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A photograph of a row of modern townhouses with different colored siding (yellow, green, purple, red) and white window frames. The image is slightly blurred and has a white gradient overlay at the bottom.

Community Development in Practice

Including:

Prize Linked Savings Accounts for Youth

Shared Equity Homeownership

Nonprofit Check Cashing

CI Notebook

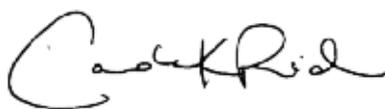
by Carolina Reid

According to the National Bureau of Economic Research, the nation's economy began to grow again in June of 2009, ending an 18-month recession that was the longest on record since the Great Depression. Yet low-income communities across the 12th District remain in economic crisis, struggling with the compounding effects of unemployment, foreclosures, and neighborhood disinvestment.

Reversing these trends will be far from easy, and most predict that the road to recovery will be long and bumpy. If history is any indication, however, we can be sure that the crisis will prompt the community development field to emerge stronger than ever. After all, previous periods of crisis led to the rise of Community Development Corporations, the Low Income Housing Tax Credit, and the Community Reinvestment Act, all of which prompted new investments and innovations in community development. As Nancy Andrews has written, "[This history] speaks to the creativity and drive of the professionals working in the community development field, professionals motivated by a social vision, not by profit maximization. Economic reversals spur creativity."

The articles in this issue of *Community Investments* speak to that creativity, and the constant work of both practitioners and researchers to identify best practices and programs that can help lower-income households and communities. We profile two new efforts to improve consumers' financial decisions. The first is an innovative program that engages low-income youth in financial education and asset building through a lottery-based savings account. The second is a nonprofit check cashing outlet – the first of its kind – which seeks to curb the asset stripping effects of alternative financial services. We also highlight new research released by the Urban Institute on shared equity homeownership strategies, which shows that shared equity programs deliver on three important goals: 1) long-term housing affordability for low-income households, 2) wealth building, and 3) sustainability of tenure. The article by PolicyLink reviews promising local strategies for responding to the trend of investor purchases of distressed properties. And we look at how the Neighborhood Stabilization Program is strategically targeting public dollars for the acquisition and rehabilitation of foreclosed properties to maximize the program's impact on the ground.

Of course, these strategies merely scratch the surface of the interventions that will be needed in the coming years. But we hope these articles and ideas will spark innovative ideas or programs in your community. Let us know if there's something else brewing in your backyard that can contribute to a more inclusive economic recovery – we always welcome your thoughts and feedback.



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This publication is produced by the Community Development Department of the Federal Reserve Bank of San Francisco. The magazine serves as a forum to discuss issues relevant to community development in the Federal Reserve's 12th District, and to highlight innovative programs and ideas that have the potential to improve the communities in which we work.

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Prize Linked Accounts for Youth (PLAY): *A New Approach to Youth Financial Education and Savings*

By Laura Choi





Introduction

"I've had a bank account since I was 15, but my mom handled it. I gave her money sometimes to put into it, but she wouldn't let me touch it," said Tina, age 17.¹ Rosa, also age 17, shared a similar story, saying "I would just give my mom my money to put away. So I had an account, but I never did anything with it, my mom handled all of it." Kelly, age 17, had easier access to her money and said, "I would just spend it. I would just go anywhere and just swipe my [debit] card, like it had no limits. I wasn't really thinking about saving as much. When I saw that I did too much, then I'd have to stop." When asked how she knew if she was doing "too much" Kelly explained, "I got overdrafts."

These experiences are perhaps fairly typical of many teens; their parents set up a savings account for them, but they have little to no experience in handling their own money. Or, they spend their money freely with little active management. Other youth may be completely disconnected from financial institutions and formalized money management. One recent survey estimated that 25 percent of high school seniors do not have any type of bank account.² Yet the vast majority of these students (75 percent) earn income through employment during the school year or summer,³ and youth are wielding more and more purchasing power in their households.⁴ Wherever they fall on the spectrum of account ownership and money management, youth stand to benefit tremendously from financial management training and skill building, which can provide them with a solid foundation for making responsible financial choices in adulthood.

In an attempt to connect youth with financial skill building and real world experience with financial institutions, Mission SF Community Financial Center (Mission SF), a nonprofit affiliate of the Mission SF Federal Credit Union in San Francisco, CA, launched the Prize Linked Accounts for Youth (PLAY) program in 2010. PLAY provides youth with financial education and a savings account, but also incentivizes youth to save by awarding a prize linked to their savings behavior. Tina and Rosa, along with more than 30 other youth, engaged in peer-led financial training, set personal savings goals, and had the opportunity to make regular deposits and personally manage their own savings accounts. Recognizing the opportunity to learn from this initiative, the Ruddle Memorial Youth Foundation funded Mission SF to conduct data collection and an evaluation of the pilot. This article provides an overview of the PLAY pilot program, describes the experiences of the youth participants, and synthesizes the lessons learned from the program's first year.

A Unique Approach to Youth Financial Education

Mission SF takes a unique approach to youth financial education, utilizing a peer training model known as Youth Trainers for Economic Power (YTEP), created in 2007. Each year, Mission SF recruits a small group of high school students to become youth trainers. These youth spend eight weeks during the summer learning about public speaking, training techniques, and the specifics of the YTEP personal finance curriculum, which was designed to appeal to urban, low-income youth. The curriculum focuses on budgeting, saving, understanding financial institutions and accounts, and financial goal setting. YTEP trainers then deliver the training in a group setting to teens from other youth programs. Margaret Libby, Executive Director of Mission SF, emphasized the importance of the peer

training model, saying, “Peer to peer delivery is really important around sensitive topics, and money and financial issues can be particularly sensitive for low-income youth.”

Prior to the YTEP training, it appeared that many youth had never had any formal money management training. “I never really learned about money, we didn’t do anything in school. My friends didn’t talk about it; maybe how to spend money, but that’s it,” said Kelly. A few youth reported that they learned about money from their parents. Alex, age 17, explained, “When I was younger, I thought a job was like, they just give you money. Then I started going to the bank more with my mom and dad and that’s when they started telling me about bank accounts and how you can save money.”

The peer-led financial education trainings, which took place on a monthly basis over the course of the program, were thus a new experience for most of the youth. Chris, age 16, explained, “I liked the training since it was youth our age and we could relate to them. They really knew what they were talking about, so I liked it a lot. If I would have learned it in the classroom, I wouldn’t have paid attention as much. I feel like here, I could visualize it more and see how it applied to me.” Susan, age 15, explained “Adults always say ‘don’t do this’ or ‘don’t do that’ but it’s easy to ignore that. But if you have teens telling you,

it’s more like their own experience, so that’s when I think it’s more true than when it comes from adults.” Financial concepts are often abstract and can be difficult to internalize, and the notion of saving can be especially difficult for people of limited means, such as low-income youth. One study of low-income adults found that the mere realization that they could save, regardless of their limited income, led to a drastic shift in the savers’ perception of their ability to save and build assets for future wealth.⁵ In a similar manner, peer training can potentially change youth perceptions about financial capability. “I was surprised,” said Maggie, age 16, “because it was people the same age as me, teaching me. I used to spend all my money on stuff that wasn’t important. But I’m a teenager just like them, so if they can do this (save and manage their money), then I can do it too. They inspired me.”

Prize Linked Accounts for Youth (PLAY)

In 2008, Mission SF youth leaders engaged in an eight-month community financial assessment research project to assess the financial education needs and interests of local youth. The Action Research Committee, which consisted of seven youth, studied the concept of prize-linked savings (PLS) and decided to develop a prize-linked program for youth. PLS is a savings innovation that

Peer to peer learning is an important component of Mission SF’s youth financial education program. Not only does the information seem more relevant coming from peers, but the youth in the program support each other in their efforts to meet their savings goals.



Photos courtesy of Mission SF.

incentivizes individuals to make regular deposits by offering them the chance to win a large prize in lieu of traditional interest.⁶ A typical PLS program has a set time frame in which an individual's probability of winning a prize is determined by the amount of money saved during the period. Similar to a lottery, a single individual is awarded the prize at the end of the savings cycle.

Mission SF's PLAY pilot took a slightly different approach to the prize-linked concept, adapting the eligibility for winning the prize from the typical PLS approach—the amount saved over a specified time period—to meeting a personal savings goal. A personal savings goal was deemed to be more relevant and achievable for low-income youth. PLAY participants came from three separate afterschool programs and each group had access to \$200 from the Bank on San Francisco Microgrant Program,⁷ to be used for the PLAY prize. The groups were educated about the PLS concept, but the groups requested to restructure the prize distribution. Rather than hold a lottery style drawing with a single winner, the groups decided to share the prize at the conclusion of the program among those participants that regularly saved to meet their goals. Monique Hosein, Teen Services Program Coordinator at Mission Neighborhood Health Center, one of the afterschool programs that participated in PLAY, pointed out that the youth participants had already formed relationships with each other prior to starting the program. “The youth work together and know each other, they're a small community. I don't see them competing with each other,” she said, explaining their decision to share the prize. Ms. Libby, the director of Mission SF's PLAY program, noted, “We wanted to set this up with groups that already had some cohesion. Part of what we're trying to do is encourage the youth to shift their norms around savings and spending, and support each other as a group to do that.” This idea of community and shared experience also resonated with the youth. “It's better doing it with the group because everyone is talking about it together, so you get more support. It's different once other people know your goals because you want to be able to tell them that you actually reached your goal,” said Jessie, age 16.

