

SERVING THE UNBANKED

La Cooperativa Educates Members

“Mattress banking” has a competitor in North Carolina — the Latino Community Credit Union (LCCU), known informally as La Cooperativa.

In the central North Carolina Triangle area of Raleigh-Durham-Chapel Hill, criminals know that working-class Latinos may keep cash at home or in wallets instead of in a bank account. According to John Herrera, chairman of LCCU’s board of directors, the credit union is a community response to increasing crime against the Latino population in Durham, N.C.

People without a deposit account at a bank, credit union, or thrift usually have below-average incomes. Alternate sources such as check-cashing outlets provide money orders, wire transfers, and other financial services that the “unbanked” require. But often fees are higher than those incurred by customers who have bank accounts.

LCCU’s mission is to serve the unbanked, says Herrera. The credit union’s target audience is “hard-working people with muddy boots.” They are landscapers, hotel workers, dishwashers, and people with the repetitive manufacturing jobs — those

who are most likely to be unbanked.

A conference in 2002 on the unbanked at the Chicago Fed noted that “... recent immigrants ... make up a significant proportion of the unbanked population.” Although LCCU is open to anyone, members are principally from Mexico, Puerto Rico, Honduras, and El Salvador. Because the members are shareholders, they own the credit union. That concept is familiar to many Latino people who have participated in Mexican “tandas,” informal credit associations built on community trust.

LCCU gets technical assistance, access to lawyers, and admission to credit union groups from its founders — community leaders and organizations. Local churches play a significant role by providing information about LCCU to the community.

While realtors have coined the phrase, “location, location, location,” LCCU’s motto is “trust, trust, trust.” That must be earned by partnering with area churches and community-based organizations. According to Herrera, the primary form of advertising is word of mouth. LCCU speaks to the community in English and Spanish. From the services of management and tellers to deposit tickets to mortgage documents to its web site www.cooperativalatina.org,

the credit union’s business is bilingual.

LCCU offers the usual array of credit union products and services, and places a big emphasis on financial education. “Everything we do is financial education. From the time an account is opened or a check cashed, it’s an opportunity to teach,” says Herrera. The approach to financial education is equivalent to a product cross-selling strategy. Employees always look for opportunities to present new or related financial education information.

Free financial literacy classes are available to members and nonmembers. According to Herrera, more than 85 percent of the credit union’s members have never had a bank account, and new members may not understand what it means to earn interest on deposits.

“You can’t start out selling them a CD,” he says. “You have to explain these things first.” Credit union members who want to open

interest-bearing accounts need a social security number or taxpayer identification number for tax reporting. Classes are offered on obtaining a taxpayer identification number and filing a tax return, budgeting, and managing a checking account. More advanced topics include consolidating debt and home-buying. Classes may be required as part of the application for some services. Members are also given a phone number so they can call from the comfort and privacy of their home for answers to personal finance questions.

As members become better informed about money management, they develop opportunities to increase personal wealth by creating a clean credit history. Responsible members can apply for a small, collateralized loan.

The Latino Community Credit Union (LCCU) serves central North Carolina’s growing Spanish-speaking population.



COURTESY OF LCCU

On-time payment of the loan leads to a good credit history and credit score, which are needed to qualify for bigger loans or mortgages.

In the four years since LCCU began serving the unbanked of central North Carolina, the Latino population has shown its trust. Herrera says membership has been growing at the rate of about 1,300 customers every month. There are now five branches in central North Carolina, with total assets of \$17 million. LCCU has been so successful in its mission that banks and credit unions from across the country have been calling Herrera for information and advice on starting their own programs to serve the unbanked.

—AILEEN WATSON

SAVES TIME AND MONEY

Check Images Replace Paper

Come this fall, the nation's check collection system will fully enter the 21st century.

On October 28, the Check Clearing for the 21st Century Act, also known as Check 21, goes into effect. The legislation will make it easier for financial institutions to process checks electronically by removing some of the legal impediments to the process. While electronic presentment has been possible for many years, it previously required a standing agree-

ment between two institutions.

The process, which involves the truncation and scanning of an original paper check and passage of its information via electronic image, is projected to save the industry more than \$2 billion a year once it becomes commonplace. Financial institutions will save time and money by avoiding the physical transportation of paper checks and by either transmitting the electronic image when there is an agreement or by providing a substitute check printed from the electronic image if there is no agreement. Under the legislation, these "substitutes" will have the same legal standing as the original paper checks.

The Federal Reserve System clears nearly half of the current 39 billion checks written annually. As a result, the Fed has adapted its services to meet the change in processing trends expected to be brought on by the legislation.

Financial institutions processing through the Fed will continue to have the option of making either paper or electronic check deposits. Those institutions with imaging capabilities that submit electronically will benefit from later processing deadlines and national fees, rather than those based on geographic location.

For those items processed electronically, the Fed will print substitute checks and also offer the service of electronic return, giving

financial institutions faster access to funds and greater protection against fraud.

