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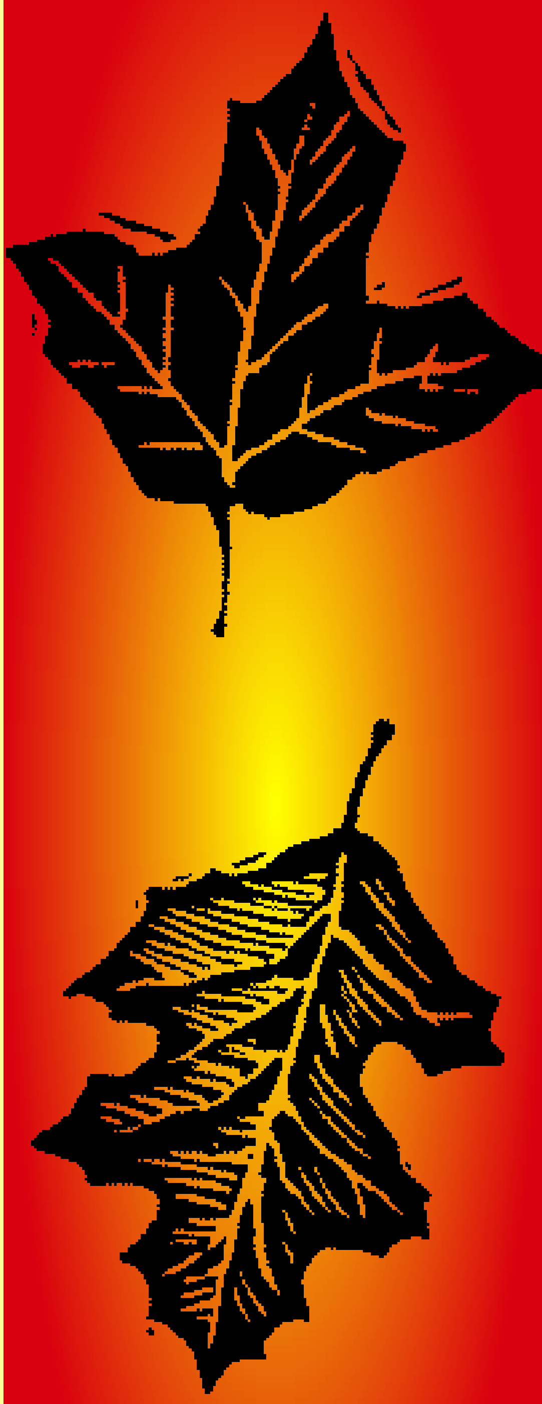

FEATURE STORY

Rural Labor Markets in New England: The Case of Vermont

The current macroeconomic expansion is setting records for the post-1973 period, with low unemployment combined with low inflation. At 4.5 percent in April 1998, the national unemployment rate reached its lowest point in 25 years; in Vermont, the unemployment rate is only 3.2 percent, as compared with 6.7 percent at the depth of the 1992 recession. But these aggregate labor market measures, while robust, are also misleading. The unemployment rate hides significant softness in low-wage labor markets as well as disparities in income and employment between urban and rural areas.

Although it is the most widely used measure of labor market conditions, the unemployment rate (defined as the percentage of the labor force that is jobless and actively seeking work) actually provides fairly limited information about labor markets. It counts only the number of unemployed people and does so incompletely: It ignores people who are working part-time but want to work full-time, as well as "discouraged" workers, people who want to work but who are no longer actively seeking a job. In 1995 in Vermont, officially 12,400 persons were unemployed; but almost 27,000 people wanted and were looking for full-time work (including the officially unemployed, people involuntarily employed part-time, and discouraged workers).

The Impact of the "Job Gap"

Another problem with the unemployment rate is that it implicitly assumes that all is well for those who are employed. But this is not necessarily true. Another measure, the "job gap," demonstrates how well jobs provide a basic livelihood for their occupants. The job gap is the percentage of employed people working at jobs that pay less than a "living wage." A living wage is defined as the hourly wage or annual income necessary to cover basic needs plus all relevant federal and state taxes.

The Vermont Job Gap Study Phase I, conducted by the Peace & Justice Center in 1997, sought to derive the living wage for various household categories in this mostly rural state. In determining the appropriate living wage, the authors included estimates for certain basic expenses: food, housing, child care, transportation, health care, clothing, household and personal expenses (miscellaneous goods and services), and insurance. The authors estimated the monthly cost of these expenses from survey data provided by federal agencies such as the U.S. Department of Agriculture (USDA), the Department of Housing and Urban Development (HUD), the Department of Transportation and the Department of Commerce. State-specific data was obtained from the Vermont Department of Social and Rehabilitation Services and the Vermont Health Care Authority.

The authors determined that for a Vermont household with one parent and two children, an annual income of $31,581 (or a job paying an hourly wage of $15.18) would be a living wage. Similar living wage estimates were calculated for other household categories. (Please see accompanying table.) For comparison, livable wages calculated using similar methodologies for single parent households with two children were $32,057 in Minnesota and $25,339 in Maine.

Based on this and other research, it has become clear that a low unemployment rate does not necessarily mean that the job gap will also be small. In fact, the job gap can be quite large, especially for single-parent households. In Vermont, it is estimated that only 39 percent of all employed households with one parent and one child earn a living wage ($26,629 or a job paying $12.80 per hour); only 17 percent of all employed households with one parent and two children earn a living wage.

Thus, in the rural labor market of Vermont, a picture emerges of low official unemployment rates combined with low wages. Even while the statewide unemployment rate was falling between 1996 and 1997, so were average wages in several sectors including lumber and wood products, apparel, transportation and public utilities, wholesale trade, and hospitality. Fierce competition for jobs among job-seekers, particularly at the low end of the wage and skill ladder, seems to be behind the downward pressure on the average wage.

For example, in 1995 there were 12,400 people officially unemployed statewide. However, if one adds to this figure the number of discouraged workers (800), new entrants into the labor force (769), involuntary part-time workers (10,000), and the "marginally attached" (2,400) — those who are unable to seek work due to extenuating per-

LIVING WAGES BY HOUSEHOLD IN VERMONT

HOUSEHOLD TYPE	ANNUAL & HOURLY LIVING WAGE	HOUSEHOLDS EARNING BELOW A LIVING WAGE
Single Person	$16,842: $ 8.10/hr.	20%
1 Parent, 1 Child	$26,629: $12.80/hr.	61%
1 Parent, 2 Children	$31,581: $15.18/hr.	83%
2 Parents, 2 Children, 1 Job	$30,887: $14.85/hr.	43%
2 Parents, 2 Children, 2 Jobs	$20,425: $ 9.82/hr.	21%

--Source: *Vermont Job Gap Study Phase II* by the Peace & Justice Center, May 1997.

sonal or financial reasons such as lack of transportation or illness — then the total number of persons available to accept full-time work in Vermont climbs to 26,369. On the demand side, the 1995 net new job openings statewide was estimated to be 11,189, a figure that also takes into account replacement demand. The competition is especially intense for jobs that provide a living wage for households with children. Roughly 60 percent of the 11,189 net new jobs that year provided a sufficient living wage for a single-person household ($16,842). In sharp contrast, only 26 percent of these jobs provided a living wage for a one-parent, two-children household ($26,629); for every job which paid that wage, there were over nine job seekers.

