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CommunityDividend

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First Homes broadens homeownership opportunities in Rochester

By Deborah Booth Summers

The southeastern Minnesota city of Rochester is the third-largest city in the state, with a population of just over 100,000. It is home to one of the world's foremost medical facilities, the Mayo Clinic, which currently employs more than 33,000 people at its Rochester location. During the late 1990s, the Mayo Clinic and other major Rochester employers, including IBM, Fastenal, and Benchmark Electronics, experienced immense growth. However, as jobs were added, affordable homes were not.

"Local businesses were hiring folks, starting them at $40,000 and $50,000 a year, and they were quitting two weeks later because they couldn't find affordable housing," says Steve Thornton, executive director of the Rochester Area Foundation (RAF), a local philanthropic organization founded in 1944. "Mayo ended up master leasing 90 apartments, just so new employees could have somewhere to live."

Local leaders recognized the affordable housing shortage as a hindrance to the growth they envisioned for the community. They decided to design a way to address the issue. In 1999, RAF representatives met with area leaders to explore opportunities for affordable housing in Olmsted County. After attempting collaborative efforts with existing community development corporations, RAF decided to form First Homes, a subsidiary organization with a mission of creating affordable housing in the Rochester area. To fund the start-up organization, RAF made a leadership gift of $1 million. Mayo followed with a gift of $4 million and agreed to donate an additional $3 million if RAF could raise matching funds.[1] First Homes set an initial goal of building 875 affordable homes, including 375 rental units and 500 single-family homes.

Gap loans, TIF provide help

One of First Homes' first actions was to work with the City of Rochester to subsidize developers who designate some of their units for affordable housing. Later, with the financial support and guidance of the city, Greater Minnesota Housing Fund (GMHF), and Minnesota Housing (formerly known as the Minnesota Housing Finance Agency), First Homes began offering gap loans to potential homeowners and tax increment financing to developers.

Gap loans are low- or no-interest second mortgages that allow low- and moderate-income buyers to achieve homeownership by reducing the amount of the first mortgage. Payments are deferred, and loans are repaid when the home is sold.

"We originally didn't plan to do gap loans, but the need for affordable housing was so immediate at the time," says Sean Allen, executive director of First Homes.

First Homes makes gap loans of up to $30,000 to help working families become first-time homeowners. One

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Directo a México helps customers join the financial system

By Jimmy Nguyen and Michael Grover

In 2007, workers of Mexican descent who live in the U.S. sent roughly $24 billion to Mexico through *remittances*, or transfers of money. These transfers are an important source of income for Mexico's communities and families and amount to an estimated 2.7 percent of Mexico's gross domestic product.[1] Remittances to Mexico have grown by 170 percent from $8.9 billion in 2001, but have begun to level off recently.[2]

According to a 2003 Pew Hispanic Center report on Latino remittances, most immigrants send money home once a month in transactions that average less than $300. Mexican-

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Photo courtesy Minnesota Credit Union Network

Orfa Elba Oseguera Vázquez of Caja Morelia Valladolid and Alberto Mendoza of Banco de México attend a July 2007 Directo a México kick-off event in St. Paul, Minn.

Oglala Sioux and State of South Dakota sign historic lien-filing agreement

By Sue Woodrow and Dani Daugherty

Efforts to enhance economic development activities on Native American reservations continue to build across the Ninth Federal Reserve District. To bolster these efforts, a number of tribes have taken steps to establish "business-friendly" legal environments by revising or adopting laws that facilitate commercial transactions on reservations. To ease the implementation of these laws, some tribes are also establishing formal agreements with state governments to take advantage of established lien-filing systems.

Recently, a tribe in the Ninth District publicly celebrated its completion of both steps. In a ceremony on July 30, 2008, on the Pine Ridge Indian Reservation in South Dakota, the Oglala Sioux Tribe held a ceremony to mark the one-year anniversary of its Secured Transactions Act becoming law.

The one-year-old law, which is based on the Model Tribal Secured Transactions Act developed by the National Conference of Commissioners on Uniform State Laws, was designed to promote private business development on the reservation by establishing a legal framework that supports secured transactions. (For more on the Model Tribal Secured Transactions Act, see *Community Dividend* Issue 1, 2006, at www.minneapolisfed.org.) Secured transactions are loans or other extensions of credit in which personal property other than real estate is used as

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COMMUNITY AFFAIRS STAFF

MINNEAPOLIS

Richard M. Todd
Vice President, 612-204-5864,
dick.todd@mpls.frb.org

Jacqueline G. King
Assistant Vice President and Community Affairs Officer, 612-204-5470,
jacqueline.king@mpls.frb.org

Michael Grover
Manager, 612-204-5172,
michael.grover@mpls.frb.org

Sandy Gerber
Senior Project Manager, 612-204-5166,
sandra.gerber@mpls.frb.org

Michou Kokodoko
Senior Project Manager, 612-204-5064,
michou.kokodoko@mpls.frb.org

Paula Woessner
Publications Editor, 612-204-5179,
paula.woessner@mpls.frb.org

HELENA, MONTANA

Sue Woodrow
Senior Project Director, 406-447-3806,
susan.woodrow@mpls.frb.org

Community Dividend is published by the Federal Reserve Bank of Minneapolis, 90 Hennepin Avenue, P.O. Box 291, Minneapolis, MN 55480-0291; 612-204-5000. It covers topics relating to community development, reinvestment, and neighborhood lending. It reaches financial institutions, community-based and development organizations, and government units throughout the Ninth Federal Reserve District.

Executive Editor: **Jacqueline G. King**
Editor: **Paula Woessner**
Contributors: **Dani Daugherty, Michael Grover, Jimmy Nguyen, Deborah Booth Summers, Sue Woodrow**
Art Director: **Phil Swenson**
Graphic Designers: **Rick Cucci, Mark Shafer**

For address changes or additions, e-mail mpls.communityaffairs@mpls.frb.org.
Community Dividend is available online at www.minneapolisfed.org.

