increase on the Seaway. The award also called attention to renewed focus on the fresh water ports of the Great Lakes region as economic development drivers.

For more information, visit www.city.milwaukee.gov.

Financial Access and Insurance: A Preliminary Description of Factors that Affect Immigrants

By Robin Newberger

Introduction

Providing financial services to immigrants is a growing business for bankers, and a growing area of study for policymakers and researchers. While still an emerging field, most of the attention to financial access thus far has tended to focus on core banking products such as bank account ownership, mortgage loans, and services that immigrants tend to use more often than native-born, such as wire transfers, that banks must market more aggressively than in the past to attract (some) immigrant groups. Insurance is another financial tool that, like accounts and mortgages, helps households accumulate and maintain assets, deal with unexpected financial contingencies, avoid a bad credit rating (a common result, after a medical crisis, among households having inadequate or no health insurance), and otherwise have an opportunity to participate in the financial mainstream. Yet insurance has received comparatively little attention in discussions about immigrants who do not or cannot take full advantage of common financial products and services. As is the case with many other financial products, proportionately fewer immigrants have property/casualty, life or health insurance than the native-born.

This article reports on participation rates by immigrants and examines some factors that influence access to health, property/casualty and life insurance. Although these types of insurance have distinct purposes, the discussion focuses on common barriers. An understanding of the issues impacting immigrants' decision to purchase insurance may be important for insurers and insurance brokers trying to reach (new) immigrant markets, as well as for consumers and advocates whose mission is to help people build and preserve their assets. Insurers and consumer advocates have for many years (correctly) taken the position that, like core bank products, insurance is essential to financially stable households. Accordingly, it

is important to understand factors that limit access to this basic financial product.

Both banks and insurers are interested in immigrant market trends. The number of immigrant households is projected to increase from 35 to 42 million between 2000 and 2020 and will account for approximately one-third of all new households over this period.¹ Immigrants are already an important segment of the U.S. automobile market: Hispanics will represent 20 percent of the total used car market by 2010.² Immigrants are also well-represented among business owners: about 10 percent of immigrants are self-employed versus nine percent of the native-born.³ In addition, the immigrant population is dispersed across the United States, making access to coverage an issue not just for a handful of places or states, but for communities across the country.

The first section of this article presents data from various surveys that quantify the use of automobile, home owner, health, and life insurance among immigrants. The second section discusses factors that affect coverage, first summarizing findings from a handful of (health insurance) studies, and next briefly reviewing various policies and practices in the insurance industry that may also influence access. The main sources of information for this article are national surveys, trade publications, research studies on insurance, and interviews with industry experts.

Coverage Rates for the Foreign- and Native-born

A limited amount of data is available on the private insurance participation rates of immigrants. A few national data sets collect basic information on the ownership of health, life, and home owner insurance among the foreign-born. Table 1 summarizes this information. In the absence of national data on automobile insurance coverage among the foreign-born, Table 1 also includes the results of a local survey (Los Angeles) of foreign-born Hispanics.

Table 1. Private Insurance Coverage

	Foreign-born (%)	Naturalized citizens (%)	Native-born (%)
Auto insurance ¹	71	n.a.	86 ²
Home owner insurance ³	53	68	74
Health insurance ⁴	48	56	61
Life insurance ⁵	37	45	61

- 1 Tomas Rivera Policy Institute, 2005. Study covers Latinos in Los Angeles. 87 percent of native-born Latinos have auto insurance. Responses to this question are not contingent on automobile ownership.
- 2 Insurance Research Council, Press Release June 28, 2006. This percentage is for the entire U.S. population.
- 3 American Housing Survey, 2005. Contingent upon owning a home, 90 percent of the foreign-born have home owner insurance, as do 92 percent of naturalized citizens and 94 percent of the native-born.
- 4 Current Population Survey. March 2006 Supplement. Immigrants 18 and older. About a quarter of naturalized citizen adults receive public health insurance, as do about 15 percent of noncitizens and 27 percent of native-born adults.
- 5 Survey of Income and Program Participation, month 36, wave 9. January 9, 2004. Heads of household.

The lowest rates of coverage among immigrants are for private health and life insurance. In addition, coverage is consistently lowest among noncitizens. About 41 percent of noncitizens have private health insurance, compared to 56 percent of naturalized citizens and 61 percent of the native-born. Thirty percent of noncitizens have life insurance compared to 45 percent of naturalized citizens and 61 percent of the native-born. With respect to property/casualty insurance, there are sizeable differences in automobile and home ownership insurance rates, although the data are driven by underlying differences in car and home ownership rates—prerequisites to having auto and home owner insurance. About 78 percent of immigrants own cars compared to 86 percent of the native-born,⁴ and about 53 percent of immigrants own homes compared to 70 of the native-born.⁵

A less direct way to compare coverage rates is through expenditure data on home owner, vehicle, health, and life insurance. Because of the poor quality of responses to insurance expenditure questions,⁶ consumer expenditure data is most useful for capturing general differences in insurance usage between demographic groups. For example, the Consumer Expenditure Survey for 2004 shows that more Hispanic households (the survey does not collect information on country of birth) spend nothing on

auto, home, life, and health insurance compared to non-Hispanic White households; but for those who do report expenditures on insurance, Hispanics spend a slightly higher amount of their annual incomes on auto and home owner insurance than non-Hispanic Whites. They spend a proportionately lower amount on health and life insurance.

Factors that Affect Coverage for the Foreign-born

Socioeconomic Factors and Type of Employment

A limited number of studies, focusing exclusively on health insurance, seek to explain differences in coverage rates between immigrants and the native-born. They tend to support the idea that what matter the most are socioeconomic factors and the nature of the jobs that many immigrants occupy (rather than being an immigrant per se), at least among documented immigrants.