The problem of depressed, low-wage labor markets is more severe in the more rural areas of Vermont. In April 1998 the unemployment rate was only 2.1 percent in the most urban and populated labor market area (Burlington), but it was 7.4 percent in the Newport labor market area, the most rural area of Vermont. Similarly, from 1980 to 1996, household income grew more rapidly in urbanized counties than in rural counties. Rural counties with the highest unemployment rates and stagnant incomes also have the highest high school dropout rates, which bodes ill for future employment and income growth.

Why do labor markets in rural New England do so poorly at providing jobs that support a decent living for many rural residents?

One explanation is that rural workers' bargaining position vis-à-vis employers is weak, owing to a number of factors specific to rural areas. Unions are a weaker presence in rural areas than in urban, so workers lack the ability to bargain collectively with employers for wages. On average, educational attainment in rural areas is lower than in urban areas, which weakens workers' claims to higher wages. Family ties are strong in rural areas, and this limits labor mobility and workers' willingness to seek a better offer elsewhere. Finally, local economies in rural areas tend to be dominated by one or two employers, leaving workers with very limited alternatives for wage work. For all these reasons, competition among businesses for workers tends to be weak in rural labor markets, while competition among workers for jobs is strong.

"Patching" Together A Good Living

But don't rural workers have a "safety valve" from weak labor markets in the form of informal economic activity? Can't rural families successfully patch together a good living by combining wage employment with such activities as wood-gathering, snow-plowing, gardening, hunting, and informal repair and construction services?

They can, according to a forthcoming book by Margaret Nelson, of Middlebury College, and Joan Smith, of the University of Vermont, *Working Hard and Making Do: Surviving in Small Town America* — but only when at least one person in the family has a "good job," meaning a job that has reliable and stable hours, health insurance, retirement benefits, and such benefits as vacation time, sick leave, and paid family leave. Through extensive interviewing of a large number of households in a rural county in Vermont, Nelson and Smith show how "good jobs," even if they don't themselves pay a living wage, provide the foundation for a family to successfully pursue a strategy of patching together a living.

The "good job" provides the means to acquire the tools and materials needed for the more remunerative kinds of "on-the-side" economic activity, the ability to control and plan time off from the job, and the ability to commit to a long-term "on-the-side" project. Families that only had access to "bad jobs" were also engaged in on-the-side economic activity, but it was more erratic, contributed less to family well-being, and was more oriented to meeting current expenses than to building a better future. The importance of the "good job" was driven home by the stories told by families who had recently lost their "good job," only to watch as the other components of their household economic strategy — snow-plowing for neighbors, contract renovation or landscaping work — also fell by the wayside.

Policy Implications

What are the policy implications of these findings? What is the role of banks' CRA activities in dealing with these problems? There are two paths to reducing the "job gap" in rural labor markets: creating jobs that pay living wages (while at the same time improving the educational attainment of rural workers), and reducing household costs (such as transportation, child care, and housing) in order to reduce the wage required to cover basic needs. While banks in New England can and do use their CRA portfolios to approach this problem from both paths, the responsibility for addressing the problem is not theirs alone, nor is it primarily theirs.

State and regional economic development authorities have a greater role to play, through explicitly adopting a policy goal of reducing the job gap and by formulating a strategic plan within which employers, employee organizations, lenders, and governments can work together to improve the functioning of rural labor markets. Such a strategic plan would include both strategies for increasing exports of goods and services by building comparative advantage, and strategies for replacing goods and services that are currently imported with local production.

Development resources — financial capital and human resources — should be coordinated around these strategies. Subsidies provided to businesses from state governments should be allocated to the maximum extent possible according to the strategic plan; instead of subsidizing jobs that don't pay a living wage, states should use their budgetary resources to invest in better jobs. Where the labor force lacks the skills required by strategic sectors and employers, educational institutions, businesses, and unions should participate in the implementation of a plan to provide the necessary education and training.

Financial resources can be mobilized in a variety of ways. For example, states could redirect portions of state-managed retirement funds to investments in "strategic" sectors and employers, and could then further leverage these financial investments by working in partnership with banks and other financial institutions. If development resources are effectively brought together in a coordinated strategic plan, the risk to investments made by taxpayers, businesses, and financial institutions is reduced, the return on those investments is enhanced, and rural labor markets generate better outcomes for rural communities.

--by Jane Knodell
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New England Rural Development Conference

When policy makers talk about community development the usual operating context is the inner city, where much public attention and substantial resources have been traditionally devoted to assist communities in trouble. Part of the reason is obvious: urban blight can be quite visible and it attracts the attention of many of those interested in alleviating poverty.

Another factor is the news media's focus on urban neighborhoods, which tends to magnify inner-city problems above all others. Also, troubled urban communities are good targets for development programs, that require large-scale efforts and high densities to be effective. For these reasons and others, a growing number of economic, housing, and social issues that need to be addressed in rural America have been largely ignored.

To bring attention to the range of community development issues facing rural communities, the Federal Reserve Bank of Boston sponsored the New England Rural Development Conference in Portsmouth, New Hampshire, on June 15, 1998. The conference was cosponsored by the newly-formed, rural-focused arm of the Local Initiative Support Corporation, Rural LISC. Other cosponsors included The Massachusetts Rural Development Council, the Granite State Community Reinvestment Association, and the New England Regulatory Compliance Council.

This conference looked at both broad and specific issues affecting rural development and offered strategies for addressing them. Among the broader concerns the conference addressed were rural labor markets and the current growth trend in lower-wage, service sector jobs in the northern New England states. Other conference issues included the inappropriateness for rural areas of community development policies and programs that are designed to fit urban communities; the inherent conflict between preserving the natural environment and pursuing development strategies; and the provision of affordable housing, child care, and transportation for the working poor.

The conference aimed, first, to bring together New Englanders who work in the rural community development arena to identify issues to be addressed. Second, the day's agenda presented some replicable approaches to problems, such as transportation for low-income people who need reliable vehicles to get to work (see the Good News Garage article, page 13). Thirdly, the conference provided a platform for generating more long-term and organized efforts that affect rural development policy-making.