Directo a México remittance service helps customers join the financial system

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American workers in the U.S. have typically sent their remittances to Mexico through money transfer operators (MTOs) such as Western Union and MoneyGram. According to the Pew Hispanic Center report, remittance senders used these two MTOs for 70 percent of their transfers. Senders used informal, less secure means of transferring money, such as through the mail or by hand, 17 percent of the time and remitted money through banks just 11 percent of the time.[3]

The fees and costs associated with multiple, small-dollar remittances can be significant and can reduce the overall amount of money sent home. Citing data from the World Bank, the University of Iowa's Center for International Finance and Development noted in a 2007 report that MTOs channeling money from the U.S. to Mexico generally charged higher fees for lower dollar amounts. For example, MTOs charged more than 10 percent for transfers of $100, as compared to less than 3 percent for $500.[4]

Recently, financial service providers have developed alternative strategies for lowering the cost of remittances for Mexican workers in the U.S. One alternative is the Directo a México® initiative sponsored by the Federal Reserve Banks and Banco de México, Mexico's central bank. The principal aim of the initiative is to help financial institutions in the U.S. compete more effectively in the remittance market. Financial institutions in the U.S. that offer Directo a México generally charge lower transaction fees than the big MTOs charge. As the initiative gains ground and market share, its fee structure has the potential benefit of increasing the amount of money families in Mexico receive from their relatives in the U.S. Given how the Directo a México program operates, it could have an added benefit, too: increasing the number of Mexicans and Mexican-Americans who use the formal banking system.

A cross-border partnership

In 2001, Banco de México and the Federal Reserve Banks agreed to study the possibility of linking the two countries' payment systems by creating an efficient, interbank mechanism that would be available to all financial institutions in both countries. The service was proposed to improve access to the payments system network for financial institutions on both sides of the border. It also aligned with the Federal Reserve Banks' mission to ensure an efficient, effective, and accessible retail payments system. From this partnership, the FedACH (Federal Reserve Automated Clearinghouse) International® Mexico Service, now known as Directo a México, was created in 2003. Marketing of the new service to financial institutions in the U.S. began in the summer of 2005.

The main selling points of Directo a México to U.S. financial institutions and the Mexican-American customers they serve are the service's security, speed, and low cost.

Selling points

The main selling points of Directo a México to U.S. financial institutions and the Mexican-American customers they serve are the service's security, speed, and low cost. Directo a México lowers the cost of sending a remittance in two important ways. First, financial institutions can make money transfers through the service with a very low, per-item surcharge of $0.67. Second, the service offers a competitive exchange rate for converting dollars into pesos, regardless of the amount transferred, that is generally lower than the exchange rate charged by MTOs. For example, the Federal Reserve Banks estimated that the service would save 55 pesos (approximately $5) on a $350 remittance, in comparison to the fee charged by a typical MTO.[5] While financial institutions charge an add-on fee to their customers for using Directo a México, the overall per-transaction cost of the service is generally at or below $5, or roughly half the total fee charged by most MTOs.[6]

One of the key requirements of the program is that both the sender and receiver of the remittance need to have a bank account. Bank-to-bank transfer services are a more secure method of transferring money across the border than informal means such as the mail. Additional advantages of using the service include the ability to automate recurring transfer payments and the fact that money is available to recipients in Mexico on the next banking day. In addition, the Directo a México program helps financial institutions overcome the English-Spanish language barrier. The service provides Spanish-language promotional templates for brochures, pamphlets, and other marketing materials that enrolled U.S. financial institutions can use.

One challenge for Directo a México is that the market for bank-to-bank transfers may be limited by the relatively small proportion of households in Mexico with bank accounts. Several studies suggest that roughly 30 percent of Mexican households have bank accounts, compared to roughly 64 percent[7] in the U.S. To help overcome this hurdle, the Federal Reserve Banks and Banco de México collaborated with BANSEFI, a bank owned by the Mexican government, to create the Beneficiary Account Registration (BAR) web site. The site allows financial institutions in the U.S. to generate an 18-digit bank account number, also known as a CLABE, at a BANSEFI branch. The financial institution can use Directo a México and the CLABE to transfer funds from the U.S. to Mexico. The web site enables originating financial institutions in the U.S. to initiate a Mexican bank account at any of BANSEFI's branches, which are typically located in rural and low-income areas throughout Mexico. The beneficiary must then go to the BANSEFI branch, or its affiliated financial institutions, with proper identification to formalize the account. The BAR web site promotes financial inclusion by encouraging the otherwise "unbanked" Mexican citizen to open a bank account and participate in the country's financial system.

One credit union's story

To date, more than 380 financial institutions in 42 states have enrolled in Directo a México, compared to just six institutions when the service was launched in 2004. In the Ninth Federal Reserve District, 29 institutions have signed on. The earliest adopters include St. Paul Federal Credit Union, Franklin National Bank, Bank Cherokee, Arcadia Credit Union, and Royal Credit Union.

According to Elizabeth McQuerry, assistant vice president of the Retail Payments Office at the Federal Reserve Bank of Atlanta, the prevalence of credit unions on that list is no surprise.

"Directo a México is a natural fit for credit unions, because they are communi-

Below: Photos from the July 2007 Directo a México event in St. Paul, Minn.

Alberto Mendoza, director of Payments Systems for Banco de México, addresses participants.

BANSEFI Director of Commercial Banking Antonio Carrasco discusses the Directo a México service with Senior Account Manager Marilyn Coleman of the Federal Reserve Bank of Minneapolis.

St. Paul Federal Credit Union Vice President Tim Alexander and President/CEO Bonnie Godtland display a sample of their institution's Directo a México promotional materials.

Photos by Richard M. Todd

Bank-to-bank transfer services are a more secure method of transferring money across the border than informal means such as the mail. Additional advantages of using the service include the ability to automate recurring transfer payments and the fact that money is available to recipients in Mexico on the next banking day. In addition, the Directo a México program helps financial institutions overcome the English-Spanish language barrier.

ty-focused institutions that work to build and maintain strong relationships with their members. They also tend to be physically located in the neighborhoods of their member base."