She went on to describe the influence that the prize had on her savings behavior. “The prize is like a goal within a goal. You're reaching your own goal to get another goal at the end, so it's like an extra push to reach your first goal. And you don't want to let the rest of the group down so I'm going to do what I have to do,” she explained. Alex also described how the prize served as a motivator, saying, “The incentive motivated me to save my money in my Mission SF account every week. Even though I had another account (at another financial institution) I'll take advantage of this opportunity so I can get a prize at the end. The prize for me personally motivated me more.”

“... by the end, the prize didn't matter as much because they reached their goal and I think that feeling was worth more than the prize.”

In addition to the motivating influence of the prize, several youth mentioned goal-setting as an important component of the savings program. Rosa said, “The best part has been saving the money and having a goal at the end that I'm going to reach.” Participants' savings goals were varied, ranging from “saving money for college” to “hair for prom.” Regardless of the specific goal, the act of goal-setting appeared to focus the participants on what they needed to do to achieve their goals. Tina explained, “We set goals once we started, and it taught me that I can't just spend my money when I get it. So when I get my paycheck, I don't want to spend it all because I have a goal to reach. So I'm taking care of my money more.” Annie, one of the YTEP trainers, described the effect that goal-setting had on the participants. “At first, I wasn't sure if the youth would be willing to give up part of their paycheck. I think the prize was the main reason they agreed to do it, but by the end, the prize didn't matter as much because they reached their goal and I think that feeling was worth more than the prize,” she said.

Building Savings

The PLAY savings cycle took place over the course of three months, during which time youth received financial education from the YTEP trainers. Ms. Libby emphasized the importance of combining education with experience, saying “Linking financial education to opportunities to apply the skills pretty immediately is really important... It isn't enough to just show people how to save or budget—even if they have the knowledge and skills, we have to connect them with opportunities to start doing it.” Youth participants had the opportunity to open savings accounts through the Mission SF Youth Credit Union Program (YCUP), a youth-operated financial institution that offers a savings account product specifically for youth under age 18. As part of the PLAY program, any savings deposits made during the three month period would be restricted until the completion of the savings cycle. Two out of the three youth groups decided to open YCUP accounts and deposit their PLAY savings into these accounts (even if they had existing accounts at other financial institutions), which allowed Mission SF to directly track their deposits. The third youth group decided not to open YCUP accounts; instead, the

youth made deposits to accounts at other financial institutions and the program coordinator was responsible for monitoring their savings.

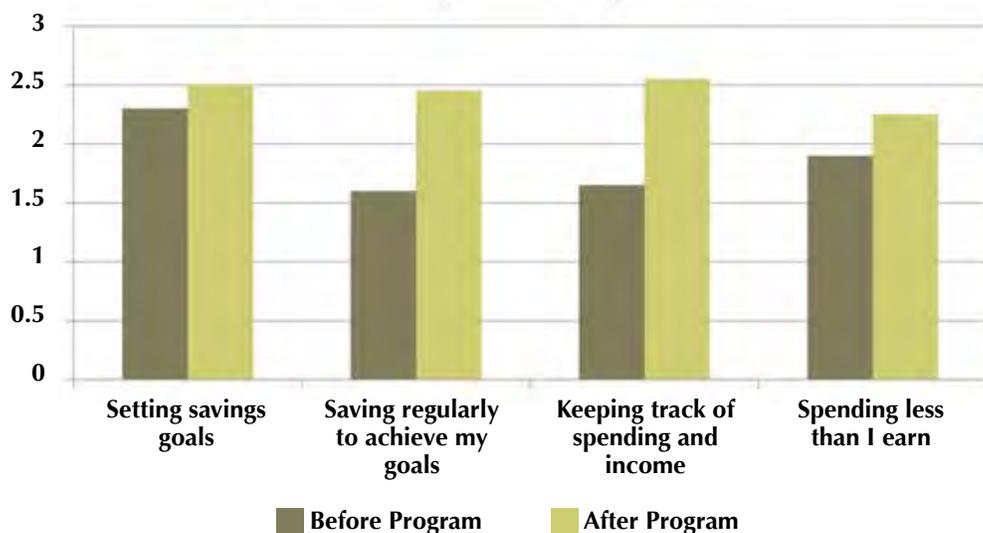
All of the PLAY participants had a regular source of income as they were each employed by their respective afterschool programs. One of the three participating youth groups elected to set up direct deposit and automatic savings. Rather than cut individual stipend checks to the youth (who all received the same monthly stipend), the program coordinator sent a single lump sum check each month to Mission SF, which was evenly distributed to each participants' YCUP account. Then, out of each monthly deposit, \$35 was automatically restricted to savings. Rosa, age 17, praised the automatic savings setup, explaining, "I wasn't really saving before this. If I had money, I mostly just spent it. The direct deposit has been really good, I really like that. If I just got the money, I'd just want to spend it. I'd actually like them to take out even more than \$35 from my paycheck for savings." Participants who did not have the automatic savings option had to visit the credit union in person to make their deposits. Some youth enjoyed visiting the credit union to make deposits while others found the single location inconvenient and this added "hassle" may have affected savings behaviors. "It was kind of a hassle having to come all the way here to make my deposit. I closed my YCUP account after PLAY ended and just transferred my money to my other bank, where they have more branches," said Alex. When asked how PLAY could be improved, Morgan, age 14, explained, "You have to go to that spe-

cific credit union to get your money. I think there should be an easier way to put money in and take it out, and they should give youth debit cards."

Assessing Program Outcomes

By the end of the three month savings cycle, Mission SF was able to track savings data for 28 youth. These youth saved a total of \$2,181 into their YCUP accounts, an average savings of \$78 per participant, and many youth reported making additional deposits into their accounts at other financial institutions. Although the total savings outcomes were modest, given the fact that most of the youth come from very low-income families and have limited income, the savings represent a significant amount of money. In addition, youth also demonstrated increases in knowledge and behavior indicators. Participants took a ten question multiple choice test that covered a range of financial topics, such as budgeting, interest, and high cost financial services. Prior to the program, students answered 60 percent of questions correctly; after the program, the score increased to 64 percent. Participants also demonstrated increases in self-reported measures of positive financial behaviors, as shown in Figure 1. Responses were made on a four-point scale (1=I'm not doing this; 2=I'm doing this sometimes; 3=I'm doing this most of the time; 4=I'm doing this all the time). In response to the statement, "I am keeping track of spending and income," respondents indicated an average score 1.75 prior to the program; this increased to 2.6 after the program. For the statement, "I am saving regularly to achieve my goals," participants had

Figure 1. Self-Reported Savings Behaviors



Note: n=16. Responses made on a four-point scale. 1=I'm not doing this; 2=I'm doing this sometimes; 3=I'm doing this most of the time; 4=I'm doing this all the time.



After participating, youth in the program reported increased positive financial behaviors, such as keeping track of spending and income and saving regularly toward their goal.

an average score of 1.69 before the program and 2.4 after the program.

It should be noted that the sample is too small to validate any sort of statistical claims about the program's effectiveness. Quantitative data collection and analysis were a challenge given the attrition that many of the afterschool programs experienced, as well as the difficulty in ensuring consistent attendance at all program events. From a qualitative standpoint, interview responses from youth were overwhelmingly positive. "It (the program) is teaching me to be more responsible. Every time I go out I think about how I shouldn't spend all that money because I want to put it in my account. And since I'm going to college I need to learn how to manage my money better," said Chris.

Lessons from the PLAY Pilot

The PLAY pilot, though small in scale, provides an opportunity to better understand how youth respond to this type of financial education intervention. To provide some initial lessons for the field, we analyzed both the PLAY pilot data and conducted interviews with the youth and staff at Mission SF. These lessons will help to guide implementation of the PLAY program going forward.

- 1. Make it easy for youth to save.** One of the few criticisms that youth participants had of the program was the logistical requirement of having to physically visit the credit union to make a savings deposit to their YCUP account. Youth pointed out that the inconvenience of having to visit the single branch location was sometimes a deterrent to making a deposit. The field of behavioral economics suggests that when trying to encourage a specific behavior, these types of "hassle factors" (anything that creates additional challenges or inconveniences) should be kept to a minimum. One possibility to overcome this barrier would be to set up direct deposit for more participants or provide online banking access.
- 2. Be realistic about the administrative challenge of tracking savings deposits.** One of the youth groups elected not to open YCUP accounts, allowing participants to make deposits to their own accounts at other financial institutions. While this removed the hassle factor of having to visit the credit union, it placed significant administrative burden on the group's program coordinator, who was tasked with verifying participant deposits across multiple financial institutions. In the end, the program coordinator was unable to collect this data, and the group's savings behavior was not recorded. To ensure proper data collection, one consideration for future PLAY cycles would be to require participants to open YCUP accounts, allowing Mission SF to retain control of deposit tracking.
- 3. Integrate peer to peer learning as part of the program.** One of the key lessons that came out of the PLAY pilot was the importance of the peer-to-peer structure of the program. Research on learning theory has shown that learning has an important social component, and particularly for youth, financial education is as much about changing their modes of participation in the social world as it is about acquiring new knowledge. In other words, learning is a process of forming identity and membership in a social group. In the PLAY pilot, the peer-to-peer learning approach had a significant impact on the willingness of the youth to be open to the ideas and concepts being taught, and it also contributed to their belief that saving was within their realm of possibility and not just something done by others who are richer or older. Peer support and peer accountability also had an apparent impact on the ability of youth to meet their savings goals.
- 4. Engage youth program leadership early on in the process.** At the beginning of the program, Mission SF held an orientation with the participating youth groups' program coordinators and executive directors. Ms. Libby explained the value of this early engagement, saying, "It worked well to set expectations up front and go over the details of the program. We gave them a checklist of things they needed to complete along the way from the administrative side and the staff have been incredible in getting things done. Involving the program coordinators early on was very important."
- 5. Target youth groups that already meet consistently on their own.** One of the challenges of the program was ensuring that youth maintained consistent participation throughout the three month PLAY cycle. Prior to starting the PLAY program, two of the groups already had an established routine of regular meetings. Mission SF was able to schedule PLAY trainings and events during their regular meeting times, which

ensured fairly high participation rates. The one group that did not have regularly scheduled meetings prior to starting PLAY had weak attendance at YTEP trainings and high attrition overall.