For example, using data from Los Angeles, Goldman et al. (2005) find that having lower family income, less education, fewer assets, and working in an industry that is less likely to offer health benefits largely explain the difference in coverage between documented immigrants and the native-born.⁷ Another study by Prentice et al. (2005) using the same Los Angeles data finds that after adjusting for socioeconomic status, naturalized citizens are not significantly different from native-born citizens in their ability to gain or maintain insurance.⁸ Capps, Kenney, and Fix (2003) also emphasize the role of jobs in explaining the discrepancy in health coverage for citizen children of non-citizen parents. Much of the coverage gap between citizen children whose parents are not citizens and those whose parents are citizens stems from the significantly lower rate of employer-sponsored insurance among children in mixed-status families.⁹

These studies also agree that immigrants without 'documented' or citizenship status are less likely to have health insurance. Goldman et al. (2005) show

....immigrants have lower rates of health coverage after controlling for a wide array of socioeconomic factors.

that undocumented immigrants have lower rates of health coverage after controlling for a wide array of socioeconomic factors. Ku and Waidman (1999) also find that citizen status and language proficiency have a significant impact on insurance coverage.

Prentice et al. (2005) find that, compared to citizens, undocumented and legal residents have shorter insured periods and are significantly less likely to gain insurance even when other factors affecting health insurance coverage are held constant.

Responses from focus group participants reinforce the idea that certain demographic and socioeconomic characteristics are associated with auto, home, and life insurance coverage. A 2005 study of Latinos in Los Angeles (sponsored by Allstate) found that consumers who are older, have higher incomes, and have more education are more likely than their counterparts to have both property/casualty and life insurance.¹⁰ English proficiency and time in the U.S. are also associated with degree of coverage. About 80 percent of Latinos who had lived in the U.S. more than two decades had car insurance, compared to about 40 percent of those who had lived in the U.S. less than ten years. About 70 percent of those with more than 30 years of residence reported having home or renter's insurance, compared to 22 percent of the foreign-born with less than ten years of residence. About 60 percent of third-or-later-generation Latinos reported having life insurance, compared with about 30 percent of foreign-born Latinos.

Industry Norms and Practices

Another set of potential influences on insurance use relates to industry norms and procedures. A preliminary scan of underwriting practices, pricing policies, and marketing strategies reveals that a small number of industry provisions limits coverage for immigrants without citizenship or Social Security numbers. In addition, issues related to the neighborhoods where many immigrants live create their own hurdles to accessing insurance, although these environmental factors do not only affect immigrants. Even if it is not the intent of insurance companies to avoid immigrants, industry experts acknowledge that more work is needed to serve Hispanics and low- and moderate-income families,¹¹ as well as African American, Chinese, and South Asian consumers.¹²

Underwriting Guidelines

The underwriting process, that of identifying and calculating the risk of loss from policyholders, can affect the type and cost of coverage that carriers make available to many immigrants. In the case of private health and life insurance, foreign birth can directly affect the decision to offer coverage. For example, a study of Texas health insurers found that nearly half of the companies surveyed set strict residency or citizenship standards for the sale of a health policy.¹³ Life insurance applications generally ask applicants to indicate their place of birth and the extent of their foreign travel. Life insurance companies are also subject to anti-money laundering laws under the Bank Secrecy Act and are required to file Suspicious Activity Reports for transactions of at least \$5,000 (including payout amounts).¹⁴ As a practical matter, the agents

and brokers of these firms who have direct contact with customers are responsible for obtaining relevant customer-related information. Most health and life insurance companies in the U.S. also require a Social Security number for individual coverage, although a handful of companies accept Individual Tax Identification Numbers instead.

Foreign birth is not explicitly considered in the underwriting of property and casualty insurance.¹⁵ However, other factors incidental to being an immigrant, such as living

...homeowners in predominantly minority neighborhoods are less likely to have private home insurance, more likely to have policies that provide more limited coverage in case of a loss, and likely to pay more for comparable policies.

in a neighborhood with a high rate of ethnic concentration, may influence the underwriting decision.¹⁶ For example, a 1997 study by the Urban Institute found that home owners in predominantly minority neighborhoods are less likely to have private home insurance, more likely to have policies that provide more limited coverage in case of a loss, and likely to pay

more for comparable policies.¹⁷ The debate associating race and coverage is ongoing.

The use of credit scores in the underwriting process is another practice that may make insurance less available or more costly to some immigrants. A growing number of insurance companies use credit-related insurance scores to help them decide whether to accept an applicant for automobile and home owner insurance, and sometimes to set a price for coverage. Insurance scoring takes into account payment histories, bankruptcies, number of credit accounts in use, amount of outstanding debt, length of credit history, and other financial practices as a way to predict the likelihood of having an accident and filing a claim.¹⁸ While credit-based insurance scores do not take one's ethnic group or nationality into consideration, people with "thin" credit files, for whom companies cannot find a meaningful credit history, may be viewed negatively by insurance companies (although this is not always the case). A consumer can also be given a bad credit score – resulting in higher auto or home owner insurance rates – because of the absence of positive factors, including a real estate secured loan or the absence of credit information.¹⁹ In addition, a Social Security number is often needed to obtain an insurance bureau/credit score.