Of the 29 Ninth District institutions that have adopted Directo a México, St. Paul Federal Credit Union (FCU) in St. Paul, Minn., is the market leader in terms of the number of members using the service and the average dollar amount of their transactions. At present, approximately 70 customers use the St. Paul FCU Directo a México service, making a total of 30 to 40 remittance transfers a month and averaging about $600 per transaction.

St. Paul FCU officially kicked off its Directo a México service in July 2007 at a ceremony attended by 200 community members and officials, including representatives from the The Consulate of Mexico in St. Paul, the Mexican government, Banco de México, the Federal Deposit Insurance Corporation, the Federal Reserve Banks of Atlanta and Minneapolis, Caja Morelia Valladolid (a Mexican credit union), and Minnesota elected officials.

According to St. Paul FCU Branch Manager David De Santiago, encouragement from the consulate played an important role in his institution's involvement in the program.

"The Mexican consulate helped identify that most of our money transfers in the St. Paul area are to one particular city in Mexico, the city of Tarímbaro. It also identified the credit union branch that most of the beneficiaries use in Tarímbaro, which is Caja Morelia Valladolid. St. Paul Federal Credit Union shared this information with BANSEFI, and BANSEFI in turn added Caja Morelia Valladolid to the BAR web site and initiated a networking relationship between the two institutions."

Thanks to the Directo a México promotional templates, St. Paul FCU is able to market the service using monthly newsletters, colorful brochures, and press releases. The credit union charges a flat fee of $3 per remittance, regardless of the amount transferred. Since it began offering the service, St. Paul FCU has seen Directo a México serve as an entry product that enables customers to move into a fuller, traditional banking relationship. According to De Santiago, "Directo a México is a useful tool to pull in customers, but it is up to us to keep them as customers and introduce them to all the other traditional products the credit union has to offer."

The test of time

Since the inception of Directo a México, participation in the service has steadily climbed. Now, more and more financial institutions are expressing an interest in entering the remittance market. According to McQuerry, "We've seen significant increases in payments volume since the creation of Directo a México, and new depository financial institutions sign up to participate in the service every month. Including government items, Directo a México has processed more than 1.3 million items to date, with zero payments lost."

Still, the true test of the service lies ahead. One of the key challenges for Directo a México will be to gain market share against the more established remittance providers, like Western Union and MoneyGram. It also remains to be seen whether the new service will increase the number of Mexicans and Mexican-Americans who leave the ranks of the unbanked. Early evidence suggests that as word of the new service spreads and more financial institutions sign on, the potential benefits of Directo a México may indeed be realized. cd

For more information on Directo a México, visit www.directoamexico.com.

Jimmy Nguyen served as a Community Affairs intern at the Federal Reserve Bank of Minneapolis in the summer of 2008. He is currently pursuing a bachelor's degree in finance and economics at the University of St. Thomas.

1 Mexican remittance estimates for 2007 are from the Multilateral Investment Fund. Gross domestic product estimates for the same year are from the International Monetary Fund.
2 Multilateral Investment Fund.
3 Roberto Suro, *Remittance Senders and Receivers: Tracking the Transnational Channels*, Pew Hispanic Center, Washington, D.C., November 2003, http://pewhispanic.org/files/reports/23.pdf.
4 Enrique Carrasco and Jane Ro, *Remittances and Development*, Center for International Finance and Development, University of Iowa, June 2007, http://www.uiowa.edu/ifdebook/ebook2/contents/part4-II.shtml.
5 Federal Reserve estimates based on exchange rate fees from an Appleseed report, *Creating a Fair Playing Field for Consumers: The Need for Transparency in the U.S.-Mexico Remittance Market,* December 2005. Available at http://appleseeds.net/Portals/0/Documents/Publications/USMexicoRemittance.pdf.
6 Federal Reserve estimate, 2006.
7 Authors' calculation using household estimates from the Center for Financial Services Innovation's *Underbanked Consumer Study Fact Sheet*, June 2008, and the U.S. Census Bureau's 2006 American Community Survey.

First Homes broadens homeownership opportunities in Rochester

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client found that the gap loan perfectly fit his needs.

"I put the gap loan toward making the home I purchased accessible for my disability," says Jeff Vert, a Rochester homeowner who was injured at age 20 in a diving accident. "I wouldn't have been able to make the home accessible without [First Homes'] help." Vert now serves as secretary of the First Homes board of directors and encourages other board members to focus on accessibility.

First Homes' use of tax increment financing, or TIF, was designed to encourage local builders and developers to help meet the housing needs of the community. With TIF, a developer applies for a tax subsidy with the city and indicates which lots in a particular development it will designate for affordable housing. Manufacturing and other commercial developments most often utilize TIF, which pays developers as the project progresses. In Rochester, however, the city decided to pay a subsidy of $10,000 to developers up front because of the severity of the need and the trusted recommendation of the foundation. The credit allows the builder to offer the home at a lower purchase price.

Keeping homes affordable

Combined, gap loans and TIF offered by First Homes helped each homebuyer save up to $40,000. Although the savings helped ease the immediate affordable housing shortage in Rochester, the staff of First Homes felt that a long-term solution was necessary.

"RAF had been around since 1944 and planned to be around forever, and we wanted to think about affordable housing the same way," says Allen. "Gap loans and TIF just weren't going to do that."

In order to make housing affordable in perpetuity, First Homes decided to establish a community land trust, or CLT. The CLT model reduces the cost of homeownership by removing the cost of the land from the purchase price of the property. The trust owns the land on which the home sits and leases it to the buyer, who pays the trust a monthly lease fee. When the home is sold, the CLT recovers a portion of the increased market value in order to maintain the affordability of the property for future buyers. Communities across the country experiencing both growth and disinvestment use CLTs to provide homeownership opportunities for low- and moderate-income individuals.[2]

Combined, gap loans and tax increment financing offered by First Homes helped each homebuyer save up to $40,000. Although the savings helped ease the immediate affordable housing shortage in Rochester, the staff of First Homes felt that a long-term solution was necessary.