- 6. Ensure that youth have a form of income that they control.** For many low-income youth, the possibility of saving is elusive, since their relatives and/or caretakers may not be able to provide them with an allowance or other monetary gifts. The PLAY pilot was focused on youth who received a regular stipend as part of an after-school program, making it easier for them to start to save.

Conclusion

Given the small scale of the PLAY pilot, the findings are largely anecdotal; further study and data collection at a larger scale will be required to quantitatively assess the effectiveness of the program. One consideration for increasing the scale of the program is the administrative difficulty of coordinating multiple YTEP trainings for each of the participating youth groups. Achieving program scale may require rethinking the training schedule or finding a way to reach more youth per training session. Mission SF is using the lessons learned from the pilot to refine its model and will implement a larger scale version of PLAY

in collaboration with San Francisco's youth employment program system in 2011-12. PLAY's promise as a model to engage low-income youth in accounts and saving has captured the attention of the field, earning two national awards in 2010 for innovation and social impact (Dora Maxwell Award) and for excellence in youth financial education (Desjardins Award).

Overall, the PLAY pilot provided a valuable financial experience for its youth participants, offering them a combination of peer-led financial education, access to age appropriate financial products, and a prize-based savings incentive. When asked to identify the most important lesson they learned from the program, the most common answer was differentiating between "needs" and "wants," followed by the importance of setting savings goals. Many youth mentioned that this was the first time they had ever learned about money management and felt that the program helped them think about saving for the future, particularly for college expenses. Susan, age 15, summarized her feelings about the program by saying, "It's helped me think about what will happen once I grow up and get my own job and live on my own, paying for things like rent, food, insurance. It's helped that I learned about saving and managing my money now, so I'll be prepared for the future." **CI**



Community Development Finance's new nonprofit check cashing outlet in Fruitvale, California.

Community Perspectives: *Community Check Cashing*

By Daniel Leibsohn, Founder, President and Executive Director,
Community Development Finance

Rita S. recently walked into a friendly, clean, check cashing store in the Fruitvale neighborhood of Oakland, California and began to talk to the teller about cashing her check. She found out that the fee would be only \$6, or 1% of her \$600 check amount, rather than the \$18 or more which she would have paid at the check cashing store she had been using. She learned that the other costs for financial services were low also, most of them significantly lower than the fees charged at the other check cashing stores in the neighborhood. And she learned that she could receive financial coaching for her and her family at a nominal fee, as well as very low-cost small business services and support for her flower business.

If this doesn't sound like your ordinary checking cashing outlet, it's because it's Community Check Cashing, a program launched by the nonprofit Community Development Finance (CDF). CDF's goal is to create a nonprofit check cashing institution that will be a financially sustainable social enterprise offering lower prices and a broad range of financial services designed to help low income families move out of poverty and into the financial mainstream. CDF opened the store in May 2009 and it is believed to be the only nonprofit, full-service check cashing store in the country. The project is designed to provide low-income households with the services they want and need, without the asset-stripping characteristics common to the fringe banking industry.

Elements of the CDF Program

- Below-market priced financial services, including check cashing, bill payments, money orders, money wiring, and debit cards.
- A more affordable, alternative payday loan.
- Financial coaching and literacy training designed to assist low income households to increase their wealth-building capacity, enter the financial mainstream and help them move out of poverty.
- Small business assistance through below-market rate bookkeeping and financial coaching to help them develop proper methods of planning and creating systems.
- Social services assistance by offering information, counseling and referrals for housing, immigration, food, legal and other issues.
- Access to consumer and business loans and the creation of checking and savings accounts offered by CDF's bank/credit union partners.

Is Community Check Cashing Sustainable?

If you talk to check cashing and payday lending businesses, they justify their high fees as part of the cost of doing business. For CDF, launching and sustaining the program has involved a lot of testing of new ideas and learning the hard way that sometimes a good idea doesn't work in practice. What have we learned thus far?

First, we learned that it is possible to offer these services at lower prices without destroying profitability. We also learned that it's not easy to come up with the capital to launch a program like this, despite the fact that we were not seeking large amounts of funding. The initial storefront required approximately \$400,000 in equity or grant capital for build-out costs and to cover negative cash flow for the first two years, and up to \$200,000 in loans or grants for working capital to cash checks and to fund the payday loan alternative lending program. In the end, these grant funds came from foundations and some individuals while the loan funds were provided by a bank line of credit backed by a personal guarantor. Our expectation is that these costs will decrease for any future storefronts as CDF gains experience.

As for sustaining operations, the check cashing part of CDF's activities is designed to be self-sufficient after the initial start-up period capital is infused. We're on track to reach this point within two years or less. Check cashing is the main driver of our revenue, and each month the revenues from the check cashing operations increase. Getting to this point wasn't easy, however. Even with our marketing efforts, it has taken a lot of time for people to find out about us and for us to develop a strong customer base needed to make the business financially viable. Being in a location with a high volume of traffic has certainly helped, especially since we rely on volume rather than high prices to break even. While we expect the check cashing component to reach break-even shortly, we still must raise donations for the financial coaching, small business services, social services and administration, a little more than half of the overall budget.

Expanding CDF: New Markets and Products

In addition to our check cashing operations, we have been working hard to find products and programs that fit the specific needs in the neighborhood and develop revenue streams from a variety of products and services. For example, in June 2010, after a great deal of thought and preparation, we launched a small dollar loan program. Despite the bad reputation these loans have, bank overdrafts and NSF fees can be much more costly than pay day loans for many people. While we wanted to move away from the often predatory nature of payday and small dollar loans, we also had to balance the fact that these loans do tend to have very high default rates and adjust for our



The ultimate goal is to recast the current dual financial services sector – from check cashing and payday lending to pawnbrokers, rent-to-own stores, and subprime lenders – so that lower-income households can access the financial services they need in a way that doesn't trap these households in a cycle of poverty and debt.

lack of capital to cover losses. We have tried to create a program that recognizes this balance through a payday loan that costs \$5 to \$7.50 per hundred dollars borrowed compared to the market rate of \$15 per \$100 borrowed over a 14 day period. We also have developed a credit repair loan which would cost \$3.75 per \$100 borrowed. One way we keep the default risk low is by undertaking more careful screening and application processes to help pick customers who are more likely to repay. It makes the process slower, but because of our mission, we are comfortable with doing fewer but more responsible loans. Our initial target is to generate between 50 and 100 loans a month, and then depending on the loss rate, grow to as many as 200.

We have also made excellent progress with our financial coaching and services to small businesses, but demand is not as high as we had hoped. Customers tend to be interested in our helping them through a crisis, but when the crisis is over, they often do not seem to want to put in the longer term work to stabilize and improve their long term future. This has been true for households as well as the small businesses. We think we will break through this situation, but it will take longer than we thought. At the same time, we are helping a number of households and businesses through some difficult times and saving

them a considerable amount of money, which we see as a valuable service to the community. Based on our December 2010 activities, we estimate that we have saved residents of Fruitvale at an annualized rate of about \$150,000. We have also saved our clients additional money through our counseling activities, especially the negotiations with credit card companies. And that includes just the quantifiable impact of our work; it does not include other elements that are not measurable but add significantly to the quality of life of our customers.

We would like to expand CDF to other neighborhoods that have a heavy reliance on check cashing businesses, and we are considering using a franchise model as one possible means to assist with any possible expansion; other options include joint ventures with nonprofits and perhaps banks or credit unions, providing technical assistance to other nonprofits, providing back-office support to others, creating lower-cost variations of this model, etc. We are also working to expand the products and services that CDF offers.

Conclusion

The ultimate goal is to recast the current dual financial services sector – from check cashing and payday lending to pawnbrokers, rent-to-own stores, and subprime lenders – so that lower-income households can access the financial services they need in a way that doesn't trap these households in a cycle of poverty and debt. Our goal as a society needs to be finding the ways to make all of these products – whether available from mainstream banking institutions or the more alternative institutions – less costly, more efficient in filling financial needs, and developed in conjunction with other products and training programs that help low income people move into the financial mainstream if and when they want to. CDF's efforts are designed to be complementary to efforts provided by mainstream financial institutions and programmatic, legal and statutory efforts provided by various advocacy organizations. We believe CDF is working in that direction, and we hope that our lessons will help the whole field develop better financial services for low-income families. **CI**



Community land trust homes in Boulder County, Colorado, provide affordable homeownership opportunities over the long-term.