One such effort is Rural LISC's Stand Up for Rural America campaign. This national project's objectives are as follows:

- Create a national database of rural community development organizations;
- Secure greater federal resources to build rural CDC capacity;
- Stimulate a rural affinity group within the Council on Foundations;
- Generate significant lender initiatives to invest in rural community development; and
- Create a network of rural CDCs to advocate for greater attention and resources for rural issues.

Rural LISC Vice President Sandra Rosenblith explained that the project was established in part to advocate for a national policy regarding rural development, which currently does not exist.

This first New England Rural Development Conference was effective in helping to define many of the economic, housing, and social service priorities for the rural development industry. The sponsors and cosponsors hope that the conference proceedings will help policy makers better understand community development needs in the rural context.

--by Paul Williams
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Transcripts of the New England Rural Development Conference can be ordered through Hi -Lights Conference Notes Services at (508) 432-3655 or through e-mail at pazz@cape.com

Finance Companies vs. Small Banks in Rural Commercial Lending

It's often argued that small, independently run banks are better able to lend to small businesses than larger commercial banking institutions, particularly in rural areas. As a result of recent interstate branching and merger activity, there is growing concern that rural borrowers may witness a reduction in the number of small local banks operating in already concentrated rural banking markets. This may make it difficult for borrowers seeking small business loans of $100,000 or less, usually for start-up or equipment financing.

In light of these changing circumstances, small-scale rural borrowers in New England are finding that finance companies are an attractive alternative. These lenders are large transnational companies, which offer a wide array of products ranging from equipment loans to credit cards marketed to small businesses. In the process, these finance companies are competing with small local banks for their commercial lending business.

"Relationship Banking": The Small Bank's Main Advantage

Several characteristics of smaller banks, and indeed of small business lending, should give independently run local institutions advantages in extending commercial loans in rural areas. First, small business lending is traditionally a highly cost-intensive business, with origination and underwriting costs spread over a portfolio of small loan balances. The increased prevalence of credit scoring has dramatically reduced underwriting costs for both small and large banks. Yet, larger banks that operate in rural areas tend to eschew small-scale loans because the transaction costs outweigh potential returns. Second, compensation structures within large banks may also create incentives among loan officers to focus on generating a greater volume of larger loans, thus overlooking the needs of some rural entrepreneurs for small-scale credit.

In addition, independently run banks have flatter organizational structures, with more discretion and lending authority afforded to loan officers than at a larger institution. This makes smaller banks and their managerial staff more accessible to small business borrowers. It also gives loan officers more flexibility to originate loans that may not conform to the lending protocol of larger, multi-state banking institutions, such as loans to start-ups, or to businesses in emerging fields. Hank Ervin, Vice President for Commercial Lending at Pittsfield Cooperative Bank, Pittsfield, Massachusetts, notes that in large banks, "the smaller the amount, say $15,000, there is no incentive to go outside the mold." This often forces larger banks to concentrate on more conventional loans to more established businesses, at the expense of other commercial borrowers.

Smaller banks are also more adept at what some call "relationship banking," which according to several studies is very important to small business borrowers. Petersen and Rajan in their work, "The Benefits of Lending Relationships: Evidence from Small Business Data" (1994), concluded that relationships between small business borrowers and lenders are extremely valuable. The availability of financial products to the small business borrower increased, the longer the duration of the banking relationship with a particular lender.

On a related note, small or community banks are also much more dependent upon the local economy for their business and they maintain their customer bases through cultivating these banking relationships with local small businesses. A larger institution which operates multiple branches in rural and urban areas, either statewide or in a multi-state region, can diversify its loan portfolio to a greater extent than a smaller rural-based bank. Consequently, the loan officers and lending staff at branches of larger institutions may not have the incentive to cultivate knowledge of local business conditions or to extend technical assistance to marginally creditworthy borrowers. On the other hand, the lending staff of a smaller, rural-based institution has more of an incentive to utilize its relationships with borrowers to assess credit and monitor loan performance.

The end result is that small banks work more at providing relationship lending to local businesses and budding entrepreneurs, in an effort to cultivate potential local customers. Roberta Harold, State Director of USDA Rural Development for Vermont and New Hampshire, describes small banks as having a "greater understanding and dependency on supplemental programs and developments, and the many alternative sources of technical assistance available." As Christopher Pinkham, Executive Director of the Maine Association of Community Banks, states, "People are bankable if bankers are willing to take the time and make the investment in technical assistance." Because smaller banks have been willing to invest in these relationships, they have been a significant force in small business lending in rural markets.

Nonlocal Finance Companies and Rural New England

While it is true that small businesses tend to favor small local banks for their financial needs, studies have also shown that rural business are more likely to use nonlocal sources of funds than their urban counterparts. Elliehausen and Wolken (1990) found that small businesses that used nonlocal sources of funds were more frequently located in rural counties or in markets that were highly concentrated. In addition, even within rural areas served by larger numbers of banks, the demand for certain small business services, such as equipment leasing, may be too small or spread over too wide a geographic area. This factor increases costs and makes it less likely that a local bank will offer these services, prompting small businesses to use more nonlocal sources such as finance companies.

The 1997 Aggregate & Disclosure Data from the Community Reinvestment Act demonstrate that within some rural New England counties, nonlocal finance companies and other nonbank institutions are increasingly providing financing to small businesses for loans of $100,000 and under. For the purposes of this essay, a rural county is defined as a county which either does not contain or is not part of a Metropolitan Statistical Area (MSA).

Small-scale commercial loans are typically too small to be provided efficiently by larger banking institutions and may be too risky for small local banks to originate as well. In some areas, finance companies are providing more of the smaller commercial credits, on average, than both large and small commercial banks combined. However, the banking environments of New England states differ dramatically, and these structural differences are also evident. (See map on page 11.)

In the six rural counties of New Hampshire, the average number of small-scale commercial loans originated by finance companies was greater than that originated by

1997 Small-Scale (<$100,000) Commercial Loan Originations in Rural New Hampshire (Banks vs. Finance Companies)

	Local Banks				Finance Companies			
County (NH)	**# of loans**	**% of total**	**Avg.# of loans**	**Amt. ($K)**	**# of loans**	**% of total**	**Avg.# of loans**	**Amt. ($K)**
Bellknap	191	39.6%	11.9	7,018	291	60.4%	48.5	2,667
Carroll	118	33.6%	7.4	4,582	233	66.4%	29.1	2,262
Cheshire	306	53.7%	21.9	12,228	264	46.3%	33.0	2,660
Coos	21	17.2%	3.5	1,219	101	82.8%	16.8	1,189
Grafton	213	37.5%	9.7	7,072	355	62.5%	50.7	3,567
Sullivan	64	32.8%	4.9	2,093	131	67.2%	21.8	1,301