To develop its CLT program, First Homes obtained technical assistance funding from the U.S. Department of Housing and Urban Development. After months of planning and working with consultants, First Homes began selling CLT homes in 2002.

The First Homes CLT program provides a 99-year renewable land lease that reduces the home's price by $40,000. Monthly land lease fees are a mere $10 for the first three years of occupancy and plateau at $50 beginning in year six. CLT homeowners realize an additional savings of approximately $100 per month, because they do not pay private mortgage insurance. Also, they can combine their CLT benefits with up to $15,000 in deferred, zero percent interest gap loans from First Homes and $3,000 in first-time homeowner assistance from Minnesota Housing. While some CLTs offer minimal financial benefit to the homeowner upon resale, homeowners working with First Homes receive 50 percent of the home value appreciation as well as all equity invested.

Prospective homeowners must meet several requirements before they can participate in the First Homes CLT. For example, they must earn less than 80 percent of the state median income, depending upon family size and county of residence.

"We started with the CLT discount at $30,000 and raised it to $40,000 as land prices in Rochester continued to rise. We wanted to be able to keep serving that $23,000 to $28,000 income range. The lowest-income resident we've served had a salary of $14,000. We worked creatively with that person by acquiring and rehabbing a HUD foreclosure," says First Homes Program Officer Cheryl Key.

First Homes CLT buyers must also attend Homestretch homebuyer education classes; meet individually with Key to discuss financing options; and work with First Homes-approved lenders, builders, and title companies. First Homes or the lending institution provides a paid home inspection. First Homes also sponsors a post-purchase home maintenance education program in which a home inspector conducts on-site preventive maintenance training at no cost to the owner.

First Homes no longer repurchases its CLT homes from sellers, but it does assist with the selling process so that sellers avoid expensive Realtor commissions. Potential buyers must meet First Homes' qualifications and agree to the land trust arrangement.

"This has been a great tool for working families. There's a waiting list for resale and to date we've had 35 resales and 40 repaid gap loans. As more resales arise, we are able to serve even more working families," says Key.

Imagining a revitalized downtown

In September 2007, First Homes reached its initial goal of providing 875 affordable housing units in Rochester and the surrounding area. Included in those 875 units were several neglected properties in Rochester's core neighborhoods. First Homes began Heritage Homes, an initiative designed to rehab the properties and stabilize the surrounding neighborhoods, in 2004.

Early in the Heritage Homes program, one of the focus areas was Kutzky Park, a large downtown neighborhood that faced decreased property values resulting from crime and neglect. Previous attempts to revitalize the area had been left unfinished. For example, in 1997, a housing agency purchased three homes with funding from Mayo and Minnesota Housing and never completed the promised renovations. Neighborhood residents urged the Kutzky Park Neighborhood Association to start its own community development corporation as a response.

"The community had been promised $1 million by another housing agency and five years later all they saw were unfinished projects. We stepped in, went to Mayo and said, 'We can do this with the money you've already designated.' We talked the neighborhood residents into a long-term process and the Imagine Kutzky concept was born," says Allen.

Before First Neighborhoods will bring in development resources, each neighborhood will be required to have an incorporated neighborhood association, perform Property Inventory and Evaluation mapping, and work through the Imagine concept of neighborhood visioning.

Imagine Kutzky began with community meetings in which representatives from the Kutzky Park Neighborhood Association and First Homes asked area residents to describe their vision for the neighborhood. They then formed the Imagine Kutzky Citizens Council, which helped establish architectural guidelines and now reviews incoming development proposals.

Chris Flood, cochair of the Imagine Kutzky Citizens Council and a First Homes program officer, developed a unique mapping program called Property Inventory and Evaluation, or PIE, to identify the homes that had historic value and were in dire need of repair. He recruited volunteers to walk the neighborhood and take notes on each property's architectural or historical significance and level of upkeep. From the notes, he developed color-coded maps of the area. (To view the Kutzky Park PIE maps, see page 5.)

The maps' colors show which properties are run down or in great shape and which ones are culturally significant. First Homes used the PIE maps to identify properties where rehab work might create a ripple effect that would stimulate reinvestment on the surrounding blocks.

Although Imagine Kutzky is an ongoing effort, First Homes considers it a success. The program has resulted in 23 rehabs in Kutzky Park to date. One of them was a dilapidated apartment home that was the site of 46 police calls in the 12 months preceding First Homes' purchase of the property. A new, two-story condominium building constructed in the craftsman style of the 1920s now stands on the site, with units for purchase beginning at $89,900. The new condominiums were the first residential construction in Kutzky Park in 20 years.

"It wasn't very long ago that people didn't want to live in Kutzky Park, and now neighbors are buying houses and fixing them up as investments," says Allen. "The Imagine concept gets people thinking big about issues like walkability and connected green space. We're working on those issues, despite the tremendous challenges in an infill environment. But the community is driving the revitalization; we're just coming in with targeted resources."

Creating neighborhoods of choice

After reaching its initial goal of 875 homes, First Homes continued its work with CLT resales, developer assistance, and Heritage Homes. However, RAF, First Homes, and other community leaders began to shift their focus to a larger venture.

In 2006, RAF decided to expand the Imagine Kutzky project to the six other core neighborhoods in downtown Rochester. A diverse group of 26,000 people lives within the seven neighborhoods, but disinvestment over the past 40 years has decreased residents' safety and property values. In 2007, these neighborhoods accounted for 22 percent of Olmsted County sheriff's foreclosure sales and 33 percent of those in Rochester.

The new initiative, First Neighborhoods, will work with the Rochester Downtown Alliance and Workforce 2020 to lead a comprehensive revitalization of the seven neighborhoods. The focus will be not just on creating and maintaining affordable housing through a CLT, but also on cultivating leadership and stimulating business growth.