A Promising Way Forward for Homeownership:

Assessing the Benefits of Shared Equity Programs

By Kenneth Temkin, Brett Theodos, and David Price, The Urban Institute

Introduction

Owning a home, traditionally, has been one of the most important ways for American families to accumulate wealth, especially for lower income households.¹ Yet in the wake of the foreclosure crisis, policy-makers are revisiting government subsidies for homeownership, and important questions are emerging about how to create homeownership programs that are sustainable over the long-term. In addition, in an environment of fiscal constraints, there is an increasing need for programs to demonstrate stronger returns on investment, and ensure that public subsidies are spent wisely.

As a result of these twin pressures, interest in shared equity homeownership programs has been increasing. Although there are different types of these programs, the three most common models of shared equity homeownership initiatives are community land trusts, limited equity cooperatives and resale-restricted, owner-occupied houses or condominiums with affordability covenants (i.e., deed restrictions) lasting 30 years or longer.² Common across all these programs is a commitment to helping income-eligible families to purchase homes at below-market prices, and in return for the subsidized purchase price, restricting the owner's potential capital gains from the resale of the home.³ The resale restrictions

Box 1: Description of Shared Equity Homeownership Programs in Study

The seven shared equity homeownership programs described in the report vary considerably with respect to the markets they serve, the homebuyers they target, and the formulas and methods they use in maintaining the affordability of their homes. This box briefly summarizes the programs and their clients.

A Regional Coalition for Housing (ARCH) was created in 1992 through an agreement of several municipalities in eastern King County, Washington to create and preserve the supply of housing for low- and moderate-income households. Through December 2009, ARCH had sold homes to 722 families, including 186 resales. Each of the 15 cities in east King County is a voluntary member of ARCH.

The Champlain Housing Trust (CHT), a non-profit organization located in Burlington, Vermont, was created in 2006 in a merger between the Burlington Community Land Trust and Lake Champlain Housing Development Corporation, both of which were founded by the City of Burlington in 1984. By the end of 2009, CHT had acquired a total of 450 resale-restricted, owner-occupied houses and condominiums. Because some of these homes have been resold one or more times without leaving CHT's portfolio, a total of 683 families have been helped to buy a home through Champlain Housing Trust's CLT program.

All homes in the Dos Pinos Housing Cooperative (Dos Pinos) were constructed on a 4-acre parcel of land in Davis, California between 1985 and 1986. The smallest shared equity program in the study, this 60-unit limited-equity cooperative had provided homeownership opportunities to 276 families through 2009.

The Northern Communities Land Trust (NCLT) in Duluth, Minnesota, started providing homeownership opportunities in the Duluth area to low-and

moderate-income families in 1994. A non-profit organization, NCLT had sold homes to 232 families through 2009, including 47 resales, where the same price-restricted home was successively purchased by more than one income-eligible family.

The San Francisco Citywide Inclusionary Affordable Housing Program (San Francisco), administered by the Mayor's Office of Housing, is an inclusionary zoning program that requires developers to sell or rent 15 to 20 percent of units in new residential developments at a "below-market-rate" price that is affordable to low- or middle-income households. The program, begun in 1992, currently generates approximately 100 resale-restricted, owner-occupied homes a year. Largest among the sites in this study, the program administers a total homeownership portfolio of over 800 units.

Thistle Community Housing's community land trust (Thistle), began offering homeownership opportunities to low-and moderate-income families in Boulder County, Colorado in 1996. Through December 2009, Thistle had sold homes to 172 families. Included in this total were 69 resales.

Wildwood Park Towne Houses (Wildwood), located in Atlanta, Georgia, was constructed in five phases from 1968 through 1971. This limited equity housing cooperative, serving low-income households, was developed with federal assistance under HUD's Section 236 Interest Reduction Program. The manager for this 268-unit cooperative has information on 140 resales that took place since 1972.

in shared equity homeownership programs create a stock of permanently affordable owner-occupied housing by retaining the public subsidies in the home itself, rather than providing the full subsidy to only one household, such as in a downpayment assistance program. By limiting appreciation, the homes remain affordable over time, eliminating (or minimizing) the need for additional subsidies to assist subsequent homebuyers.

Although shared equity homeownership programs have been in place for many years, there are relatively few empirical studies that document their benefits.⁴ A major

reason for the lack of information about these programs is the difficulty of collecting client-level information about families who purchase homes under such programs, particularly across multiple sites. Our research study helps to fill this gap by analyzing data from seven programs to quantify the effects of shared equity homeownership initiatives across different market contexts and varied types of programmatic alternatives (See Box 1: Description of Shared Equity Homeownership Programs in Study). Our hope is that the results of the study will provide practitioners, funders, and policymakers with a much-needed

empirical foundation for making decisions about designing, managing, and expanding shared equity homeownership programs. The following sections summarize our findings related to the programs' outcomes for preserving the units' affordability, the returns earned by homeowners, and the performance of mortgages originated on these properties. The full report as well as additional research materials and case studies on each of the program sites can be found at <http://www.urban.org/sharedequity/>.

Are the programs effective in creating and preserving long-term affordability for low- and moderate-income homebuyers?

Given that a central tenet of shared equity strategies is the long-term preservation of affordable homeownership units, an important question driving our research was whether or not they actually succeeded in doing so. We found that across all the programs we studied, the shared equity model was able to not only help families with low-incomes buy homes, but also to preserve affordability of that home after resale.

As Figure 1 shows, the median incomes of the households purchasing a shared equity home in all seven programs were well below the median family income (MFI) of the surrounding areas in which the programs operated. At the median, the programs sold homes to families between 35 and 73 percent of the HUD-determined area median family income. In addition to serving families earning well below the median income, these programs served a very high share of first-time homebuyers. One site (San Francisco) is limited to first-time homebuyers. Three other

programs—NCLT, CHT, and Thistle also served primarily first-time homeowners.

But do these properties remain affordable for a second generation of families? To answer this question, we calculated the minimum income that was necessary to initially purchase a shared equity home and the minimum income that was necessary when that same home subsequently resold, and then estimated the average annual increase in the required minimum income at resale.⁵ For example, assume that a home, at its initial sale requires a minimum income of \$20,000, and, at a resale that takes place 2 years later, requires a minimum income of \$24,200. In this scenario, the required minimum income increased by 10 percent per year. To the extent that real incomes increased by the same amount for households earning \$20,000 at the time of the initial sale, the unit remains affordable to such households.

Based on this estimation technique, we found that the average required minimum income increased by about no more than 1.0 percent per year in four of the seven sites (Table 1). Because monthly co-op fees declined in real terms, the required real minimum income declined for Wildwood and Dos Pinos buyers. The average annual increase in required minimum income was less than 1 percent for Thistle and San Francisco resale buyers. The required minimum income increased by an average of 1.1 percent per year for Burlington, and by 1.9 percent per year for NCLT and 4.0 percent per year for ARCH homebuyers. Indeed, we found that with the exception of ARCH in Bellevue, the largest share of resold units had no more than a 10 percent increase in the minimum income re-

Figure 1. Shared Equity Homebuyer Incomes Compared to Area Median Family Income

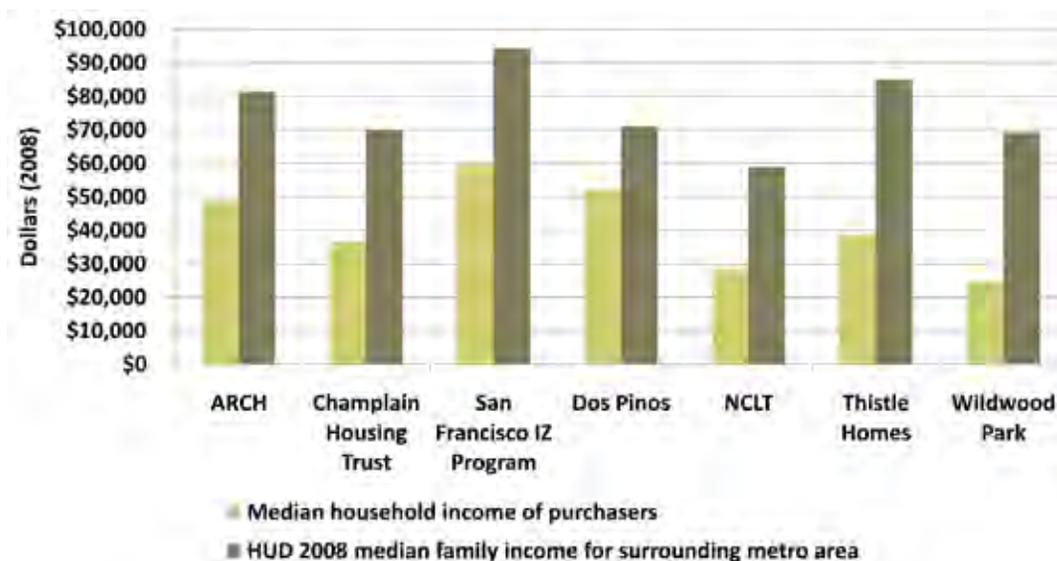


Table 1. Summary of Absolute Changes to Affordability for Shared Equity Homes

	ARCH*	CHT	Dos Pinos	NCLT	San Francisco IZ Program	Thistle	Wildwood
Required minimum income (in 2008 \$) for initial buyers	\$35,548	\$29,676	\$39,464	\$22,436	\$83,836	\$34,172	\$21,011
Mean annual change in real income needed to purchase a home at resale	4.0%	1.1%	-1.6%	1.9%	0.3%	0.5%	-0.7%
Percent of units in which the required real minimum income was within 10% of the initial required real minimum income	31	52	58	67	60	83	61

* ARCH did not provide complete information on mortgages. Therefore, reported changes to the required minimum income of ARCH units are based on estimates where a buyer places a 5 percent downpayment and finances the remaining purchase with a 30-year, fixed-rate mortgage with a 6.0 percent interest rate.