Pricing and Ratings Territories

The price of insurance is another factor that potentially reduces coverage among certain immigrants. The nominal prices of automobile, home owner, and health insurance rose by more than 25 percent, 45 percent, and 84 percent respectively between 2000 and 2006, compared to inflation of 17 percent over the period. Life insurance premiums have declined since 2000.²⁰

Table 2. Average Annual Expenditures on Property/Casualty Insurance

	Automobile (\$)	Home owner (\$)
2000	689	508
2001	723	536
2002	784	593
2003	869	668
2004	844	693
2005	863	711
2006	867	736

Source : www.iii.org/media/presentations/pcoverview

Table 3. Average Annual Worker Contribution to Health Insurance Premium

	Single Coverage (\$)	Family Coverage (\$)
2000	336	1620
2001	360	1788
2002	468	2136
2003	504	2412
2004	564	2664
2005	612	2712
2006	624	2976

Source: *Employer Health Benefits 2006 Annual Survey*

Immigrants may face even higher prices for property/casualty insurance if they lack a track record of insurance history in the U.S. Stability of residency and prior insurance coverage are common considerations in pricing decisions. Prices may also be higher for customers who buy fewer policies. Some companies that sell home owner, auto, and liability coverage will take 15 to 20 percent off of the premium if they can sell more than a single policy.²¹ Immigrants may also face higher prices if they live in neighborhoods with higher traffic density, a higher number of multi-family dwellings, or lower per capita income. Drivers from lower-income neighborhoods can pay between \$50 to over \$1,000 more per year for auto insurance premiums than those living in higher-income neighborhoods.²² Home owners in lower-income neighborhoods can pay as much as \$300 more for home

insurance than those in higher-income neighborhoods.²³ High prices can negatively impact the decision to purchase insurance. The primary reason people go without health insurance – including the nonpoor – is the high cost of coverage.²⁴ There are similarities to the property/casualty arena. Differences in average automobile insurance costs across neighborhoods (within a single metropolitan area) have large and negative impacts on car ownership rates.²⁵

Marketing and Distribution

What immigrants know about insurance, the knowledge level of the person who explains it to them, and who is available to sell it to them are other factors that may affect participation in the insurance system. For many immigrants, their primary source of information about insurance is the ethnic networks that surround them.²⁶ Immigrants who come from families with little experience with insurance in their home countries may therefore be at a particular disadvantage. The socioeconomic characteristics of a person's neighborhood also appear to be related to one's level of knowledge about insurance. The lower the income level of a neighborhood often means lower professionalism on the part of insurance agents. Yet the lower the income level of a neighborhood, in general the more education about insurance is needed.

A number of carriers and agents have already begun to respond to the changing demographics of the U.S. Many companies have adapted their marketing and distribution strategies to win a greater share of multi-cultural customers.²⁷ Recognizing that more recent immigrants tend to prefer a one-on-one, face-to-face visit with an agent, and that people are most comfortable

Recognizing that more recent immigrants tend to prefer a one-on-one, face-to-face visit with an agent...., a number of companies have begun recruiting and training ethnic and bilingual agents.

doing business with agents who are from their own communities, a number of companies have begun recruiting and training ethnic and bilingual agents,²⁸ and have developed culturally sensitive advertising materials. Insurance companies have also situated agencies close to 'mom and pop' shops where neighborhood residents conduct their regular business. In addition

to insurance, agencies offer diverse services like tax preparation, notary, and vehicle registration.²⁹ Some have adopted multi-tiered distribution systems where they

market their products both through independent brokers and captive agents. Some larger companies have bought up independent ethnically-owned smaller agencies. Some companies have also developed elaborate segmentation schemes based on socioeconomic status, time since migration, and country of origin of Hispanic immigrants, and designed special services to serve each segment.

The number of ethnic and culturally diverse agents varies across place and product lines. Anecdotal evidence suggests that in some places, like Southern California, the Hispanic market is saturated with ethnic agents. In other places, long-standing arrangements between carriers and agents often discourage the hiring and training of less experienced agents. Companies do not want to dilute existing franchises, and they continue to renew the contracts of agents who already generate a solid book of business. Reaching immigrant customers is an even greater challenge for life insurance agents, particularly those who sell investment- and account-based products. The life insurance distribution system is increasingly integrated with the financial sector, yet immigrants are less likely to own even the most entry-level financial products such as checking and savings accounts.

Conclusion

While much has been written about the factors that affect immigrants' use of bank accounts, more work is needed to understand the issues that affect immigrants' purchase of insurance, particularly property/casualty and life insurance. More work is also needed to determine the steps that can be taken to overcome barriers to insurance access

The most comprehensive and effective strategies to deal with barriers to insurance may not focus on immigrants in particular, but address the environmental factors in neighborhoods with high concentrations of minorities and immigrants.

Numbers³⁰ and health insurance to holders of Mexican and Guatemalan consular-issued identification cards.³¹ The most comprehensive and effective strategies to deal with barriers to insurance may not focus on immigrants

where they exist. The strategies suggested by the information in this article range from developing new underwriting criteria for assessing the risk, to encouraging immigrants to open bank accounts and take advantage of alternative means to establish a credit history. A handful of companies have already developed new products aimed at the immigrant market, including mortgage insurance on loans to borrowers with Income Tax Identification

in particular, but address the environmental factors in neighborhoods with high concentrations of minorities and immigrants. As more companies publicly identify the immigrant market as a path for business growth, the success (or failure) of strategies to win these customers will likely contribute new insights into the factors that affect access to insurance.