The program hopes to nurture these neighborhoods to a tipping point beyond which private investment will flourish. First Neighborhoods plans to create mixed-income neighborhoods through its CLT and promote high-density redevelopment to support the anticipated increase in the workforce. Total redevelopment spending is expected to exceed $360 million over ten years. The leaders of First Neighborhoods plan to seek partnerships with GMHF, Minnesota Housing, NeighborWorks® America, Mayo Clinic, and city and county government agencies.

"We're trying to avoid another housing crisis and support continued growth by rehabbing or creating 2,300 to 2,400 homes through First Neighborhoods," says Thornton of RAF.

Before First Neighborhoods will bring in development resources, each neighborhood will be required to have an incorporated neighborhood association, perform PIE mapping, and work through the Imagine concept of neighborhood visioning. The neighborhood association and its leaders will work with First Neighborhoods to implement community decisions.

First Neighborhoods' initial goals are to improve measurably the existing affordable housing stock while developing new afford-

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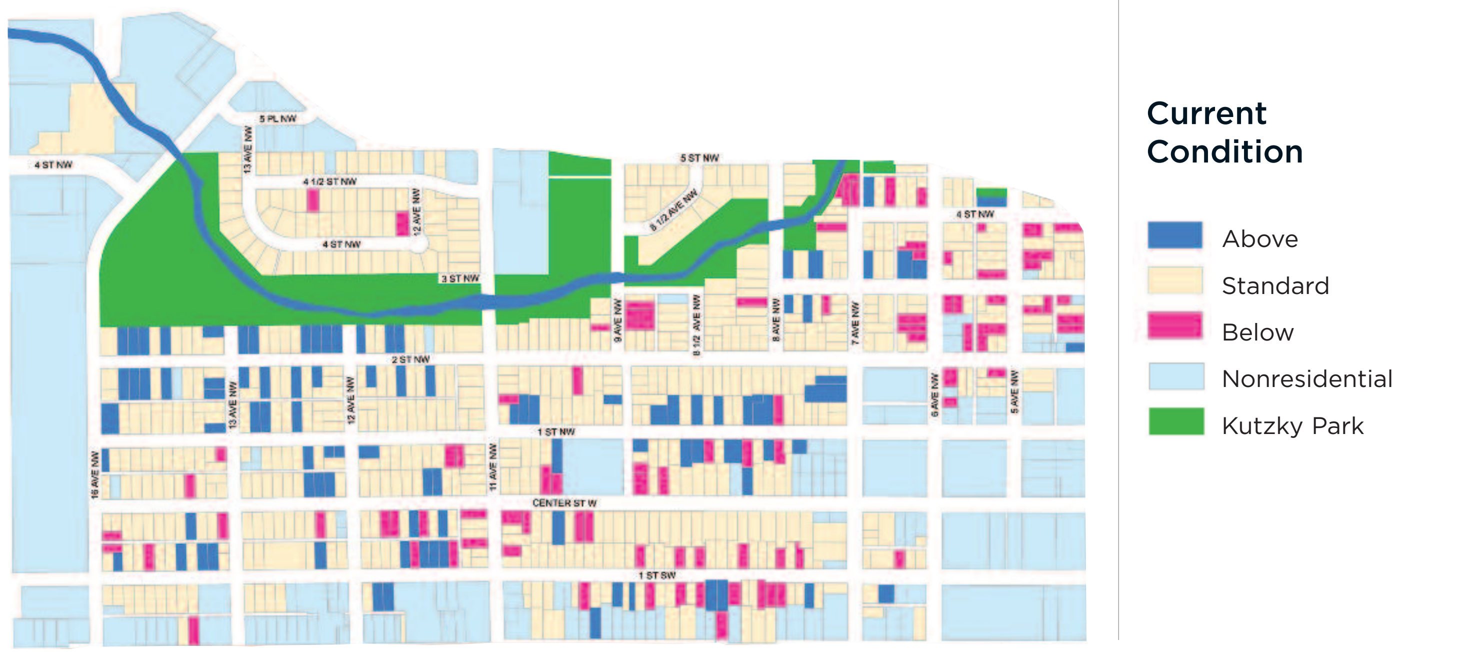
Kutzky Park Neighborhood

Property Inventory and Evaluation Maps / September 2005



Source: Imagine Kutzky Citizens Council

Oglala Sioux and State of South Dakota sign historic lien-filing agreement

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collateral. Many types of loans that are crucial for business start ups, such as loans for the purchase of equipment and inventory, fall in this category.

As it celebrated the anniversary of the Secured Transactions Act, the Oglala Sioux Tribe took the next step toward building a private sector economy on Pine Ridge. During the July 30 ceremony, the tribe formalized a Joint Sovereign Uniform Commercial Code Filing System Memorandum of Understanding (MOU) with the South Dakota Secretary of State's Office. The MOU establishes that the South Dakota Secretary of State's Office will provide Uniform Commercial Code (UCC) filing services for liens on personal property collateral that are created under the tribe's Secured Transactions Act. The agreement is modeled closely on a recently signed lien-filing compact between the Crow Nation and the State of Montana. (For more on the Crow-Montana compact, see the News and Notes section of *Community Dividend* Issue 2, 2008, at www.minneapolisfed.org).

The MOU enables creditors to comply with a major provision of Article 9 of the UCC. The provision requires creditors involved in secured transactions to file UCC financing statements that establish their legal priority in relation to other creditors who may have an interest in the same collateral.

Although many tribes have passed secured transactions laws, such laws are often underutilized or not utilized at all because of the lack of a publicly accessible UCC lien-filing system. UCC filing systems, however, can be costly to implement and administer. For many tribes, establishing such a system is prohibitively expensive. Under the MOU between the Oglala Sioux Tribe and the State of South Dakota, the latter will in effect serve as the tribe's filing system agent, thus enabling creditors to file liens confidently and seamlessly under tribal law and boosting the potential for more business and consumer lending on the Pine Ridge Reservation.