Sources: Authors' calculations of client-level data.

quired to purchase resold homes, when compared to the minimum income required to purchase the home initially. The relatively large decline in affordability in the ARCH program likely resulted from the program's design in which resellers retain a large share of a unit's appreciation.

However, even accounting for this variation across programs, it is important to note that in all of these programs, the minimum real income required to purchase a shared equity home stayed well below the area median. Therefore, even for programs in which resold units lost some of their affordability, resold homes still remained within the reach of low-income households.

Are the programs effective in building wealth for individual households, providing opportunities for financial gains that are unavailable to renters?

Any shared equity program has two competing objectives: keeping the units affordable for subsequent homebuyers while at the same time providing homebuyers with a means to accumulate wealth. As a result, shared equity programs need to balance the affordability goal with asset building goal. Our second question was whether or not these programs still helped lower-income families build assets, given the preservation of affordability that we found in the previous section.

Homebuyers in shared equity programs can accumulate assets in four key ways: first, the share of any market appreciation that they are allowed to retain, given the program's restrictions; second, the recovery of their original downpayment; third, the "forced savings" they realize on resale, resulting from principal payments they have made on all the mortgages used to finance the purchase

of the property; and fourth, recouping costs from capital improvements. We found that these components generated substantial amounts of proceeds for shared equity program participants.

Not surprisingly, we found that the appreciation (in 2008 \$) realized by sellers ranged considerably across the sites. At the low end, the median owner in the Wildwood co-op realized just over \$2,000 upon resale. In four more sites—CHT, Dos Pinos, NCLT and Thistle—the median reseller realized roughly between \$4,000 and \$8,000 in appreciation. In San Francisco, where housing prices are considerably higher, the median reseller realized \$17,501 in appreciation. The median reseller in the ARCH program—which has more generous resale formulas—realized \$43,000 in appreciation (Table 2).

In addition to the homeowners' share of appreciation, the proceeds realized from the payment of a homeowner's mortgage or share loan accounted for one-third and two-thirds of the total proceeds pocketed by resellers. The principal payments made by resellers during their tenure act as a forced savings program with owners recouping these savings at resale. Given average tenures of 3 to 6 years in most sites, these savings were relatively modest (although not insubstantial) because fixed-rate mortgages have relatively small principal payments in their first few years. Forced savings in the programs fell within a narrow band, ranging from \$2,420 at the median in NCLT to \$3,951 in San Francisco. Alone among the seven sites, the homebuyers at Dos Pinos did not receive share loans, so they did not accumulate wealth through amortization over the course of their occupancy in this limited equity cooperative.

Table 2. Summary of Appreciation and Rates of Return Realized at Resale by Shared Equity Program Homeowners

	ARCH*	CHT	Dos Pinos	NCLT	San Francisco IZ Program	Thistle	Wildwood
Median total proceeds	n/av	\$17,501	\$19,585	\$7,989	\$70,495	\$13,043	\$6,277
Median appreciation realized by seller	\$42,524	\$6,578	\$4,171	\$4,297	\$17,321	\$8,107	\$2,015
Median total of principal paid on mortgages (forced savings) and recovery of downpayment plus closing costs	n/av	\$6,027	\$18,363	\$4,523	\$45,706	\$8,567	\$3,700
Median downpayment and closing costs	n/av	\$2,749	\$18,363	\$1,075	\$40,533	\$6,080	\$1,249
Median amount of principal paid on mortgages (forced savings) reseller's tenure	n/av	\$3,051	n/ap	\$2,420	\$3,951	\$3,065	\$2,564
Program IRR	59.6%	30.8%	6.5%	39.0%	11.3%	22.1%	14.1%
S&P 500 Index Fund IRR	9.4%	8.5%	10.6%	2.8%	3.2%	-0.1%	7.8%
10-year Treasury Bonds IRR	6.0%	6.0%	7.8%	4.7%	4.4%	5.9%	5.7%

* ARCH did not provide information on mortgages. Therefore, reported IRR for ARCH units is based on estimates where a buyer places a 5 percent downpayment and finances the remaining purchase with a 30-year, fixed-rate mortgage with a 6.0 percent interest rate.

Note: All dollar amounts are in 2008 \$.

Sources: Authors' calculations of client-level data, Treasury data from the U.S. Department of the Treasury and S&P 500 data from *irrationalexuberance.com*, both calculated for the median time period of the program.

Rate of return realized by shared equity resellers

In all programs the median internal rate of return (IRR) realized by resellers was at least 6.5 percent, and was as high as 60.0 percent (Table 2). The rate of return is, in part, affected by the appreciation realized by the seller, and this appreciation is a function of the method used by each program to calculate allowable appreciation and the changes in the housing market or index used to calculate allowable appreciation. ARCH has the highest IRR across all of the programs because there was significant appreciation in the local market and because homebuyers under the program are permitted to retain much of the appreciation that is calculated. CHT in Burlington, NCLT in Duluth and Thistle in Boulder allow resellers to retain a portion (either 25 percent or 30 percent) of their homes' appreciation, which is calculated by changes to the appraised value of homes during the time the reseller lived in the property. Because these programs allow resellers to retain a much smaller share of the appreciation, when compared to ARCH, resellers under these programs have a lower IRR.

The median rate of return for resellers in all programs except for Dos Pinos was greater than the return that sellers would have realized if they had rented a unit and invested their downpayment in either the stock market or purchased a 10-year Treasury bond at the time that they

purchased their home (we assume that resellers would hold their 10-year Treasury bonds until maturity, and so did not calculate any gains or losses that would have resulted from selling their bonds at the time that the owners sold their homes). Had resellers invested their downpayment amount in an S&P 500 index fund, they would have earned a median return ranging from a low of -0.1 percent in Thistle to a high of 10.6 percent in Dos Pinos. A comparable investment in 10-year Treasury bonds would have yielded a return, at the median, between 4.4 percent (in San Francisco) and 7.8 percent (in Dos Pinos). This suggests that with the exception of Dos Pinos, homebuyers in shared equity programs across the sites accumulated more assets than they would have had they remained renters and invested their downpayment dollars in alternate investment vehicles.

Are the programs effective in maintaining homeownership by avoiding delinquency and foreclosure?

A third question we wanted to investigate was the sustainability of homeownership under shared equity arrangements. Would low-income families be able to sustain their monthly payments, and avoid delinquency or foreclosure? Or is homeownership unsuitable for low-income families?

In every program, the site's foreclosure rates were below HUD reported rates for their surrounding areas as of 2009.

Using client-level data from the programs, we calculated the share of current mortgage loans on homes that were seriously delinquent—that is, more than 90 days late on their mortgage payment. Very few homes were seriously delinquent as of the end of 2009. In the two cooperative programs—Dos Pinos and Wildwood—no owners were delinquent on their share loan (in the case of Wildwood) or their monthly coop fees (for both sites). The other programs ranged from a delinquency rate of 0.4 to 2.7 percent (Table 3). In four of the sites, the program's delinquency rate was below the similar rate for the county as a whole—including upper-income buyers—as reported by TransUnion: ARCH, Dos Pinos, Thistle, and Wildwood. Two sites, CHT and NCLT, saw slightly higher rates of delinquency; these rates were roughly equivalent to the delinquency rate in the surrounding area. In addition, we calculated the share of all mortgages on homes (current or not) that had ever been seriously delinquent. The programs ranged from a low of no homes ever seriously delinquent at Wildwood to a high of 5.2 percent at NCLT. By comparison, HUD data show that 15.0 percent of FHA-insured loans originated nationwide in 2004 had been delinquent at some point by 2008.

Three programs—Wildwood Park, Dos Pinos, and Thistle—had no homes in the foreclosure process as of the

end of 2009 and the highest foreclosure rate was NCLT at 1.1 percent. In every program, the site's foreclosure rates were below HUD reported rates for their surrounding areas as of 2009.

We are not certain what accounts for the strong loan performance. Some of the sites required buyers to receive pre-purchase counseling, and offered post-purchase help if an owner was unable to pay his/her mortgage. However, with the data available, we were unable to measure what effect, if any, these services had. It could be that the types of loans originated to shared equity homebuyers played a role in producing the positive outcomes: across the four non-cooperative sites where buyers took out long-term mortgages and for which we have data, not a single borrower had a first mortgage with prepayment penalties and only a small share had adjustable interest rates. In addition, in these sites (CHT, San Francisco, NCLT, and Thistle), a very low share of loans were high cost, defined as having an interest rate more than 300 basis points above a comparable term yield.