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CEDA: Celebrating 40 Years of Building Community Partnerships to Improve Lives

By Mary Jo Cannistra

Introduction

After President Lyndon Johnson declared an “unconditional war on poverty”¹ in 1964, the Economic Opportunity Act² was drafted, and numerous organizations quickly formed to wage battle in communities around the country. The Community and Economic Development Association of Cook County, Inc. (CEDA)³ was one such group. Established in 1966, CEDA began at the grassroots level – in schools, churches, storefronts, and community centers. It is now one of the largest private nonprofit organizations in the U.S., with over 200 offices throughout Cook County. With a staff of 700, over 4,500 volunteers, and more than 40 programs, it serves 230,000 clients per year with a budget of over \$100 million.

CEDA is a development organization that seeks out current research and follows demographic trends. Its

CEDA is “helping to reduce poverty and improve the quality of life among individuals, families, and communities throughout Chicago and its suburbs.”

**Robert L. Wharton,
President/CEO, CEDA**

structure allows flexibility to adapt to constantly changing needs in its target communities. Most community-based solutions to poverty-related issues involve layers of support systems, collaboration, and teamwork. CEDA has built a network of services, which are provided in part by four subsidiary corporations: Community Nutrition Network, Senior Services Association, CEDA Community Development Fund, and the Economic Development Association.

CEDA provides programs and services in child and family development, health and nutrition, financial and

economic development, emergency services, energy conservation, employment and job training, housing, and education, as well as senior-oriented programs. According to Robert L. Wharton, CEDA President/CEO, CEDA is “helping to reduce poverty and improve the quality of life among individuals, families, and communities throughout Chicago and its suburbs. CEDA is building partnerships in the community to help achieve our mission.”

Celebrating 40 Years of Helping Cook County Residents

During the week of September 25-28, 2006, CEDA celebrated 40 years of serving its community with a county-proclaimed “CEDA Week,” sponsored by Harris Bank and Washington Mutual. The week began with a press conference during which the State of Illinois announced that CEDA will receive a portion of a \$1 million federal grant to reduce home energy service disconnections. Illinois is one of four states that will receive the Residential Energy Assistance Challenge Option Program (REACH)⁴ grant in 2006. REACH will target Low-Income Home Energy Assistance Program (LIHEAP)⁵ beneficiaries, those at highest risk of losing service as a result (in part) of recent utility cost increases.

CEDA also provided a bus tour to several of its offices for its supporters and others to learn first hand of the group’s local impact. Among the stops on the tour was a ‘weatherization’ demonstration in a home on the near west side of Chicago. The CEDA Weatherization Program⁶ is the largest of its kind in the U.S. The program has served 4,200 home owners in suburban Cook County and the city of Chicago. The program provides resources to qualified Cook County residents to improve home safety and energy efficiency. Persons with disabilities, the elderly, and families with children under five years of age receive priority.

The tour also included the Oak Lawn Women, Infants & Children (WIC)⁷ facility. Margaret Saunders, CEDA WIC Director, stated, “Healthy children have the best opportunities to succeed and to become self-sufficient.” WIC is funded by the U.S. Department of Agriculture and is a supplemental nutrition program whose focus is on healthy diets for mothers and children. The program provides nutrition education and counseling, breastfeeding support, nutritious foods, and referrals to other services. As the second largest WIC program in Cook County, CEDA serves over 32,000 clients monthly in their 17 Chicago area clinics.

CEDA’s Revolving Loan Program provides low-interest loans to establish or grow small businesses that create jobs.

Finally, the group visited the Dudley Beauty School of Illinois, a borrower under CEDA’s Small Business Loan Program.⁸ CEDA serves as a liaison between local governments and loan recipients to promote business development. CEDA also works with local bankers and loan applicants

looking to create jobs and provide growth opportunities for their employees. Of particular interest to CEDA are businesses located in areas of high unemployment, and women- and minority-owned businesses with the potential to create jobs. With CEDA’s help, founders Joe and Eunice Dudley turned a dilapidated police station into a successful business and job training center.

Overview of CEDA Lending Programs

CEDA’s Revolving Loan Program provides low-interest loans to establish or grow small businesses that create jobs. Typical uses of the loan funds include working capital needs and expansion. Three loan programs are offered for business expansion or capital improvements – two are offered by CEDA, and the third is offered by the Community Development Fund (CDF), a CEDA affiliate that provides capital, economic development services, financial literacy, and technical assistance to small businesses in suburban Cook County and the City of Chicago.⁹

Since 1983, CEDA has made \$9.3 million in low-interest loans to small businesses through the Revolving Loan Fund, leveraging \$70 million from private sources, and creating 950 new jobs. For every \$20,000 in assistance that CEDA provides, a new job must be created, which a low-income resident of Chicago or South Suburban Cook County must fill.

CEDA Head Start Programs

Early Head Start and Head Start¹⁰ are comprehensive child and family development programs designed to build fundamental learning skills required to succeed in school, as well as social skills. Through 30 centers in suburban Cook County, CEDA Head Start currently serves 2,877 pre-school children and their families. Parents can also enroll their children in the Half-Day School Year or Before/After School programs.

Teen Parent Services (TPS)¹¹ is a state-funded program focused on helping pregnant teens and teen parents stay in school or return to school to earn their high school diploma or GED equivalent. TPS assists eligible participants with the costs of books, childcare, transportation, GED classes, uniforms, and other school-related expenses. In addition, this program provides family case management and information regarding childcare, medical care, immunizations, housing, domestic violence, and literacy programs.

In 2003, CEDA surveyed residents of Robbins and Ford Heights, Illinois, and found that availability of ATMs was their highest priority financial services need.¹² In response, CEDA placed the first ATMs in these communities. By placing the ATMs in police stations, the goal was for users to feel safe when using the ATM. Recently, the Ford Heights model was replicated by Wisconsin law enforcement. In addition, community development projects have stemmed from this initiative, providing new businesses and jobs for the community.