Through the MOU, the Oglala Sioux Tribe became the first tribe to enter a UCC filing agreement in South Dakota under a wholly tribal commercial law within a tribe's home jurisdiction. Oglala Sioux Tribe President John Yellow Bird Steele notes that this historic tribal-state partnership is an important step in helping the Oglalas develop as a "powerful economic force" with private entrepreneurship at the base.

Coming full circle

With the signing on July 30, tribal-state UCC filing agreements in the Ninth District have come full circle in some respects. In 2000, the Cheyenne River Sioux Tribe adopted South Dakota's UCC Article 9, with several modifications, as its secured transactions law. The South Dakota Secretary of State's Office has served as Cheyenne River's lien-filing agent pursuant to an MOU since that time. Last year, the Crow Nation in Montana, following its enactment of the Model Tribal Secured Transactions Act, adapted the Cheyenne River-South Dakota MOU to facilitate an agency arrangement for UCC filings, but did so under the Crow Nation's secured transactions law, not state law. Now, the Oglala Sioux Tribe, in agreement with the State of South Dakota, has adapted the Crow Nation-Montana filing system compact for its purposes.

To facilitate filing and help create awareness of the tribe's law and filing system arrangement, the South Dakota Secretary of State's Office has added a unique page to its UCC filing web site for filings under the Oglala law, as it had already done for Cheyenne River. This is a significant change for lenders, as a lien filing under the Oglala law in the state's system will now also constitute a filing under state law. The new arrangement helps address the uncertainty that lenders commonly face regarding legal jurisdiction on Indian lands.

Agreement earns high praise

Attendees at the July 30 signing ceremony included tribal and state dignitaries; members of South Dakota's Congressional staff; and representatives from numerous organizations that have helped nurture the Oglala Sioux Tribe's economic development efforts. These organizations include the Federal Reserve Bank of Minneapolis and the Wakpa Sica Reconciliation Place, a Native cultural and legal center in Fort Pierre, S.D., that has advocated for the adoption of the Model Tribal Secured Transactions Act by South Dakota tribes for two years. Also present were the co-chairs of the South Dakota Indian Business Alliance (SDIBA), Kim Tilsen-Brave Heart of Rural Community Innovations and Dani Daugherty of the U.S. Department of the Interior's Office of Indian Energy and Economic Development (OIEED). SDIBA is working to cultivate efficient and effective business environments and promote state-tribal collaboration to advance economic development in Indian Country. (For more on SDIBA, see the sidebar at left.)

South Dakota Secretary of State Chris Nelson summed up his message about the day's events in one word: potential. Nelson noted that he was pleased to see the tribe and state arriving at a place of trust and expressed his openness to assisting in future economic development efforts. Representatives from South Dakota's three U.S. Congressional delegates—Senators Tim Johnson and John Thune, and

Alliance promotes Indian-owned businesses in South Dakota

South Dakota Indian Business Alliance

SDIBA

Hunkpapa, Ihanktonwan, Itazipco, Mdewakanton, Minnecoujou, Oglala, Oohenunpa, Sicangu, Sihasapa, Sisseton, Wahpekute, Wahpeton, Yanktoni

The South Dakota Indian Business Alliance (SDIBA) grew out of the first South Dakota Indian Business Conference, which was held in February 2007. The mission of SDIBA is to remove barriers to Indian Country business development while creating and expanding Indian-owned businesses by maximizing resources and partnerships.

SDIBA members are focused on two key objectives: 1) cultivating effective and efficient business environments in South Dakota's Indian Country; and 2) encouraging state-tribal collaboration, or maximizing the benefits of joint efforts by the state and the tribes to increase Indian entrepreneurship in South Dakota.

In pursuit of these objectives, SDIBA members can point to several accomplishments that have been completed or are in the works. As noted in the accompanying article, members have assisted with the Oglala Sioux Tribe's adoption of a secured transactions commercial code, as well as the creation of a memorandum of understanding with the State of South Dakota on a Uniform Commercial Code filing system. Another accomplishment is SDIBA's partnership with Mike McMurray, a professor of rural sociology at South Dakota State University, who is designing an "economic map" of every reservation. The maps, which detail economic data and human and natural resources, will provide important information to those seeking to invest in economic enterprises on reservations.

SDIBA partners represent a broad spectrum of people and organizations, including tribal leaders and policymakers; federal, state, and local officials, agency staff, and lawmakers; commercial and other lenders; chambers of commerce; tribal colleges and other educational institutions; community development groups; business owners; and individuals who support SDIBA's mission. To become a partner, call 605-226-7381 or e-mail danelle.daugherty@bia.gov.

Representative Stephanie Herseth-Sandlin—each spoke briefly about the significance of the agreement.

In a written statement, Thune praised the agreement as an important tool for developing a private-sector economy on the reservation. According to Thune, "This agreement will help tribal businesses create jobs and empower tribal courts to create a legal environment in which businesses can thrive." Thune also indicated that he was impressed with the partnership of state and tribal leaders, along with the Federal Reserve Bank of Minneapolis, the OIEED, and the Wakpa Sica Reconciliation Place, who came together to work on the issue.

This theme of partnership was echoed in a statement from Johnson, who thanked the staff of the Federal Reserve Bank of Minneapolis for providing technical assistance in support of the effort. With regard to the overall agreement, Johnson commended the efforts of the Oglala Sioux Tribe and the Secretary of State in South Dakota for working together to create the first UCC filing system agreement of its kind in the state.

In his address at the ceremony, South Dakota Secretary of Tourism and State Development Richard Benda described the agreement as a historic effort that embodies the "economic reconciliation" dream of the late governor George Mickelson. Benda applauded the joint sovereign filing agreement as a classic example of the possibilities of "productive government-to-government relations" between tribes and states. He noted that securing capital for business development can be a challenge, but investment is more likely to happen when a familiar set of rules exists.