A final measure of how effective the shared equity programs have been is not only helping low income families to attain homeownership but to sustain it is the percentage of buyers who remain homeowners five years after they purchase a home. We counted a buyer as a continued homeowner if, after five years, she remains in her original shared equity home, or has moved into another owner-occupied market-rate or shared-equity home. We only have data from three of the seven sites, but in all three, over 90 percent of buyers were still homeowners after five years. This is an impressive rate, considering that all were low-income and almost were all first-time homeowners. By comparison, previous studies have found that roughly half of all low-income homebuyers fail to remain homeowners five years after acquiring a home.⁶

Table 3. Summary of Absolute Changes to Affordability for Shared Equity Homes

	ARCH	CHT	Dos Pinos	NCLT	San Francisco IZ Program	Thistle	Wildwood
% Seriously delinquent	0.4%	1.6%	0.0%	2.7%	n/av	1.0%	0.0%
% Seriously delinquent in county	3.8%	1.4%	6.6%	2.5%	n/ap	2.0%	8.3%
% In foreclosure	0.4%	0.5%	0.0%	1.1%	n/av	0.0%	0.0%
% In foreclosure in county	1.2%	1.0%	3.4%	4.4%	n/ap	1.1%	5.6%
% Remain homeowners after five years	n/av	91.8	n/av	95.0%	n/av	91.2%	n/av

Sources: Authors' calculations of client-level data.

Conclusion

Shared equity programs have been promoted as a cost-effective method to help low-income families build wealth through sustainable homeownership, while at the same time providing a permanent supply of units that remain affordable over time. The shared equity programs analyzed in this study support these claims: these programs sold homes and cooperative units to families with incomes ranging from a low of 35 percent of MFI to 73 percent of MFI. Moreover, the income of buyers remained relatively low, when compared to MFI for all of the years in which programs sold their homes.

The shared equity programs delivered on their goal of helping lower income families build wealth: families realized sizable proceeds when selling their homes. Moreover, because most homebuyers purchased their units with a relatively small downpayment, the internal rates of return across all programs but one outpaced the gains that resellers would have earned had they invested

their downpayments in stocks or bonds. By accumulating wealth, many of the purchasers of shared equity homes are able to acquire market-rate owner-occupied homes. Moreover, shared equity programs, by recycling subsidies, offer a less expensive method of supporting homeownership than initiatives that provide grants to families to purchase market-rate homes.

Given the current foreclosure crisis, which has reduced homeownership rates, shared equity programs stand out for the extent to which buyers are able to stay current on their mortgages and remain in their homes until they wish to sell. Although homeowners earn well below median incomes, very few had their loan go into foreclosure. In large part, the low foreclosure rate reflects the type of loans received by homebuyers: most purchase loans are 30-year, fixed-rate mortgages. Rather than use high-cost loans, homebuyers finance their purchases with mortgages or share loans that are underwritten with standards that allow for sustainable homeownership over time. **CI**



When Investors Buy Up the Neighborhood:

Preventing Investor Ownership from Causing Neighborhood Decline

By Sarah Treuhaft, Kalima Rose and Karen Black, PolicyLink

Across the country, communities are struggling with the negative spillover effects of foreclosures, including many neighborhoods that were just beginning to show new signs of revitalization.¹ Without further investment, foreclosed properties deteriorate and weaken the neighborhood housing market.² Studies have shown that foreclosed properties dampen nearby home values by an average of \$7,200, or between 0.6 and 1.6 percent. The Center for Responsible Lending calculated that in 2009, foreclosures caused 70 million neighboring homes to lose \$510 billion in value.³

Communities are taking a variety of actions to halt

further foreclosures, reform the lending practices that led to the crisis, and set hard-hit neighborhoods on the path to stability. With support from resources such as the federal Neighborhood Stabilization Program (NSP), states and cities are developing and implementing strategies to stem further decline, including acquiring and rehabilitating homes (sometimes using green building or retrofitting techniques), helping new low- and moderate-income homebuyers purchase these homes, and holding properties in land banks for future use.

Yet, even as these neighborhood stabilization strategies begin to take hold, communities face an additional

threat to recuperation: unscrupulous absentee investors. Nationwide, would-be homebuyers and community developers are facing stiff competition from private investors who have seen a business opportunity in the foreclosure crisis and are rapidly buying up foreclosed properties to sell or rent out for a profit. Unlike homebuyers and municipalities, investors can buy properties in cash and in bulk – sometimes “sight unseen” – purchasing them before homebuyers, nonprofits or cities even have a chance to bid. In some communities, efforts to improve the neighborhood are being thwarted by investors who are either mothballing their properties or buying severely distressed homes and renting them out to vulnerable tenants with little to no rehabilitation or maintenance of the property.

The challenge of predatory investor ownership is often greatest in the low-income communities of color that have already suffered the most from the foreclosure crisis. Some communities are concerned that the rapid conversion of owner-occupied homes into rental properties by investors will further concentrate poverty and limit access to opportunity in segregated regions.

This article excerpts a PolicyLink report that examines the issue of investor purchasing of foreclosed and distressed properties and presents a set of best practices and promising approaches being used in communities to prevent irresponsible investor ownership from leading to neighborhood decline. The full report, along with a more complete inventory of strategies and best practices and other resources associated with the report, can be found online at <http://www.policylink.org/publications/WhenInvestorsBuyUpTheNeighborhood>

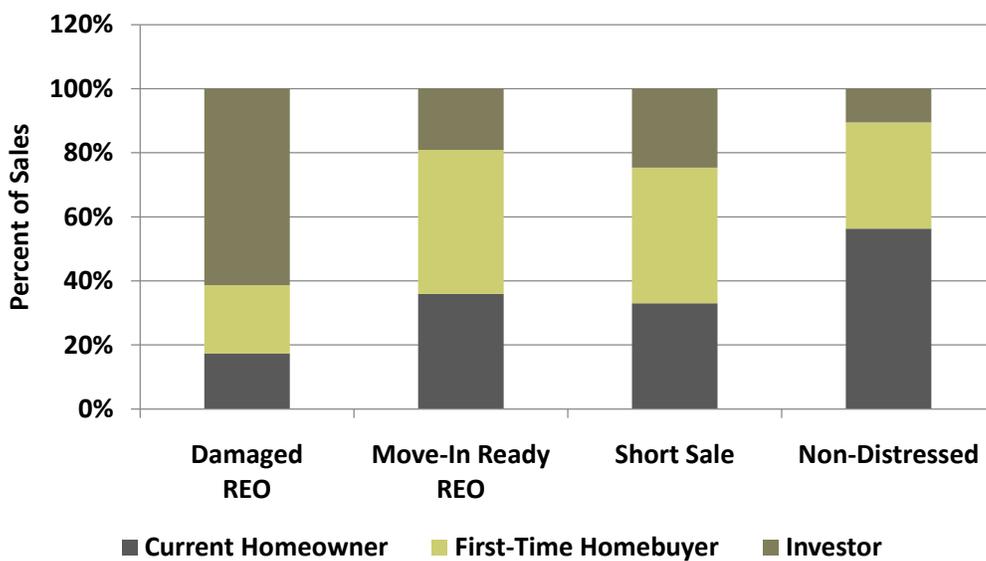
What is the Problem? Investor Ownership and Its Challenges

Investor ownership, in and of itself, does not necessarily lead to negative consequences for neighborhoods. Small-scale property investors provide a significant portion of our national stock of rental homes that are affordable to low- and moderate-income families. Investors range from the neighbor who buys another house down the street using the equity from his or her home, to large venture capital firms and hedge funds that buy bundles of hundreds or even thousands of homes scattered in cities across the country.

Whether an investor will take good care of their property depends a great deal on their business model – the strategy they adopt to make a profit from the real estate they purchase. Some investors contribute to the health of the neighborhood by providing well-maintained affordable rental and sales housing in neighborhoods with good schools, parks, and other key amenities. Others, however, will rent the property out with major code violations and minimal investment just to ensure some cash flow until they can sell.

Investors are disproportionately represented in the distressed sales market, as illustrated by Figure 1. More than 60 percent of damaged REOs, and about 20 percent of REOs and short sales are being purchased by investors. In neighborhoods with a large share of damaged REOs, therefore, investors represent a major share of property owners, the majority of whom (58 percent) intend to rent out their property.⁴

Figure 1. Who is Buying Properties?



Source: Campbell/Inside Mortgage Finance HousingPulse™ Monthly Survey of Real Estate Market Conditions, January 2011

Investor activity is especially prevalent in three types of markets:

- **Weak markets where housing costs are so extremely low that anyone can invest.** For example, in Saint Louis and Saint Louis County, the percentage of homes selling for \$10,000 or less increased 85 percent from 2006 to 2008.⁵
- **High-growth markets that experienced double-digit appreciation and now have high foreclosure rates and rapidly falling housing prices.** These include the Sunbelt states of California, Florida and Arizona, and cities such as Las Vegas.
- **Stable high growth or mixed growth areas with year-over-year appreciation during the past seven to 10 years.** Atlanta, Minneapolis and Saint Paul all fall into this category.