The ATM initiative has led to stronger support by financial institutions—institutions that are key in filling the financial

Since 1983, CEDA has made \$9.3 million in low-interest loans to small businesses through the Revolving Loan Fund, leveraging \$70 million from private sources, and creating 950 new jobs.

void in impoverished regions within Cook County. CEDA realizes that certain financial and program initiatives are better suited for specific areas, and they continue to research and fill these niches.

In December 2006, CEDA Northwest Self-Help Center, Inc., opened a resale shop in Des Plaines, Illinois. With 4,000 square feet of retail space, this shop sells gently used merchandise such as apparel, accessories, furniture, housewares, linens, and toys. The shop’s revenue provides additional funding to help CEDA carry out its mission.

Looking Toward the Future

CEDA's visibility within the community is the key to its success. It has thus strategically established eight Community Development Agencies (CDAs) to serve as its hubs for community networking and outreach. CEDA's CDAs are currently working with community members and businesses to identify strategic locations for community development ventures, such as strip malls and truck stops.

Undeniably, poverty has spread from Chicago to the inner suburbs. Gentrification and immigration displaces the poor from some city neighborhoods. Dispersal of Chicago Housing Authority residents has produced cultural and economic instability. The need for services in a number of CEDA's programs has grown over the years, arising from these and many other trends. Striving to evolve within the community, CEDA hopes to provide additional services and explore more innovative services and technologies over the next four years.

CEDA's current plans include new initiatives in affordable housing, bridging the digital divide, filling human service gaps, economic development ventures, supporting small business expansion, and creating a capital fund in partnership with financial institutions.

According to Wharton, "CEDA, Inc., continues to seek solutions to poverty by consulting members of the community first. We believe that the more people included in the process will allow for a stronger outcome."

CEDA is a member of the National Congress for Community Economic Development, the National Association of Community Action Agencies, the National Community Action Foundation, and the Illinois Community Action Association. Additional information regarding CEDA is available at www.cedaorg.net.

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Ways to Work: Putting Working Families Behind the Wheel and Heading toward a Stronger Financial Future

By Tom Waldron

Takara Kyles made her life work, but it wasn't easy. The 25-year-old Milwaukee resident managed to hold down a job as a certified nursing assistant and take care of her four young children. And Kyles did it all without a car. She had tried to buy one but had been turned down because of a credit history checkered with outstanding medical debts.

With no car, Kyles relied on a van service to get to work, which cost \$35 per week. Grocery store trips required a bus ride – not easy with four children – or a lift from a friend or relative. The most inconvenient part was arriving home after her evening shift ended at 11 p.m. and waiting for an hour for her day care provider to send the kids home with a van service.

Her life grew considerably easier in March when she secured a loan through the Milwaukee-based Ways to Work program and purchased a reliable used car for \$4,300. Having a car shaves 80 minutes from her daily commute to work and allows her to pick up the kids at day care herself. That means more family time together and an earlier bedtime for everybody.

"My life is definitely starting to get easier," says Kyles, who is now saving to purchase her first home. "Now that I have a car, it gives me more time with my kids, and it gives me more sleeping time. Grocery shopping is a lot easier. Having a car has been a big help."

For nearly 23 years, Ways to Work has been helping low-wage working adults like Kyles gain mobility and establish financial independence.

The nonprofit bases its work on a straightforward proposition: that it can help low-income working families advance economically by providing them with affordable credit. To date, the program has assisted more than 25,000 families with loans totaling more than \$40 million. In some cases, Ways to Work, which receives support from foundations, the federal government, and the private

sector, is the only affordable (auto loan) alternative to predatory lenders whose interest rates can climb well above 20 percent.

The demand for cars is strong in many areas of the country where public transportation fails to meet the needs of working families. Long commutes make it hard to get to work on time and take workers away from their families and homes. Using a Ways to Work loan to purchase a reliable vehicle makes it easier for workers to hold down a job, advance into better-paying jobs in different locations, or pursue additional education or training.

Other programs around the country provide vehicles at no cost to low-wage workers. Ways to Work has embraced a different model – making affordable loans to workers. Eligible borrowers must prove that they have been unable to receive credit from mainstream lenders. A key goal is to move successful borrowers into the financial mainstream through taking out a loan or opening a credit card account. "We firmly believe in the value of making loans for cars, not in just giving cars away," said Jeffrey E. Faulkner, president of Ways to Work. "We carefully screen our applicants to make sure they can afford the loan. The act of paying it back helps them develop sound financial habits, and it also begins their work of building a payment history that will eventually allow them to take advantage of greater financial opportunities."

Roots in Welfare Reform

Ways to Work began in 1984 in Minneapolis as a modest initiative of the McKnight Foundation designed to assist families who were being forced off welfare due to new eligibility rules. Before its launch, Carol Berde, a McKnight foundation official, met with welfare recipients to determine what they needed most to build financial security. She was surprised at an answer that came up repeatedly. What the women wanted was access to low-cost loans they could use to buy basics such as affordable

cars or other things they needed to hold jobs. Without reliable transportation, the women had difficulty staying employed.

The foundation began making loans, at no interest, to low-income families, most of whom used the money to purchase used cars.

The foundation tracked its loans and found they were helping borrowers move into better jobs, easing stress and helping them find better child care arrangements. The positive results led the foundation to expand the program to a dozen sites in Minnesota.

In 1996, the McKnight Foundation undertook a partnership with the Alliance for Children and Families to expand the program nationally. As part of the agreement, the foundation contributed more than \$1 million to establish loan programs.