Jack Stevens, chief of the Division of Economic Development at the OIEED's Office of the Assistant Secretary for Indian Affairs, spoke briefly about the promise of this historic event. He recognized the efforts of the tribe's director of credit and finance, Courtney Two Lance, for her two years of effort to bring the secured transactions law and joint sovereign agreement to fruition. The OIEED provided the original grant money for the tribe to review and pass the secured transactions law. Stevens expressed the hope that the OIEED would be able to secure funding to assist other South Dakota tribes with similar efforts in the upcoming fiscal year. In response, Yellow Bird Steele said he had discussed these efforts with other tribal leaders in South Dakota, several of whom have indicated a strong desire to move in the same direction.

Some attendees recounted the difficulties of promoting business development on the reservation in the decades prior to the passage of the Secured Transactions Act. For example, Oglala Sioux Tribal Councilman Chuck Jacobs spoke of the challenges faced 20 years ago in organizing the first Native community development financial institution in the country, the Lakota Fund (now known as Lakota Funds), in the absence of basic commercial laws.

Wakpa Sica Reconciliation Place Executive Director Stacey LeCompte expressed the belief that tribes are indeed moving forward. According to LeCompte, "It's clear that the tribes are learning how to communicate in the language of business—that it's possible to preserve your nation and create economic opportunity through bigger-picture changes in governance. This is a significant moment, and we'll reap tremendous benefits from it over time."

A suite of business-friendly laws

The Oglala Sioux Tribe's Secured Transactions Act and UCC filing agreement with the state are complemented by other legislative initiatives designed to make the reservation a business-friendly environment. In addition to its Secured Transactions Act, the tribe is in the process of implementing a full suite of modernized business laws and has created a court-supervised business arbitration process for efficient dispute resolution. For example, Chapter 44 of the Oglala Sioux Tribe Law and Order Code is now a modernized nine-part business code that includes private for-profit and nonprofit corporations, tribal government entities, partnerships, limited partnerships, limited liability companies, unincorporated associations, trusts and cooperatives, trademarks and tradenames, securities, and a consumer protection act. Additional provisions empower the tribe's entrepreneurs and business owners to create business entities at minimal cost, thereby reducing barriers to entry for start-up businesses within the tribe's jurisdiction. To further promote economic development, the tribe wrote its business code in language that ensures ease of use and interpretation by business owners and lawyers from all jurisdictions.

With efforts to address tribal legal infrastructure needs at both the state and tribal levels gaining momentum in South Dakota, the goal of building business-friendly environments in Indian Country appears to be within reach. The recent work that culminated in the signing ceremony on the Pine Ridge Reservation demonstrates how a partnership among a tribe and public, private, and nonprofit agencies can bring these efforts to fruition. cd

Dani Daugherty serves as chair of the South Dakota Indian Business Alliance and economic development director for the OIEED at the Bureau of Indian Affairs Great Plains Regional Office in Aberdeen, S.D.

First Homes broadens homeownership opportunities in Rochester

Continued from page 5

able and market-rate housing opportunities, increase the number of homeowners through higher-density housing and the land trust program, and convert substandard rental units into single-family homes or higher-density units.

The long-term goal focuses on transforming the seven core neighborhoods into "neighborhoods of choice" by 2014. First Neighborhoods plans to market the downtown area to potential residents and sponsor stimulation programs to fund business recruitment and expansion. The program will provide incentives to encourage the development of affordable rental and homeownership options.

"Our ultimate goal is to make the private market interested, but keep the CLT to prevent gentrification. We want affordability in these neighborhoods and so do the residents," says Allen.

With local, state, and philanthropic funding and private market interest, First Neighborhoods hopes to create a vibrant downtown that will attract residents of all ages, ethnicities, and socioeconomic backgrounds. First Neighborhoods hopes for a mixed-income community with increased population, reduced crime rates, and pedestrian-friendly streets that connect residents to work, shopping, and entertainment.

Poised for growth

To date, First Homes has helped provide 538 single-family homes and 379 rental units in Rochester and the surrounding area. In the process, it has become the state's largest-ever community-based assisted-housing program. More than 100 local donors worked with builders, banks, Realtors, and local and state government officials to make this accomplishment a reality.

"One hundred percent of our projects have been funded by state and federal financing when we've applied for it. I'm very proud of that. We've chosen good projects and our track record is good," says Allen. Tim Marx, former commissioner of Minnesota Housing, notes that Rochester, through First Homes, is the recipient of the most housing dollars ever given to one agency or area in the state.

According to First Homes' leaders, the organization's success has helped create more interest in housing in the Rochester area. The initial $5 million raised locally was leveraged into an additional $135 million in construction activity. Rental vacancies have moved to a healthy market level and community leaders no longer hear stories of employers losing new and prospective employees due to housing costs. Private developers have built market-rate apartments and town homes, adding more than 2,000 units from 2001 to 2004.

First Neighborhoods plans to market the downtown area to potential residents and sponsor stimulation programs to fund business recruitment and expansion. The program will provide incentives to encourage the development of affordable rental and homeownership options.

"I am not sure we can take credit for this record level of construction, but we think the awareness that we created of the housing shortage contributed to private developer activity," says Thornton.

The CLT model will continue to be a cornerstone of First Homes. With a home-buying program designed to keep housing permanently affordable and a comprehensive plan for downtown revitalization, First Homes has remained true to its commitment to provide affordable homes for low- and moderate-income families in the Rochester area. Thanks in part to the work of First Homes, Rochester seems poised for continued growth. cd

For more information about the Rochester Area Foundation, First Homes, and First Neighborhoods, visit www.rochesterarea.org.

Deborah Booth Summers is a freelance writer who lives in Rochester, Minn. She is earning a master's degree in communication studies from the University of Minnesota.

[1] The final $1 million was received from Mayo in 2004, bringing total donations from the organization to $7 million.

[2] For more on CLTs, see *Community Dividend* Issue 3, 2007, at www.minneapolisfed.org.