--Source: CRA Aggregate & Disclosure Data for 1997, FFIEC

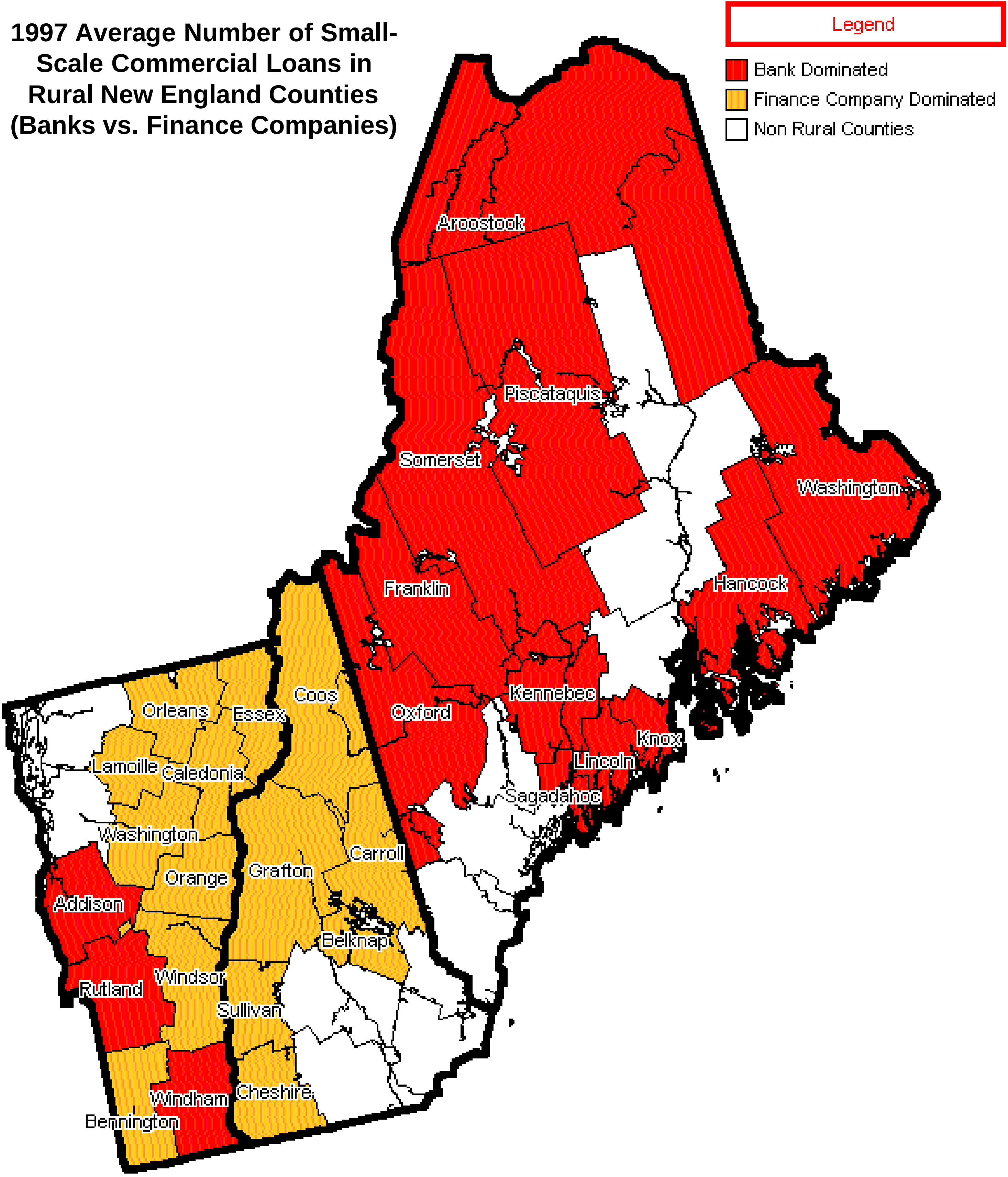
commercial banks of various sizes in 1997. (See table above.) In all counties except Cheshire, the finance companies also originated a greater number of loans under $100,000 to small businesses.

Similar results were found in most of Vermont's rural counties. Even in those counties with a large number of commercial banks, finance companies dominated small-scale commercial lending. For example, Windsor County had over twenty six commercial banks which originated small-scale commercial loans in 1997. Yet, these twenty-six commercial banks made an average of 15 small-scale commercial loans, compared to an average of thirty such loans originated by the seven finance companies operating in that county. Only in three of Vermont's rural counties — Addison, Rutland, and Windham — did banks of various sizes originate more small-scale commercial loans, on average.

In Maine, the traditional notion that small banks are better at lending to small businesses may be turned on its head. In a state dominated by a few large banking organizations, the vast majority of rural small-scale commercial loans were originated by large banks. Smaller, local banks appear to be extending fewer loans in this category. While the number of finance company-originated small-scale commercial loans is on the rise, finance companies are still lagging behind the volume generated by the large commercial banks operating in Maine's rural counties.

In those rural New England counties where nonlocal finance companies did originate more loans on average than local banks, the *amounts* these finance companies lent was almost always below that of local banks. While small and large local institutions originate loans of various sizes, the finance companies often do not make any small business loans for larger amounts (>$100,000). Since small-scale commercial loans are defined as $100,000 or less, this data category also includes many revolving credit loans, such as credit cards. Credit cards and retail charge cards that are marketed to small businesses often have limits well below $100,000.

This classification may lead a casual observer towards some interesting findings about the state of small business lending in rural areas. For example, after examining the



call data for 1997, Mountainwest Financial Corporation appears to be very active in originating small-scale commercial credits. In 1997, the Sandy, Utah-based company operated a private label credit card portfolio in cooperation with retail office supply dealers such as Office Max and Staples. These retail charge card loans, when drawn upon to procure office supplies and equipment, appear in the call data as loans to small businesses.

Another interesting observation is that in some cases finance companies did not extend loans to local businesses whose annual gross revenues were below $1 million. Thus, while they may be a significant force in terms of originating *small loans* to small businesses, they are not necessarily banking more loans to the smallest of rural firms. Also, since finance companies rely more heavily on credit scoring and analysis of commercial credit reports through Dun & Bradstreet (because of their inability to closely monitor a local borrower), potential borrowers who are marginally creditworthy or seeking to finance start-up ventures may not be adequately served.

A New Competitive Force in Small Business Lending?

The FDIC noted in 1997 that American Express, AT&T, The Money Store and other finance companies were increasing their participation in the small business lending market. Currently, American Express Small Business Services offers entrepreneurs several types of corporate charge and credit cards, assistance with equipment financing, and lines of credit. Finance companies are also increasingly providing small business clients with tax and financial planning services, thereby competing with smaller commercial banks on the "relationship" building and technical assistance fronts. And while commercial banks often view small business lending as only one part of their overall operations, many finance companies have made lending to small businesses their ultimate focus, leading to an expansion in products and services.