The program changed its name in 1998 to Ways to Work and was incorporated as a new nonprofit organization in partnership with the Alliance for Children and Families, a Milwaukee-based nonprofit organization representing more than 370 child- and family-serving and economic empowerment organizations.

Ways to Work also began to receive increasing support from the private, nonprofit and public sectors. McKnight made a \$5 million grant, and Bank of America contributed \$8 million in low-interest debt capital, which allowed for major program expansion.

In a key step, the U.S. Department of the Treasury certified Ways to Work Inc. as a Community Development Financial Institution and provided a \$2 million grant. During this period, the John S. & James L. Knight Foundation contributed about \$2 million to help expand the program.

Ways to Work also has received significant financial support from the U.S. Department of Transportation, including more than \$17 million in matching funds from the Job Access Reverse Commute program of the Federal Transit Authority. Other key funders have included the Packard and Annie E. Casey Foundations and United Ways across the country. Their support has allowed Ways to Work to continue to expand its network of offices and today it operates in 45 offices in 21 states.

Stressing Financial Literacy

A key focus of Ways to Work is financial literacy, and as part of the loan process, Ways to Work requires applicants to assess their financial situation. Counseling sessions stress the importance of a good credit rating and review steps for repairing credit.

In Kyles' case, the counselor stressed the importance of budgeting and offered basic tips focused, for example, on

the high cost of eating out for lunch. The counselor also pointed out the high, sometimes hidden costs, of running up credit card debt.

"[The counseling] was very helpful," Kyles said. "It gave good tips and pointers that helped me cut down on spending. And it touched on everything I was trying to do financially."

Connected to each Ways to Work office is a community-based loan committee that assesses an applicant's ability to repay a loan. Local banks or credit unions make the loans, and the local service agency that hosts the Ways to Work program in each community guarantees it.

Ways to Work borrowers may receive up to \$4,000 at no more than 8 percent interest with a two-year payment term. Nearly all Ways to Work loans are used to buy vehicles. A small number of customers use their loans for other work-related expenses, such as books and calculators for course work, carpenter's tools, or a health care uniform.

After the loan is made, Ways to Work loan officers stay in contact with borrowers and step in to help them cope with problems that threaten repayment. Thanks to its hands-on approach, Ways to Work has enjoyed a repayment rate of more than 87 percent over the past 12 years – from borrowers who by definition have been deemed noncreditworthy by traditional lenders.

Dolores Broussard, a loan officer for Ways to Work in Lafayette, Louisiana, stays in close contact with her clients while they repay their loans.

"Even if they're not behind, we try to send out thank you cards, birthday cards, just to show them some support," says Broussard. There's a practical aspect to the outreach as well. By staying in close touch, loan officers can insure that they have up-to-date contact information so they can reach borrowers if the need arises.

Broussard takes pleasure in seeing how owning a reliable car improves her clients' lives. "When you reach a certain age and you haven't achieved some of the things you want to achieve, transportation is such a barrier. My clients talk about how it's almost degrading to have to ask people to take them places, even close friends or relatives. I see the pain and rejection in their faces."

Solid Results

Looking to assess how well it meets its goals, Ways to Work commissioned an independent evaluation that was released in late 2006. Prepared by OMG Center for Collaborative Learning in Philadelphia, the evaluation found that Ways to Work loans were leading to significantly higher take-home pay for borrowers, better job attendance, and a higher quality of life.

Most noticeably, the evaluators found that the take-home pay of Ways to Work borrowers increased by an average of 41 percent, growing from about \$11,900 to about \$15,300. About 90 percent of borrowers reported that their loans had improved their quality of life by allowing them, for example, to spend more time with family and friends. And about 90 percent of borrowers said their loans helped them to keep their job or to move into a better one.

The evaluation also showed that Ways to Work was meeting another of its goals—helping its borrowers move into the mainstream financial market. Two-thirds of all borrowers reported that they had obtained some type of conventional financial services since receiving their loan, such as opening a bank or credit card account or taking out a bank loan.

A typical Ways to Work borrower:

- An African American woman
- Single with fewer than three children
- Has more than a high school education
- Above age 30

“The findings from the evaluation make clear that owning an affordable car can make an enormous difference in a low-income family’s life and economic prospects,” said Peter B. Goldberg, the CEO of Ways to Work. “Income

went up significantly as did the families’ quality of life. We were encouraged by the results. These loans are undoubtedly worthwhile investments.”

That’s certainly how Trenes Hebert sees it. Without a car, she and her husband Andy used to take taxis to their restaurant jobs or their children’s schools. When they did the math, the couple in Lafayette, Louisiana, saw that the taxis were eating up a sizeable chunk of their income. Instead they decided to buy a dependable used car. A used car dealer wanted a \$2,500 down payment, which the couple could not afford. By contrast, the Lafayette Ways to Work office, hosted by The Family Tree, worked with the Heberts and offered an affordable loan, which allowed them to purchase a used car.

“It’s benefited my husband and kids a lot, getting us to work more cheaply, and getting the kids to things like doctors’ appointments,” says Trenes Hebert. “It’s saved us a lot of money and time.”

A copy of the Ways To Work evaluation is available at www.waystowork.com/documents/Evaluations/WtW_reference_book.pdf.

For information on Community Reinvestment Act (CRA) eligibility for lending or investing in programs like Ways To Work, contact the Federal Reserve Bank of Chicago’s Community Affairs division via e-mail at cedric@chi.frb.org, or by calling (312) 322-8232.