While there is not a strong body of research that examines the impacts of investor ownership on neighborhoods, we do know that property owners who are local and live in or near the property tend to maintain it better.⁶ Studies also confirm that neighborhoods with high levels of absentee ownership are less stable and more prone to experience crime and deterioration of property.⁷ Absentee owners living at a substantial distance from their property are less likely to regularly check on the condition of their property or stop in to perform basic repairs. While these functions could be performed by a property management firm, there is no data available on how many owners are willing to take on this expense. Rental income on many single family properties may be insufficient to pay for professional management staff, leaving the properties with, at best, intermittent care and attention.

There are several challenges to preventing irresponsible investors who buy properties and let them deteriorate. One challenge is data. Few jurisdictions track investor purchases and even fewer track the condition of the properties owned by significant investors over time, making it difficult to assess which investors are responsible for derelict properties. But even with strong data on investor behavior, influencing a private transaction between a distressed property seller and an investor is difficult. Investors seek out multiple opportunities to acquire properties, are able to pay cash (in 2008, 42 percent of investors bought foreclosed homes with cash), and buy in bulk, which makes them particularly appealing to lenders and other entities selling a large inventory of bulk transactions.⁸ The motivation of lenders to sell properties quickly and in bulk can be in direct conflict with the community's interest in ensuring the properties are transferred to responsible owners who will rehabilitate and maintain them.

In addition, while community members are concerned about the rapid conversion of formerly owner-occupied into rental properties, there is an urgent need for new

rental alternatives to help current residents stay in the neighborhood and to allow other residents to join the community as well. Responsible investors play a critical role in financing these affordable rental units and can help to stabilize neighborhood property values.

Strategies to Prevent Irresponsible Property Investors and Neighborhood Decline

The goal, therefore, is not to limit the flow of investment capital into low-income communities of color, but rather to develop strategies that can help ensure that these investors contribute to the stock of high-quality housing in the neighborhood. Between April and October 2009, PolicyLink conducted interviews with a wide range of stakeholders and scanned local policies to identify promising strategies for preventing irresponsible investing. These strategies were classified into three broad approaches: those that encourage homeowners and responsible investors to buy, rehabilitate and maintain foreclosure properties; those that work to strategically gain control of foreclosed properties; and those that hold property owners accountable for property conditions.

Encourage homeowners and responsible investors to buy, rehabilitate and maintain foreclosed properties

Strategies that boost the ability of homeowners and nonprofits to purchase foreclosed properties can serve to balance demand by investors, particularly in the current credit environment, which has limited the ability of many families to purchase homes. Helping qualified homeowners obtain mortgage financing and offering tax credits to new homeowners can increase the demand for homeownership. The state of Georgia, for example, offered a three-year tax credit for purchase of a single family home in 2009, seeking to replicate the success of the federal homeownership credit at the local level. The program provided a credit of either \$1,800 or 1.2 percent of the purchase price, whichever is less, spread out over a three year period.⁹ Arizona also developed a local incentive program for borrowers using NSP funds. Focused on buyers with a gross income of no more than 120 percent of median income, the Your Way Home program provided a deferred second mortgage loan for up to 22 percent of the purchase price. It offered zero percent interest and no monthly payment, and was forgivable after a period of time. The program was available in 13 counties until the funds ran out.¹⁰

Another important strategy to ensure that properties are well-maintained is to providing training or financial assistance to landlords who buy distressed properties to fix up and rent out, with a focus on "Mom and Pops." Most small local investors (more than 70 percent) own only one or two properties. The majority are part-time real estate investors with other jobs.¹¹ Most have no

formal training in real estate property management, and their competence and skill to maintain the property varies greatly.¹² Portland, Oregon runs a nationally recognized landlord training program that has been replicated in 550 cities and counties. The city's Bureau of Development Services partners with the Police Bureau and other city offices to provide a free, eight-hour training session on property management to prevent crime or loss of investment, best practices in applicant screening, rental agreements, and other topics.¹³

Work to strategically gain control of foreclosed properties

The second set of strategies focuses on the acquisition of foreclosed properties, generally by nonprofits and local governments. Local groups have developed new tools and institutions to effectively implement the national Neighborhood Stabilization Program (NSP), which provides federal funding to purchase and rehabilitate individual properties and resell them to homeowners. Several cities, counties, and regions have established land banks to swiftly acquire, hold, and convey foreclosed and vacant properties to responsible owners. The Twin Cities Community Land Bank, launched in September 2009, plans to acquire 2,000 properties in the region for its municipal and nonprofit developer partners. The Cuyahoga County Land Bank, established in May 2009, is working to stabilize 35,000 vacant properties in the county and currently maintains an inventory of 424 properties.¹⁴

The development of intermediaries that connect the localities and nonprofits working with NSP dollars to the sellers of bank-owned properties (REO) is another innovation that has helped level the playing field when it comes to buying foreclosed properties. The National Community Stabilization Trust, a collaboration of six national nonprofits negotiated commitments from the leading financial institutions to link the sellers of REO with public entities. Since it was formed in 2008, the Trust has helped NSP grantees access more than 45,000 properties at an average of 15 percent below fair market value.¹⁵ In fall 2010, HUD partnered with the Trust to launch the National First Look Program, which provides NSP grantees an exclusive window of opportunity to preview and purchase REO properties located in NSP target areas.

Hold property owners accountable for property conditions

The third set of strategies focuses on ensuring that investor properties don't blight the neighborhood by holding property owners accountable for the maintenance and upkeep of their units. This encompasses strategies such as implementing and enforcing local property maintenance

codes. In particular, proactive regular inspections of properties, rather than a reactive complaint-driven inspection policy, can be an effective tool to prevent property deterioration and its negative effects. Los Angeles adopted its Systematic Code Enforcement Program in 1998, calling for rental properties to be inspected regularly (at least every five years), and immediately staffing up with additional housing inspectors. The program was initially funded with a \$1 per unit monthly fee, which can be passed on to tenants; this has since been raised to \$2.27. To complement inspections, the city created a loan program to help small apartment owners finance repairs. The city also increased its legal resources dedicated to code enforcement.¹⁶

Several municipalities have also implemented new regulations that deal specifically with the maintenance of distressed and foreclosed properties. Redlands, in San Bernardino County, California, requires anyone buying a foreclosed house to meet the city's maintenance standards within a month. It set fines of up to \$1,000 per day and/or as much as six months in jail as penalties and also provides a process for notice of violation, a remedy period and an appeals process.¹⁷ Pennsylvania requires purchasers of a building with substantial code violations to bring the structure into code compliance within one year of the date of purchase. The state also made it a misdemeanor to fail to correct repeated property maintenance code violations. In Minneapolis, owners must register vacant properties and pay a fee of \$6,000 (or more) per year on each property for as long as it remains vacant. To encourage the rehabilitation of buildings, the City allows this fee to be held in abeyance for six months as long as the property owner is rehabilitating the property and meeting other conditions in the Restoration Agreement.¹⁸

Finally, other localities are exploring ways to raise revenue from rental units that can help to fund code enforcement activities. Phoenix, Arizona, for example, requires owners of residential rental properties to obtain and maintain a privilege (sales) tax license. All amounts paid by the renter to, or on behalf of, the owner are taxable, including utilities, unreturned deposits and pet fees.¹⁹ The tax provides the City with a source of revenue that can be used to enforce property maintenance codes and make neighborhood improvements, both of which can mitigate the impact of irresponsible property owners.

The full report lists many more strategies, and of course no one approach will fulfill the needs of each city or town. Meeting the challenges of investor ownership will require innovation and experimentation, and choosing strategies will require a thorough evaluation of local government's ability to implement new laws or policies as well as the potential consequences and complications associated with various interventions. **CI**



The Neighborhood Stabilization Program: *Strategically Targeting Public Investments*

Carolina Reid, Federal Reserve Bank of San Francisco

Introduction

Launched in 2008, the Neighborhood Stabilization Program (NSP) provides localities with federal funding to help mitigate the negative spillover effects of foreclosed and distressed properties. Using NSP funds, local governments and nonprofits are able to acquire and redevelop foreclosed and vacant homes, and in many cases, convert them into affordable rental and homeownership opportunities. To date, three rounds of the program have been authorized, for a total of \$7 billion, a relatively small amount in the context of the total number of REOs and vacant buildings that exist. To make these dollars count, the program relies on a strategy of geographic targeting, concentrating investments where the market needs public investment to stabilize. This strategy was based on research that has demonstrated that

targeting funding for neighborhood stabilization can lead to greater returns on investment than distributing funds evenly across a wide area.¹

To achieve this type of strategic and targeted investment, HUD specifically requires each grantee to provide it with a strategic plan that describes not only where they intend to target their NSP dollars, but also how they intend to use the funds given the nature of the foreclosure crisis within their communities. In other words, HUD's NSP program emphasizes that local context should shape strategy. A strategy for stabilizing a neighborhood in Detroit would likely look quite different from a strategy for stabilizing a neighborhood in Denver or Miami. In fact, even within cities, different neighborhoods might require different kinds of strategies based on the composition of the housing stock and/or the latent demand for housing. As

a result, NSP strategies have been strongly influenced by the geography of the foreclosure crisis as well as by local housing market dynamics.