Lending to the smallest businesses is also a highly contentious area. Senior Vice President and Managing Director of Advanta Business Cards, Michael Noles, explained that 90 percent of their target clients are firms with 20 or fewer employees and sales of $1 million or less, which have been in business for at least two years. By providing these firms with unsecured lines of credit of up to $30,000 at an average rate of prime plus 7 percent, Advanta has carved out a niche in small firm finance. Currently, Advanta does approximately 7 percent of its business in New England, including rural areas.

As with other finance companies, Advanta is seeking to expand its portfolio of small business lending services. This may include, according to Mr. Noles, the provision of home equity lines of credit for business purposes, more direct equipment financing, and traditional SBA loans. Expanding into the SBA lending arena will put finance companies in more direct competition with smaller local banks. SBA certified lender status is based on volume of loans underwritten and loan loss experience, making it very difficult for smaller banks to obtain. As Hank Ervin of Pittsfield Cooperative Bank notes, "It's rare for a small community bank to be granted [SBA] certified lender status. That's really a tremendous marketing advantage…giving these finance companies a tremendous ability to compete against local banks."

And with small businessowners becoming more comfortable with remote communications, such as the Internet, finance companies may begin to erode the traditional "relationship banking" edge of small local banks. "The big advantage of local banks is their ability to provide a one-on-one focus and their understanding of the small business client. But we [finance companies] are providing that one-on-one focus and understanding better than the local banks," explains Advanta's Noles. "Small businesses," he continues, "are more and more disenchanted with what they get from their local bank. In many cases their local bank is now part of a larger institution and the focus on small business lending may suffer."

Thus, it appears that in rural counties, small commercial banks are beginning to compete with nonlocal finance companies for the below $100,000 small business credit market. In actuality, the emergence of finance companies in commercial lending is part of a nationwide trend, evident in urban and suburban banking markets as well. However, with merger and interstate branching activity continuing in already concentrated rural banking markets, the effect on small business borrowers in these areas may be more acute. Much will depend on how well the small, local banks can compete with the new barbarian at the gate, the national finance company.

--by Luxman Nathan
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PRODUCTIVE PARTNERSHIPS

The Good News Garage: Getting People Moving in Rural Vermont

In 1994, Lutheran Social Services of New England launched a program to assist clusters of Lutheran congregations in identifying local needs for social service and in creating programs to meet them. The project began as a Lutheran Social Services program funded by the Wheat Ridge Foundation and the Lutheran Church Missouri Synod. A cluster of Vermont Lutheran churches, known informally as "The Group," began a series of meetings that summer to undertake a needs assessment of Vermont. The Group identified many needs in their communities through interviews with area social service agencies.

Initially the Group was interested in providing a holistic, residential program for young parents and their children. However, several agencies informed them that this need had been adequately met, and they were encouraged to look in a different area.

Hal Colston attended one of the meetings and unrolled his proposal for a "donated wheels" program, which would eventually become the Good News Garage ("Garage"). Colston came up with the idea of a donated wheels program after he met a welfare mother with two children at the community action agency where he worked at the time. She was distraught, because she had just purchased a car for about five hundred dollars, but could not drive the car home since it was in such poor working condition. Colston tried to get the local car dealership where she had purchased the car to work with her and make the necessary repairs without any additional charges. Unfortunately that did not work.

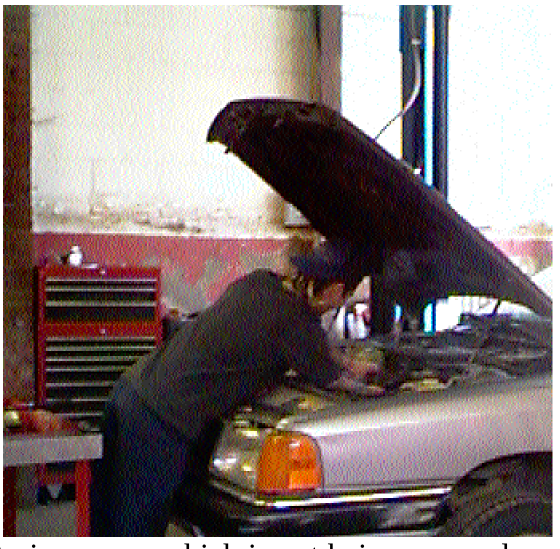
After that encounter, Colston noticed that access to affordable transportation was one area that lacked adequate social services programming. What Vermont needed was a community-based garage to meet the transportation needs of its low-income population. The Garage would operate much like a community health center, with a sliding fee scale in order to better serve its clientele.

In July of 1996, Colston received a start-up grant from Wheat Ridge Ministry. With the help of Lutheran Social Services of New England, Hal Colston and the volunteers from the nearby Lutheran churches started the Garage that month.

Good News Garage is the first Vermont-based project of Lutheran Social Services (LSS) of New England, which has been serving and caring for people in need for 125 years. Affiliated with the Evangelical Lutheran Church in America and the Lutheran Church Missouri Synod, LSS administers 40 programs and serves 1,500 clients daily, throughout New England. Currently, LSS is the third largest church-related provider of human services in New England.

Determining the Need: The Importance of "Transportation Equity"

While currently the job market may look promising for most Americans, for some getting to work is more of a problem than actually finding a job. This is especially true in the nation's rural states such as Vermont, which has little mass transit. According to Hal Colston, the old north end of Burlington has one of the highest poverty rates in the state. In a recent needs assessment the Group identified transportation as one of the key factors that fueled unemployment in the state. Fifty percent of the social service clientele surveyed do not own cars, and 62 percent have identified transportation as the biggest obstacle to employment.



"Transportation equity," as defined by Good News Garage, means fair and equal mobility opportunities for every person who resides in and contributes to our society. According to Hal Colston, transportation equity is an area which is not being pursued vigorously by social service and public sector agencies. He explains, "People have the basics: shelter, heat, and food. But transportation is often an afterthought. Having or not having transportation can mean the difference between getting a job or not getting a job."

Colston believes that "personal mobility encourages people to seek and maintain employment, expand educational opportunities, become self-sufficient, and become involved in the life of the community. Efficient and reliable transportation allows each person to build a livelihood around the concept of being able to keep commitments to the workplace."

As they work to address transportation equity issues, the staff at the Garage offer low-income and unemployed residents of Burlington’s old north end car repair and purchase services. The Garage is a not-for-profit corporation located in downtown Burlington, and it employs two full-time mechanics and several trainees. The menu of services includes car donations, where donated automobiles are reconditioned and sold at affordable prices, with the cost of repairs ranging from $50 to $550. The Garage offers repair services for non-donated vehicles as well, utilizing volunteer mechanics. In addition, the Garage provides education and referral services, including drivers' training and responsible vehicle ownership.