Tom Waldron is a senior associate at The Hatcher Group, and has written extensively about a range of issues affecting low-wage workers, including health insurance, transportation, automobile insurance, and the Earned Income Tax Credit. Mr. Waldron is a graduate of Yale University, and co-author of the national report “Working Hard, Falling Short: America’s Working Families and the Pursuit of Economic Security” for the Working Poor Families Project.

Gift Cards – Facts and Cautions Regarding a Widely Used Financial Product

By Helen Mirza

Introduction

Gift cards have grown in popularity for many reasons. They are a convenient option for any occasion requiring a gift, and a step up from giving cash. Some receivers (or observers) may consider a gift card an impersonal gesture, but the cards are practical in that the receiver obtains something he/she will likely use.

The above considerations aside, the gift card business is booming. The National Retail Federation estimated that \$25 billion was spent on gift cards during the 2006 holiday season alone.¹ In 2004, according to writer Bruce Mohl of the Boston Globe, total gift card sales for the entire year were forecast at \$55 billion. Thus an estimate of gift card sales for the entire year of 2006 would exceed \$100 billion.

TowerGroup, a research and advisory service for the financial services industry, collects and projects estimates of gift card sales, and has estimated a total of \$67 billion in 2005, \$82 billion in 2006, and projected sales of \$97 billion in 2007.²

History of Gift Cards

For many decades, people have been able to obtain gift certificates from individual retailers. The certificate is valid only at a particular store, and if the recipient did not use up the entire certificate on his first purchase, he would either be issued a new certificate for the balance or a store credit to be used later. While such certificates always had a certain popularity, they were most appropriate for individual recipients who lived near and would likely frequent the issuing store. The issuing store also knew that a certain number of the certificates issued would never be redeemed. Many certificates had an expiration date. Some were issued for a small fee to the giver and some had a redemption fee to the user. Most stores were glad to issue them, however, because a certain percent of them represented pure profit if never redeemed.

Later, gift certificates for most retailers were replaced by gift cards. These cards are machine readable and can be loaded with a particular amount of credit to be designated either at the time the card is created or at the time the card is purchased. By using sequential numbering, card issuers can keep track of the inventory of such cards, as well as the balance outstanding. It is not necessary to reissue these stored value cards if the gift amount is not used in full; the value declines by the amount used each time the card is presented for payment.

A more recent development is the issuance of stored value cards by large credit card companies or banks. These cards can be used virtually anywhere credit cards are accepted, but carry fees to generate a profit to the issuer, who is not the retailer.

Fees and Expiration Periods

There are often the following fees: (1) an initial handling or issuing fee; (2) a dormancy fee levied on a monthly basis, which results in a gradual decrease in the value of the card; or (3) less frequently, a fee upon redemption. Further, these cards usually have an expiration date upon which the entire balance is forfeited to the issuer. Some individual retailers that issue gift cards also often invoke fees and expiration dates.

Sometimes the expiration date is not indicated to the customer nor noted on the card. As a result, the customer may try to use the card and discover that it has expired. Another common restriction is that some cards do not allow cash refunds for any remaining portion of the value, regardless of how small. Thus the customer has to either forfeit the balance or buy an additional item or items to realize the full value of the card.

Receivers of gift cards have an additional option if they are unable or unwilling to use a card. There is a primarily Internet-based resale market for gift cards.

Theft of Gift Cards and/or Their Contents

Unfortunately, thieves have learned how to defraud the card holders and issuers. A typical gift card scam works this way: a retailer places a number and variety of gift cards out on a rack in the store; a thief writes down the card numbers for several cards and then calls the store to see if they have been sold, pretending to be the customer asking how much the card still has on it. Sometimes the answer is that that particular card has not yet been issued. But if the answer is that there is a balance, the thief then uses the number to buy something over the Internet using the card's number and stating the value of the card. The Internet retailer can then get the same information about the card that was issued (the date and amount issued) and allows redemption of the card's value for purchase of his products. Thieves also use fraudulent credit card numbers (that they have obtained from legitimate holders in various ways) to buy the cards over the Internet.

Since gift cards and stored value cards are not usually registered to an individual purchaser, they can also be easily stolen. Since there is usually no record of who purchased the card, whoever has possession of it can use it without detection. Some stores do urge customers to access their Web site and register cards in their name, offering at least some protection against theft. However, checking the cards against a registry is not yet common. Victims of gift card theft generally lose the entire value of the card and have no recourse against the issuer or retailers where they are used fraudulently.

State Law Response to Fees and Expiration

Many states have passed laws restricting the use of fees and expiration dates in relation to gift and stored value cards. Consumer groups have expressed misgivings about card issuers that do not inform users about fees and expirations.

"California and a handful of states prohibit retailers from letting the cards expire, and Tennessee is among several states that restrict gift card fees," says Martiga Lohn of Associated Press.³ Minnesota is also considering legislation, which would require expiration dates and other terms to be displayed prominently on the front of the cards, require retailers to honor gift cards indefinitely, and prohibit dormancy fees. The proposal would also allow consumers to get cash back for small balances under \$5.⁴ According to the National Conference of State Legislatures, 25 states or more have 'strengthened' their consumer laws regarding gift and stored value cards.⁵ Some states – notably Connecticut, Montana, and Rhode Island – prohibit all fees and expiration dates.⁶

As a result of the recent wave of state consumer protections and the accompanying publicity, some stores have honored expired cards upon customer request. Another incentive for honoring cards that have expired is the fact that patrons often spend more than the face value of the card. Acceptance of expired cards is not universal, however, and some retailers, absent explicit, new guidelines, do not honor them.