If institutions do not have scanning and imaging capabilities, the Federal Reserve Bank will offer additional services to help them also realize savings from Check 21. Those companies can elect to have checks above a certain dollar amount sorted and processed electronically.

In the end, consumers may also see the benefits of the new legislation. Reduced costs and faster processing for financial institutions could mean greater customer service innovations and extended deposit times for their customers. Check 21 does come with a price, though — with faster processing consumers can expect to see a shorter float period from the time they write a check to the time the funds are withdrawn from their account.

—ALICE FELMLEE

GRUNDY MOVES ON

Town Relocates To Avoid Floods

Some communities have given up the fight to control the rivers on which they were built. They've sought refuge from severe and repeated flooding by making a permanent move to higher ground.

Grundy, a former coal mining boom town in Southwest Virginia, will soon be one of those communities. After enduring damaging floods almost every 20 years, from 1937 to 1993,

Grundy is moving its business district across the Levisa River to a 13-acre site donated by Norfolk Southern Corp.

Relocating Grundy is tough because of the lack of flat land. "Most communities that have flooded have acres of level land to go back a couple of miles from the river," says Grundy's town manager Chuck Crabtree. "The way we were nestled between mountains, railroad tracks, the river, and U.S. Route 460, we had no level land. So floodproofing Grundy is very unique in itself."

The move is paving the way for a long-awaited highway project too. At one time, Grundy, the seat of Buchanan County, stood in the way of the Virginia Department of Transportation's (VDOT) plan to continue Route 460 to the Kentucky state line. But bypassing Grundy would have cost VDOT \$150 million to \$160 million, Crabtree says, and building the roadway through Grundy would have destroyed its downtown. And, there was little space for existing businesses to relocate in the mountainous terrain.

Thanks to a partnership with the U.S. Army Corps of Engineers (USACE) and VDOT, relocating Grundy and extending Route 460, once financial impossibilities, are becoming realities. VDOT's routing U.S. 460 through the old downtown will cost \$77 million — \$73 million to \$83 million less than the original proposed cost. And USACE's cost in

preparing the relocation site for development fell from somewhere between \$200 million to \$300 million to about \$110 million as a result of the partnership, according to Crabtree.

Moving a town may seem like a radical measure. But for Grundy — with its dwindling population and an economy that never rebounded from the flood of 1977 — relocating may be its only chance. Many buildings were abandoned after the '77 flood, causing property values to fall. Federal laws have also changed, requiring that no more than half of a building's appraised value be spent on repairing it. In most cases, the amount allotted was insufficient to do the necessary work.

"People started going outside of Grundy for business," Crabtree said. "We had an outflow of people on the weekends, and when people started going out, they liked the community they were going to, and they started moving."

The business district in Grundy, Va., will be relocated to a 13-acre site across the Levisa River.



Although Grundy's citizens gave up on the town a long time ago, the proposed new Grundy is attracting new commerce already. A new Comfort Inn has almost quadrupled the taxes paid by previous downtown businesses, paying out about \$50,000 annually, and has created jobs as well. Verizon has chosen Grundy as a pilot project for creating a wireless community. Ground-breaking on the relocation site is slated for fall 2006, and retail businesses have already spoken for the future buildings, according to Crabtree.

Grundy has now given the river back to itself and reopened the river channel, transforming the Levisa into an asset instead of a liability, Crabtree noted.

"It's not one big fix. It is a puzzle," Crabtree said. "No one would believe the benefits that have come out of this. I think we'll have the most unique small town in the country."

—JENNIFER SPARGER

GREYFIELD REDEVELOPMENT

Old Malls Seek New Life

Not far from the shoppers strolling through the bright corridors of Cloverleaf Mall, there are three eerily empty buildings filled with the echoes of times past. Every department store has abandoned this once-thriving regional mall in Chesterfield County, Va., along with a movie theater chain and most of the food court tenants.

County officials want this underused, 78-acre property to be replaced with a mix of offices, storefronts, and housing within walking distance of each other. Other declining malls across the Fifth District known as "greyfields" also need some form of redevelopment.

The rise and fall of regional malls parallels the suburbanization of America during the 1950s and 60s. Department stores followed shoppers out of downtown districts as development spread beyond cities. Eventually, retailers realized that putting a few anchor stores like Sears or J. C. Penney and an assortment of specialty stores under one roof created a safe, climate-controlled environment that suburbanites liked.

This clustering of retail gave regional malls an advantage. "From an economic point of view, [it] reduced search and information costs," notes Mark Eppli, who holds the Bell Chair in Real Estate at Marquette University. Because the mall

offered a plethora of choices, shoppers could be confident of finding the quality or price they wanted. The result was that stores could generate more sales collectively than they could earn individually.

However, regional malls in aging, filled-out inner-ring suburbs have lost customers as development has continued its outward expansion. Outer-ring suburbs have space available for new residential and commercial development that meets the market's needs.