The program is limited to serving Vermont residents, but donated cars are accepted from anywhere in New England. The Garage also recycles donated bicycles and offers affordable van pooling to connect bus routes and job sites. Since its opening in 1996, the Garage has received over 200 automobiles, and 110 were given to needy Vermont residents.

To be eligible, low-income applicants must demonstrate their need for assistance. They must show that they need a vehicle in order to maintain their job or to acquire a job. Individuals who have serious medical needs are also eligible. Those who receive public assistance and who need a vehicle to obtain work as they make the transition off welfare are also eligible.

The Garage's mission is to do more than simply link qualified recipients with donated cars and bicycles. The program also offers aspiring mechanics two unique training opportunities: a six-month course designed to prepare them for entry-level job placement and a comprehensive two-year program for further training. Upon graduation, these trainees will work with mentors as they begin their practice as professional mechanics.

Important Partnerships

The Garage has established some very important partnerships in order to leverage resources and reach more prospective clients. One such collaboration is with Vermont's Department of Social Welfare (DSW). Currently, the program receives referrals from the DSW. According to Colston, 75 percent of the DSW referrals who have participated in the program have successfully made the transition off welfare.

The Garage also works with Reach-Up, a Vermont-based community action agency. Reach-Up assists people in the transition from welfare to work with childcare assistance and training. Reach-Up will lend up to $400 to assist any of its clients who are also eligible for Good News Garage car repair services. In addition, Reach-Up will pay for up-front expenses, such as auto insurance and registration fees. If a person is not eligible for Reach-Up funds, the Garage will work with them to find alternative sources of assistance.

Good News Garage also works with the Vermont Development Credit Union (VDCU), a state-chartered credit union which focuses on serving low-income people. VDCU has been helpful in providing small, low-interest loans to people who are in need of financial assistance. The VDCU has partnered with the five community action agencies to oversee a new loan program, the Job Wheels Loan Fund. The Job Wheels program is a $1.25 million revolving loan fund established to help individuals get small loans for used vehicles. The loan fund was capitalized through $250,000 from the Vermont DSW and is specifically targeted to process auto loan applications from TANF (Temporary Aid for Needy Families) recipients and other low-income people.

The Future

Good News Garage is currently working with Vermont's U.S. Congressional delegation, led by Senator James Jeffords, to put together a package of federal tax incentives for fleet car owners to donate their vehicles to similar donated wheels programs. According to Pastor Neu of Lutheran Social Services, "If the government provides an incentive for them to donate their cars to programs like this, instead of selling the cars in an open market, programs like the Good News Garage would benefit tremendously. The Garage would receive a lot more cars which are in better condition and need a lot less work. The end result would be [that] the cost for applicants would be lowered. In the end everybody wins."

As the Garage attempts to expand its services, it is seeking to relocate to a larger space. The future relocation will allow the Garage to serve more applicants from their waiting list. The staff at Good News Garage didn't anticipate that their small garage would attract as much attention as it has. However, the increasing visibility has really helped the program.

Transportation equity is not strictly a rural phenomenon; Colston explains that a donated wheels program like Good News Garage would work in an urban area such as Boston. Colston recalls meeting a woman in Washington, D.C., who would get on the bus at 5:30 am with her kids and eventually arrive at work after five long bus transfers. Says Hal Colston, "It can work in any location. Everyone can relate to what happens when your car breaks down."

--by Arneese D. Brown
Public & Community Affairs
Federal Reserve Bank of Boston

The Staff of the Good News Garage,
Burlington, Vermont.

If you are interested in learning more about the Good News Garage and the services they provide, please contact them at (802) 864-3667.

CONSUMER FOCUS

Electronic Fund Transfer & The "Unbanked"

In 1996, Congress passed the Debt Collection Improvement Act of 1996. This law mandates that most federal payments, with the exception of tax refunds, are to be made electronically by January 2, 1999. The final rule was published by the Department of the Treasury on September 25, 1997, and the agency is seeking to educate benefits recipients about the convenience of Direct Deposit through the Electronic Fund Transfer '99 (EFT) initiative. The main impetus behind this movement is the potential for tremendous cost savings to the government and the ability to streamline the payments process. As more and more people choose Direct Deposit of their federal payments over paper checks, the federal government could save an estimated $100 million per year.

Acceptance of electronic fund transfer has been growing steadily. In 1996, the Treasury issued a total of 850 million payments, of which 53 percent were made electronically and 47 percent were made using a traditional paper check. As of May, 1998, over 61 percent of all payments made by Treasury were done electronically. Other agencies have higher levels of electronic transfer activity. The Social Security Administration currently disburses about 72 percent of its payments electronically. And by March 1998, at least 40 states were moving to electronic fund transfer for their own benefits programs as well as the distribution of welfare payments and food stamps

Benefits to Consumers

Apart from cost savings for the federal government, the use of Direct Deposit brings convenience and other advantages to the recipients of benefits payments. A major benefit is protection against financial crimes such as check fraud and forgery. In any given year, the federal government experiences over $60 million in forged checks, $1.8 million in counterfeit checks, and $3.3 million in altered checks. The check's recipient must spend on average 14 days to resolve a check fraud or forgery claim, time when the recipient must do without his or her funds.

Other benefits include the convenience of having funds immediately available. With paper checks, recipients must wait for the mail and then take their checks to the bank or check cashing facility in person in order to receive funds. Those who use Direct Deposit have access to their funds in their bank account immediately upon disbursement.

But how reliable are electronic payments? Sheila L. Kremer of the Department of Treasury's Financial Management Service states that the federal government has extensive experience with using electronic payments systems. "Direct Deposit was instituted in 1976. We have 20 plus years of experience and a proven track record," she said. "Once they [benefits recipients] get comfortable with it and find that their payment is there in their account, they will realize how safe and reliable it is."

Reaching Out to the "Unbanked"

In the United States, the "unbanked" population — those without an account at a financial institution — is estimated to include approximately 20 percent of all American families, one-third of all minority households, and 15 percent of the working poor (those families who earn between $10,000 and $25,000 annually). Included in this group are over 10 million benefits recipients, for whom the advantages and convenience of Direct Deposit are meaningless at present.

The majority of the 10 million unbanked benefits recipients must rely on check-cashing outlets in order to gain access to their payments, usually after paying high fees. A study by the Woodstock Institute found that some check-cashing outlets, which are disproportionately located in low-income and minority communities, charge up to three times as much as other financial institutions for their services. Reliance on check- cashing companies also discourages savings, and the lack of checking accounts means that these individuals have no convenient method of paying their bills or establishing a payment history, which may be integral to obtaining credit.