Federal Law Response

"The Federal Trade Commission (FTC) recently brought charges against Darden Restaurants, Inc., which owns several popular restaurant chains, alleging that it engaged in deceptive practices in advertising and selling its gift cards. Darden agreed to a settlement and will restore fees that have been deducted from consumers' gift cards and disclose fees or expiration dates in future gift card sales. This is the agency's second law enforcement action involving allegedly deceptive gift card practices. [The first action pertained to K-Mart stores.]

According to the FTC's complaint, Darden's advertisements represented that consumers could redeem the cards to buy goods or services at its restaurants equal to the card's monetary value. However, Darden did not disclose 'dormancy fees' that would be deducted after a certain period of time. Typically, the firm deducted \$1.50 per month in dormancy fees after a period of either 15 or 24 months had passed from the date of purchase.

In many instances, the Commission alleged, consumers did not learn of the fee until they attempted to use their gift cards and learned that they had little or no remaining value. Disclosures on the cards were in fine print or obscured by other information.

The settlement requires Darden to disclose any automatic fee or expiration date clearly and prominently in future advertising, at point of sale, and on the card. It also prohibits the company from collecting any fee on cards activated before the order is final. Darden has already restored all previous charges.

'The FTC works to make sure consumers have the facts they need to make smart decisions, no matter what they're buying,' said Lydia Parnes, director of the FTC's Bureau of Consumer Protection. 'When it comes to gift cards, issuers can't gloss over key information. They must clearly and prominently disclose fees and restrictions that affect the use of their gift cards.'⁷

The Federal Reserve System has also taken steps to understand and focus on current and emerging issues concerning stored-value cards and other prepaid products. On November 12, 2004, a roundtable discussion was held at the Federal Reserve Board of Governors in Washington, D.C. This discussion was part of an ongoing program to discuss payments system developments and barriers to innovation with a range of parties, and was hosted by the Federal Reserve System's Payments System Development Committee (PSDC).⁸ This initiative not only considered the consumer issues, but also the business and evolving technological aspects of these systems, as well as the ramifications for the payments systems infrastructure in the U.S.

More information on the PSDC and the Federal Reserve System's roundtable on stored value cards is available at www.federalreserve.gov/paymentsystems/storedvalue/default.htm.

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Helen Mirza is a community affairs program director for the state of Iowa at the Federal Reserve Bank of Chicago. She is a supervising examiner with experience as examiner-in-charge for both safety and soundness and compliance examinations, as well as a fair lending specialist and instructor. Ms. Mirza graduated summa cum laude from Marymount College with a degree in English and Secondary Education and is also a graduate of John Marshall Law School. Ms. Mirza is licensed to practice law in Illinois.

Statewide CDFI Launches Midwest Expansion to Meet Nonprofit Capital Needs: IFF Closes First Loans in Wisconsin, Missouri, and Iowa

The Illinois Facilities Fund (IFF), a statewide community development financial institution (CDFI) in Illinois, is expanding to serve nonprofit organizations in the greater Milwaukee area, Missouri, Iowa, and Indiana.

Created in 1990, the nonprofit IFF provides below-market capital financing up to \$1 million for nonprofit organizations that serve low-income or special-needs populations. Its expansion comes after 17 years of serving nonprofits throughout the State of Illinois, helping organizations buy land and buildings, renovate, construct, maintain, and repair facilities, and buy equipment and vehicles.

What defines an IFF loan?	
IFF's lending approach offers investment opportunities for banks.	
Long-term loans	The IFF standard loan is up to 15 years.
New or high-risk niches	IFF lends to faith-based agencies, charter schools, and for equipment and maintenance.
Leasehold improvements	IFF will make loans against leases.
Small loans	IFF loans start at \$10,000. Many banks cannot cover their costs on small loans without charging disproportionate fees.
No Loan-To-Value limitations	IFF does not use appraised value to determine loan amount.
Minimal equity contribution	IFF requires a minimum contribution of 5 percent of total project costs.
Collateral release	IFF requires only real estate collateral for real estate loans.

By closing its 500th loan in December – for a Milwaukee charter school – the IFF's total lending reached \$150 million. Working on its own and in collaboration with traditional lenders and other CDFIs, the IFF is a vital source of affordable capital for nonprofits across the

Federal Reserve Bank of Chicago's region that lack access to traditional commercial sources to fully meet their needs.

Research by IFF staff finds that nonprofits in its expansion states are planning for growth as they work to address needs similar to those in Illinois. Organizations in urban areas, for example, are grappling with public education issues, community health, and homelessness, while agencies in rural communities struggle with barriers to capital due to shrinking and aging populations.

Recent projects on which the IFF has collaborated with banks:

Chicago Family Health Center on Chicago's far south east side is building a new health center and making renovations to an existing facility. MB Financial provided \$3.4 million in construction and permanent financing in conjunction with an IFF second-position loan for \$1 million.

Home of the Sparrow in McHenry, Illinois, completed construction of a two-story addition with four individual living units, and renovated an existing shelter. Its long-time bank, Crystal Lake Bank & Trust, referred the agency to the IFF for a more affordable financing solution. The IFF provided a 15-year loan for \$245,000.

Regional expansion is part of the IFF's strategic plan, and it is well-positioned to serve a larger nonprofit population. Its loan portfolio has experienced three years of record growth while maintaining exceptionally low default rates, and the organization has built assets in excess of \$100 million. Strong banking relationships remain vital to IFF's success. As it does in Illinois, the IFF seeks investments and shared lending positions from traditional lenders in Wisconsin, Missouri, Iowa, and Indiana to meet its mission.

For more information on the IFF, visit www.iff.org, or call toll-free (866) 629-0060.

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