Some of this development has supported new retail formats that have taken market share from regional malls. For example, Cloverleaf Mall competes with Regency Square and Chesterfield Towne Center, two "superregional" malls that provide greater variety in 800,000 square feet or more of retail space. Then there is Stony Point Fashion Park, a "lifestyle center" that is somewhat smaller, but has an open-air design and the kind of upscale food and fashion offerings that used to be confined to cities. Finally, big-box retailers like Dick's Sporting Goods and Circuit City stores provide wider selections of specific product categories.

Some regional malls have renovated or replaced some of their tenants to keep pace with change. In 2002, Pennsylvania Real Estate Investment Trust (REIT) bought the Roses department store at Magnolia Mall in Florence, S.C., and reconfigured it for occupancy by

Best Buy, a new food court, and additional specialty retailers. Other malls have been radically remade — in 1998, Talisman Companies tore down the walls of a failing regional mall in Towson, Md., and created a strip center of big-box stores.

In some cases, however, the whole mall may have to be scrapped. “There may not be demand, the neighborhood may not have stepped up over time, or the other retail is too close and they can’t compete,” says Eppli.

While it could be obsolete for retail use, a regional mall has other qualities that make it attractive for redevelopment. According to Douglas Grayson, executive vice president of development at Pennsylvania REIT, a mall sits on a large parcel within a well-populated suburb where land is scarce and expensive, plus it has existing infrastructure like roads and utilities. “There is a high intrinsic value to that piece of property.”

Realizing that value isn’t easy, though. “The developer or owner of the mall almost never has the unilateral right to do anything,” explains Grayson. “The number of stakeholders that have to be dealt with to reposition a property is huge [and each one] is looking for their opportunity to profit.” Also, some of those stakeholders, or even the mall’s primary owner, may resist any redevelopment that might eat into their existing returns, however meager they might be.

That’s why local governments often intervene.

They have the money to assemble the necessary property rights, tear down mall buildings, and tie the project into the surrounding neighborhood. They also have the power of eminent domain to take care of holdouts, although a Michigan Supreme Court decision in July may limit future seizures of private property for economic development purposes. While local governments want to stimulate more taxable economic activity, redevelopment experts say that efforts to revitalize greyfields and other obsolete properties must be economically justified.

—CHARLES GERENA

MALPRACTICE INSURANCE

Conflict Escalates

Doctors and lawyers, with insurers in the middle, continue their professional conflict over rising medical malpractice premiums.

At issue are medical malpractice insurance rates for certain physician specialties, such as obstetrics, that some doctors say are forcing them to quit. A Charleston, S.C., surgeon recently made a proposal that shocked the legal and medical community. Chris Hawk, who has practiced medicine for 26 years, suggested that the American Medical Association’s House of Delegates pass a resolution that would encourage doctors to refuse treatment to trial lawyers. It did not pass.

“The physician has a

right to refuse care to anybody,” Hawk says. “The feeling was that it was so damaging from a political correctness viewpoint they didn’t want to do anything with it. That may be legitimate, but on the other hand, it did get a lot of attention to what is a very broken system.” Physicians in many Fifth District states have lobbied for caps on noneconomic damages. In West Virginia, the state legislature lowered in 2003 its cap to \$250,000 on “pain and suffering” damages. In South Carolina, tort reform legislation was tabled earlier this year.

People investigating the rising rates of malpractice insurance would agree that the system is broken, but disagree about its causes and policy options that could help.

The United States General Accounting Office issued a report in October 2003 that outlined multiple reasons malpractice rates have soared. First, insurers’ losses on medical malpractice claims have jumped in some states since 1998, more slowly in states that limit awards. Second, insurers lost money when interest rates dropped on bonds that comprised some 80 percent of their investment portfolios. The higher interest rates had allowed insurers to underprice rates in heated competition for malpractice business in the 1990s, rates that did not cover eventual losses. As a result, today fewer insurers offer medical malpractice and, accordingly, there is less competition.

But the current crisis is different from previous malpractice rate cycles, according to William Sage, a physician and professor of law at Columbia University. Sage suggests that medicine’s success in treating disease has “outstripped the structural and financial framework of medical liability.”

A proposal by the Institute of Medicine in 2002 suggests demonstration projects that would test replacing malpractice law with an administrative system for compensating patients who have experienced avoidable injury. The report cites the liability crisis as a key health-care policy problem because many cases of negligence don’t end up in court and, conversely, many claims don’t relate to negligence. Also, judgments are sometimes inconsistent with the medical evidence. Finally, legal and administrative expenses eat up half the cost of liability premiums.

The demonstration projects could create a system outside the courts that would “provide timely, fair compensation to injured patients and promote apologies and nonadversarial discussions between patients and clinicians.” The projects would also encourage reporting and analysis of medical errors.

The idea is to put the incentives to reduce error in the right place as well as compensate patients quickly for avoidable injury.

—BETTY JOYCE NASH