The regulations mandate that the Treasury Department establish electronic transfer accounts (ETAs) for the unbanked at federally insured financial institutions. Provisions to reach the unbanked are being developed by Treasury in conjunction with commercial banks, credit unions, and other financial institutions. Treasury will eventually invite interested financial institutions to compete for providing ETAs, the exact design of which is still uncertain. In all likelihood, these accounts will have no minimum bal-

Percentage of Selected Benefits Delivered Electronically as of March 1998

NEW ENGLAND STATE	SOCIAL SECURITY PAYMENTS	SUPPLEMENTAL SECURITY INCOME PAYMENTS
Connecticut	68%	30%
Maine	70%	35%
Massachusetts	70%	46%
New Hampshire	76%	40%
Rhode Island	69%	36%
Vermont	73%	41%

--Source: Social Security Administration

ance requirements and low transaction fees in order to make them affordable for the unbanked. Successful implementation of the EFT initiative will depend greatly on the effectiveness of government agencies and financial institutions in reaching this population.

In fact, some are championing the EFT program as a means to get many low-income people to start using traditional banking institutions, thus bringing them into the financial mainstream. In a policy brief for the Brookings Institution, Michael A. Stegman of the University of North Carolina at Chapel Hill argues that the EFT initiative should include provisions for individual development accounts (IDAs), which are already featured in several state welfare reform programs. An IDA is a dedicated savings account that can only be used for certain activities connected to economic and human development, such as home purchase, tuition for job training or educational programs, or start-up capital for small business. Stegman and others believe that connecting EFT with an IDA-like product would encourage the currently unbanked to save, achieve some form of financial stability, and establish meaningful relationships with financial institutions.

Waivers and the Transition

During the comment period, Treasury received many suggestions about extending the waiver process, so that those recipients for whom an electronic payment might cause hardship could still receive a paper check. Currently waivers are available to those individuals who: have no account at a financial institution; those who can demonstrate that electronic payment will impose upon them financial hardship; those with a physical or mental disability; and those who have a geographic, language, or literacy barrier.

Those without bank accounts will receive an automatic waiver until the ETA banking product is available. In addition, individuals who have chosen Direct Deposit will have the option to switch back to receiving a paper check if they wish. The final rule authorizes agencies to use their discretion in determining what type of waiver certification process they will use. If individuals do not make a choice about Direct Deposit, this will invoke a waiver as well.

While some believe the extension of waivers will dilute any potential gains, the vigorous educational campaigns should ensure that more people choose Direct Deposit. Ms. Kremer notes that despite the liberalized waiver procedures, "the momentum is still there, with 67 percent of total federal payments excluding tax refunds being done electronically [at this time]."

The major obstacles to greater acceptance of electronic payments are the misconceptions and fears about them. Consequently, some people are still unwilling to make the switch. The Treasury’s Kremer replies, "People who are set in their ways, or who live in rural parts of the country, or who may not have access to a bank or an ATM machine — these are the people who are holding out." The challenge for federal agencies, financial institutions, and service providers is to reach these people and provide them with the resources to make informed decisions about using technology to manage their finances.

--by Luxman Nathan
Public & Community Affairs
Federal Reserve Bank of Boston

TOOLS TO USE

The New Basic Financial Services Curriculum

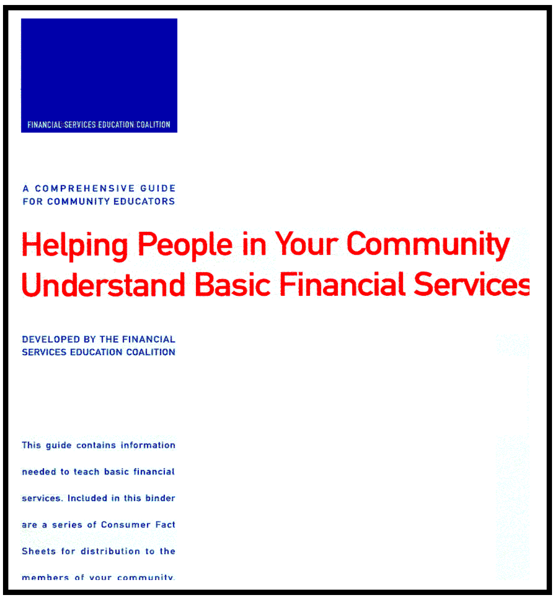
The Treasury Department's Electronic Fund Transfer '99 (EFT) initiative is designed to switch all federal benefits from paper to Direct Deposit by January 2, 1999. This initiative would create difficulties for those benefits recipients who do not have accounts at financial institutions. In response, the agency created a Financial Services Education Coalition charged with developing a curriculum on the broader topic of basic banking for those unbanked individuals. *Helping People in Your Community Understand Basic Financial Services: A Comprehensive Guide for Community Educators* is the product of the Coalition's work.

This guide provides community educators with an instructional format designed to achieve two objectives:

- To help people choose and use basic financial services successfully, and

- To help bring people into the financial mainstream, as appropriate.

The guide is laid out in an easy-to-use format that allows those not currently involved in educational outreach to put together their own programs, by encouraging collaborations and partnerships. Other issues such as advertising and registering participants are included to help ensure successful programs. Recognizing that the material may also be delivered with other topics, the Coalition created several 20-minute modules to effectively cover the material within a variety of time constraints. In addition, the guide includes both open-ended and closed questions for program evaluation.



The curriculum includes materials to encourage cost and service comparisons, which can be reproduced for participants. Supplemental materials and resources are available in languages other than English and can be ordered if needed. The background material on the Electronic Fund Transfer Act, a list of frequently asked questions, and a glossary also provide support for community educators who may not have a background in basic financial education.

Recognizing that individuals learn in a variety of ways, the guide encourages hands-on activities, such as completing basic banking forms. Fact sheets were designed to provide effective handouts for participants on several topics, including Direct Deposit, debit cards, ATMs, and the use of deposit accounts. These fact sheets can also be displayed in agencies as stand-alone information.

While Direct Deposit is thoroughly discussed, anyone providing education on the basics of banking will find the guide and accompanying resources useful. Coalition member Jeanne Hogarth from the Board of Governors of the Federal Reserve System said, "The guide was crafted to be a document that is useful to educators. It is designed to support existing programs as well as encourage more educational efforts which target individuals who currently are not using financial institutions."

Many community organizations and intermediaries are already involved in outreach and educational initiatives. Representatives of several of these groups, including the AARP, Call for Action, the Federal Reserve System, National Consumers League, and several banking organizations participated in the design phase of this curriculum. Knowing that many initiatives on financial education are already in place, the Coalition sought to create a guide that could supplement existing programs as well as help those who are starting new initiatives.