News and Notes

U.S. Treasury announces 2008 CDFI awards

The U.S. Department of the Treasury has awarded a total of nearly $54.2 million to 89 community development financial institutions (CDFIs) headquartered in 38 states and the District of Columbia. CDFIs are specialized entities that provide loans, investments, training, and other services in underserved or economically distressed areas. The Treasury's CDFI Fund, which certifies and provides support for CDFIs, allocated the awards through its Financial and Technical Assistance programs. The CDFI Fund conducted a competitive review to select the 89 awardees from a pool of 225 applicants. Most of the 2008 awardees are community development loan funds that serve urban areas.

Nine of the financial and technical assistance awards, totaling nearly $4.8 million, went to organizations headquartered in the Ninth Federal Reserve District. Ninth District recipients are Butte Local Development Corporation, Butte, Mont.; First Children's Finance, Minneapolis; Great Falls Development Authority, Inc., Great Falls, Mont.; Metropolitan Economic Development Association, Minneapolis; Montana Community Development Corporation, Missoula, Mont.; Nonprofits Assistance Fund, Minneapolis; Northeast South Dakota Economic Corporation, Sisseton, S.D.; Wolf Point Federal Credit Union, Wolf Point, Mont.; and WomenVenture, St. Paul, Minn.

The financial and technical assistance awards are in addition to a total of $8,224,687 the CDFI Fund awarded earlier this year to 29 organizations that provide lending and other services to Native communities. These awards were made through the CDFI Fund's Native American CDFI Assistance (NACA) Program, which encourages the creation and strengthening of CDFIs that primarily serve Native American, Alaska Native, and Native Hawaiian communities.

Eight of the NACA awards went to organizations in the Ninth District. They are First Nations Oweesta Corporation, Rapid City, S.D.; Four Bands Community Fund, Eagle Butte, S.D.; Indian Land Capital Company, Little Canada, Minn.; Lakota Funds, Kyle, S.D.; People's Partners for Community Development, Lame Deer, Mont.; Sovereign Leasing & Financing, Inc., Ronan, Mont.; Three Affiliated Tribes, New Town, N.D.; and Turtle Mountain Housing Authority, Belcourt, N.D.

Fed, NeighborWorks America partner to address foreclosures

The Federal Reserve System and NeighborWorks® America (NWA) have formed a partnership to mitigate the negative effects of mortgage foreclosures. NWA, a nonprofit organization created by Congress in 1978, promotes revitalization efforts and homeownership through a network of more than 230 community development organizations across the country. Under the foreclosure-mitigation partnership, the Federal Reserve will provide research and analysis to inform NWA's ongoing foreclosure-prevention and neighborhood-stabilization activities. In addition, the Federal Reserve and NWA will develop resources, materials, and training events that explore ways to reduce the costs and destabilizing effects of foreclosures and home vacancies. According to a statement from NWA, the aim of these efforts is to help community leaders tailor their responses to foreclosures and return vacant properties to productive uses.

The Federal Reserve-NWA partnership is an outgrowth of a long-standing relationship between the two entities. The Federal Reserve's Community Affairs offices have worked with NWA on a variety of past initiatives, and under federal law, the Board of Governors of the Federal Reserve System holds a permanent seat on NWA's board of directors.

Community Affairs releases report on Hmong homeownership rates

The Community Affairs Department of the Federal Reserve Bank of Minneapolis has released a report on disparities in homeownership rates in the Hmong-American community. Hmong refugees, mostly from Laos and including many who had allied themselves with U.S. forces during the Vietnam War, began arriving in the U.S. in the mid- to late 1970s. Many Hmong-Americans eventually settled in California, Minnesota, and Wisconsin. The new report, titled *Accounting for Regional Migration Patterns and Homeownership Disparities in the Hmong-American Refugee Community, 1980–2000,* traces Hmong homeownership rates in the U.S. over the previous two decades and examines gaps in rates among the geographic areas where Hmong refugees are concentrated. To read the report, visit the Publications & Papers page at www.minneapolisfed.org.

Fed launches online guide to Mortgage Refinancing

The Board of Governors of the Federal Reserve System has launched an online resource to help educate consumers about mortgage loan refinancing. *A Consumer's Guide to Mortgage Refinancing* at www.federalreserve.gov/pubs/refinancings/default.htm explains the options, risks, and costs homeowners should consider before refinancing a mortgage loan. The site features a mortgage shopping worksheet, glossary of terms, answers to frequently asked questions, and a list of helpful contacts and resources.

Calendar

Building Prosperity Through Self-Employment. November 18, St. Paul, Minn. A conference for small business development practitioners. Sponsored by the Minnesota Saves Network. Additional information: e-mail mkatras@umn.edu.

2008 South Dakota Housing Development Authority Conference. Theme: "A Strong Foundation." November 18–19, Pierre, S.D. Additional information: visit www.sdhda.org.

20/20 Community Development Expo. November 19–20, Minneapolis. Join Twin Cities LISC and the Metropolitan Consortium of Community Developers in a celebration of their 20th anniversaries. Additional information: visit www.2020CDExpo.org.

Montana Indian Business Conference and Showcase. April 20–21, 2009, Missoula, Mont. Sponsored by the Montana Indian Business Alliance. Additional information: visit www.mibaonline.org.

Personal Finance Decathlon State Championship. April 29, 2009, Minneapolis. A knowledge competition for high school students. Preliminary rounds take place online and the decathlon culminates in a live championship bout in April. Sponsored by the Federal Reserve Bank of Minneapolis, Minnesota Council on Economic Education, and Sit Investments. Additional information: visit www.mcee.umn.edu or call 612-625-3727.

Save the date!

Innovative Financial Services for the Underserved

The Federal Reserve System's Sixth Biennial Community Affairs Research Conference

April 16–17, 2009
Washington, D.C.

Featuring original research on trends, methods, opportunities, and outcomes of innovation in financial services.

Keynote speaker: **Ben S. Bernanke**
Chairman, Board of Governors of the Federal Reserve System

Additional information: e-mail KC.CAResearchConf@kc.frb.org.