Michael Rupured from the Cooperative State Research, Education and Extension Service of the U.S. Department of Agriculture chaired the Coalition. He was able to draw on his organization's experience providing basic financial education to low-income and moderate-income consumers. In addition, the fact sheets and other materials were piloted with audiences before being finalized. Rupured hopes that the material will be utilized effectively, and he worked with the Coalition to develop material that should be easily adapted by educators.

As the final regulations on EFT are released, more information on the waiver process and the components of a low-cost basic banking account will be included in this guide. In the meantime, the curriculum seeks to educate the public on the safety of Direct Deposit and the importance of establishing a financial relationship with a depository institution.

--by Julia Stewart
Public & Community Affairs
Federal Reserve Bank of Boston

For more information on the EFT initiative, the Financial Services Education Coalition, or to obtain a copy of the guide, please call the Treasury Department's Financial Management Service at (202) 874-6540 or visit their website at http://www.fms.treas.gov/eft

COMPLIANCE CORNER

Q & A on Regulation E

Q. ***Which Electronic Benefit Transfer (EBT) programs are covered under Regulation E?***

A. Federally administered EBT programs and employment-related programs established by federal, state, or local governments (such as state pension programs) are covered by Regulation E. "Needs-tested" EBT programs established or administered by state or local government agencies are exempt from Regulation E.

Generally, EBT programs involve the issuance of access cards and personal identification numbers to recipients of government benefits so that they can obtain their benefits through automated teller machines and point-of–sale terminals.

Q. ***If a consumer uses a personal computer for EFT services, must the bank send the required disclosures in writing?***

A. No. According to the Regulation E interim rule, effective March 20, 1998, depository institutions or other entities subject to the act may deliver by electronic communication any of the disclosures and other information required by the act and regulation, provided the consumer agrees to such delivery. Note that simply posting information on an Internet site, without some notice and instructions about how the consumer would obtain the information, would not satisfy the requirement that consumers using home banking have the same protections regarding delivery as those afforded consumers receiving paper disclosures.

Q. ***Are there any limitations on a consumer's liability for unauthorized electronic transfers of funds?***

A. Under Regulation E, the institution may hold the consumer liable for no more than $50 in most cases. If the consumer fails to notify the institution within 2 business days after learning of the loss or theft of a debit card or other access device, however, the consumer can be held liable for up to $500. If the consumer fails to notify the institution within 60 days after a periodic statement is sent showing an unauthorized transfer, the consumer bears all liability for any further unauthorized transfers after that time.

In general, state laws are more protective of consumers. For example, under Massachusetts law a consumer's liability for unauthorized electronic transfers of funds is limited to $50.

Q. If a consumer loses her ATM card and she had written her PIN on the back of the card, is she still entitled to reimbursement for subsequent unauthorized use?

A. Yes. Negligence by the consumer cannot be used as the basis for imposing greater liability than is permissible under Regulation E. Thus, consumer behavior that may constitute negligence under state law, such as writing the PIN on a debit card or on a piece of paper kept with the card, does not affect the consumer's liability for unauthorized transfers.

Q. Is the consumer required to notify the bank in writing of any unauthorized ATM withdrawals?

A. There is no such requirement in the regulation: the consumer can give either written or oral notice. The institution may require the consumer to give written confirmation of an error within 10 business days. The bank must inform the consumer of this requirement and provide the address to which the confirmation must be sent.

Q. Once a bank completes its investigation of an alleged electronic fund transfer error, how long does it have to report the results of the investigation to the consumer? How much time does a bank have to investigate and resolve an alleged fund transfer error?

A. The bank must report the results of an investigation to the consumer within 3 business days of completion.

Secondly, the financial institution shall investigate promptly and determine whether an error occurred within 10 business days of receiving a notice of error. The institution shall report the results to the consumer within 3 business days after completing its investigation. If the institution is unable to complete its investigation within 10 days, it may take up to 45 days from the receipt of the notice of error provided they provisionally credit the consumer and notify the consumer of the provisional credit within two days after the credit is given. Note that for point of sale transactions, the applicable time periods are 20 business days in place of 10 business days and 90 in place of 45.

--by Carol Lewis
Bank Examination
Federal Reserve Bank of Boston

Communities and Banking seeks to further the practice of community and economic development by exploring effective ways for lenders to work with public, private, and nonprofit sector organizations toward proactive compliance with the Community Reinvestment Act.

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INFORMATION EXCHANGE:

LATEST FROM FFIEC

The Federal Financial Institutions Examination Council (FFIEC) has added a new CRA Rating Search capability on its website. This will allow users to obtain electronically the latest CRA ratings for financial institutions regulated by the Federal Reserve System, the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), and the Office of Thrift Supervision (OTS). The CRA Ratings Database contains ratings for institutions examined from July 1, 1990 onwards. Users can search for CRA ratings using bank names, regulatory agencies, CRA Rating Regulatory Agency ID numbers, city, state, examination method, examination period, and asset range. The database can be accessed at http://www.ffiec.gov/cracf/crarating/main.cfm

In addition, CRA data and software products are available from FFIEC. These include hard copy Aggregate Reports and Disclosure Statements. Also, Aggregate Reports and Disclosure Statements on CD-ROM are available through calendar year 1997. For more information on obtaining these products, please contact the CRA Assistance Line at (202) 872-7584 or through e-mail at crahelp@frb.gov Furthermore, newly released reports, data and other CRA materials can be accessed at the FFIEC website at http://www.ffiec.gov/cra

MICROENTERPRISE TOOLS & TECHNIQUES

The Federal Reserve Bank of Boston is holding a two-day training seminar for New England microenterprise lenders and technical assistance providers, entitled *Microenterprise Tools & Techniques*. The training will provide participants with organizational tools and techniques to effectively:

- Deliver micro-business training technical assistance to entrepreneurs;
- Perform appropriate loan application reviews and due diligence;
- Offer post loan follow-up and technical assistance;
- Establish criteria for sound micro-loan decision making.

The program also includes a workshop on building Internet skills for microenterprises.

Microenterprise Tools & Techniques will be held from December 10-11 at the Highlander Inn in Manchester, New Hampshire. Registration fees are $60 per person, with an additional $40 for each additional person from an organization. Please make checks payable to the Federal Reserve Bank of Boston. Registrations received before December 1, 1998 are eligible for a $10 discount. For more information about this training seminar, please contact Paul Williams at (617) 973-3227.

COMMUNITY DEVELOPMENT VENTURE CAPITAL ALLIANCE

The Community Development Venture Capital Alliance (CDVCA) is holding its *1998 Annual Conference* from December 1-3 in Philadelphia, Pennsylvania. Immediately preceding the conference on November 30, CDVCA will hold a training session for those who are new to the field, entitled, *Basic Introduction to Community Development Venture Capital*. For more information about either event, please contact CDVCA at 218-725-6834 or through e-mail at jburton@cdvca.org