This article explores how geographical differences in housing markets have influenced the implementation of the NSP program. It begins with a descriptive examination of the geographic distribution of foreclosures across the United States, and paints a picture of which types of neighborhoods have been most affected by concentrated foreclosures. Second, it examines some of the challenges that exist in identifying target neighborhoods and developing effective NSP strategies. Finally, through case studies of Cleveland and Los Angeles, the article shows how jurisdictions are using data on the geography of foreclosures and housing dynamics to target their NSP resources to effectively meet their local neighborhood stabilization needs.

Hardest Hit: The Distribution of Foreclosures across the United States

In the first half of this decade, foreclosures were a rare occurrence, and were predominantly a problem in the Rustbelt states of Ohio, Michigan and Indiana. For these Rustbelt states, and for some of the larger metro areas in the Northeastern United States, issues of vacant and abandoned properties in low-income neighborhoods have been a longstanding problem. The decline of manufacturing industries, coupled with an older housing stock and decades of population loss, had led to high housing vacancy rates and neighborhoods with large numbers of abandoned homes. Beginning in the late 1990s, however, these cities noticed a new trend: rising foreclosures, particularly in low-income and minority neighborhoods, which served to exacerbate the problems associated with vacant buildings. In Chicago, for example, foreclosure starts tripled in just six years, from 3,814 foreclosure starts in 1993 to 12,923 in 1999. Researchers studying this jump found that there was a close relationship between these foreclosures and subprime lending in lower-income neighborhoods, particularly in the refinance market.² The City of Chicago responded by launching the Home Ownership Preservation Initiative (HOPI), designed to help borrowers prevent foreclosure, and implemented local anti-predatory lending laws to help stem the rise in subprime lending.

Despite these local pockets of rising foreclosures, however, very little attention was being paid nationally to issues related to subprime lending and loan delinquencies. In the second quarter of 2006, only .43 percent of mortgage loans in the US were in foreclosure. By the 2nd quarter of 2008, however, the national foreclosure rate for all loans had jumped to 1.19 percent; among subprime loans, it stood at 4.7 percent. While the Northeastern states continued to show signs of trouble, Arizona, Cali-

fornia, Florida and Nevada all saw a rapid increase in the number of serious delinquencies, and these Sunbelt states quickly came to dominate the foreclosure landscape.

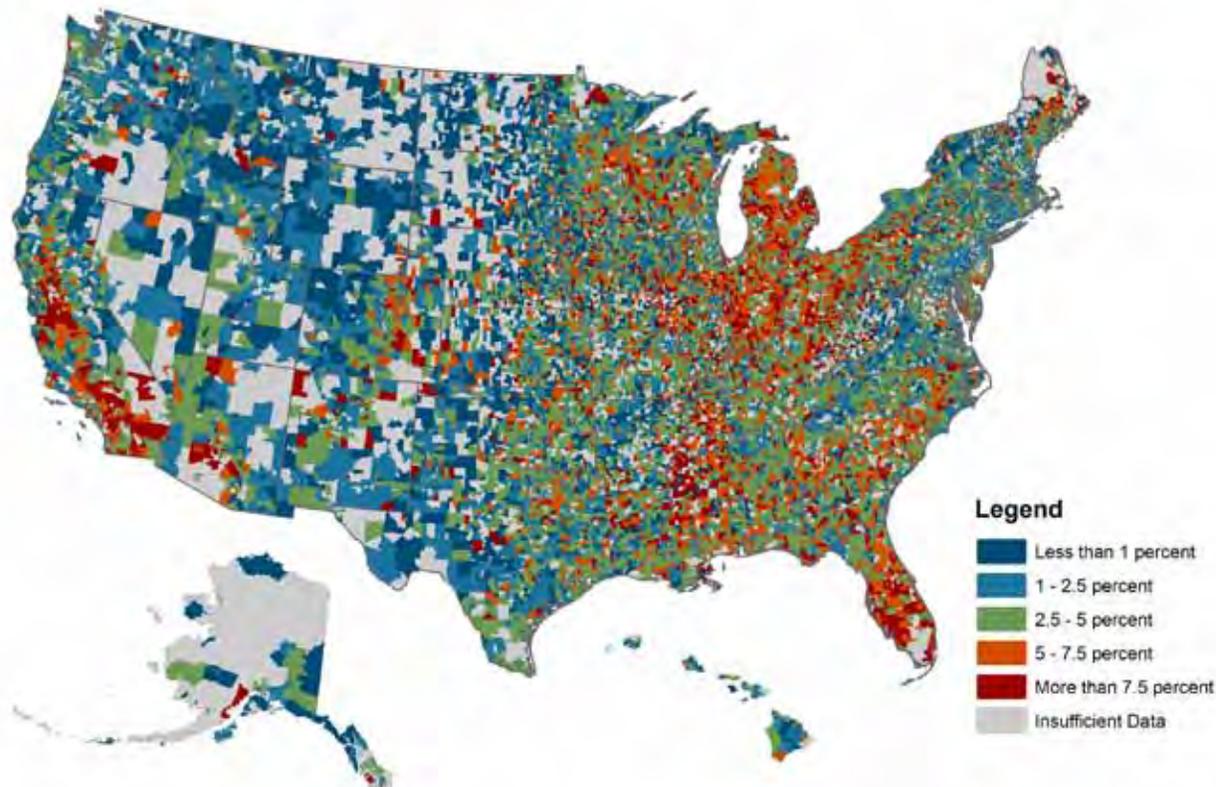
Yet even within states with high foreclosure rates, distinct local and regional patterns emerged in the distribution of foreclosures. Figure 1 shows the distribution of neighborhoods affected by concentrated foreclosures in June 2008. The map shows the regional nature of foreclosures: for example, the foreclosure rates in California's Central Valley were among the highest in the country, while wealthier neighborhoods along the California coast remained largely untouched. Researchers who have studied the crisis have identified two key trends in the spatial variation of foreclosures.³ First, foreclosures have been heavily concentrated in areas that saw considerable new construction and fast house price appreciation during the subprime lending boom, including areas in Florida, California, Nevada, and Arizona.⁴ These neighborhoods, generally located in suburban areas far from a city's core, are characterized by newer, single-family homes and tract developments. Second, older, inner-city neighborhoods – particularly those with high percentages of low-income and minority residents – have also seen a disproportionate number of foreclosures.⁵ These neighborhoods exist in both weak and strong real estate markets, as is evidenced by the high concentrations of foreclosures in minority neighborhoods in Los Angeles, Oakland, Phoenix, and Miami.

To address these two aspects of the foreclosure crisis, NSP was designed to give communities local control of stabilization funds, and allow grantees to target the funds differently depending on differences in local housing market dynamics.

NSP Funding: Targeting it to the Highest Need Areas

For many grantees, however, figuring out how to target their NSP funds proved to be a major stumbling block. A few cities, including Cleveland and Minneapolis, had developed robust data management systems that included detailed information on neighborhood-level foreclosures and property values and conditions. But for the most part, NSP grantees did not have access to any standardized data on foreclosures in their areas. While most county recorders have the responsibility to document liens and defaults on a property, very few of these recordings are stored electronically, making it difficult to aggregate the multiple individual records into a meaningful picture of foreclosures at the neighborhood level. Other foreclosure data sources are proprietary, expensive, and have imperfect coverage across geographies. Even large national datasets such as LoanPerformance and Lender Processing Services Analytics, Inc. may not accurately capture need at the local level, since they only represent a sample of outstanding mortgages.

Figure 1. *Neighborhoods Affected by Concentrated Foreclosures, June 2008*



Source: Lender Processing Services Applied Analytics, June 2008. Map shows percent of loans by zip code that were 90+ days delinquent, in foreclosure, or in REO.

To assist localities in determining need, HUD provided grantees with a foreclosure risk index. Because of the lack of a systematic public data source on foreclosures and properties that were now bank owned (REO), HUD created the risk index using proxy measures that were designed to capture neighborhood characteristics associated with a risk of foreclosure and abandonment. The measures included those census tracts with a high percentage of higher-priced loans (analogous to high rates of subprime lending), areas where the mortgage-to-income ratio was high (in an effort to capture areas where homeowners were highly leveraged), areas with falling house prices, and both the average unemployment rate for the county in 2008 and the change in average unemployment rate between 2007 and 2008.⁶

The release of the HUD Index proved to be incredibly valuable to local jurisdictions in developing their targeting strategy. As one stakeholder in Idaho noted, “We were sort of lost. We didn’t have access to any local data on foreclosures, and very little knowledge about which neighborhoods were struggling. Although we didn’t receive a large NSP allocation, the index really helped us develop our strategy.” In fact, most jurisdictions surveyed relied on the HUD index in preparing their NSP proposals and in determining which neighborhoods to target for NSP funding.

Given that NSP was implemented in a time of crisis, and given that there were no publicly available data on either foreclosures, real estate owned inventory, or vacant and abandoned properties, HUD’s index was a creative response to the need for data and the desire to target federal dollars in a strategic way. HUD also worked to refine the index for the second and third rounds of NSP funding to provide a more accurate measure of areas at risk of neighborhood destabilization. Even so, the lack of publicly available data on mortgage and housing markets severely limits the ability of jurisdictions to compete with the private sector in the acquisition of foreclosed properties, and may limit the overall effectiveness of NSP interventions.

For example, the data included in the HUD index do not provide real time information on either foreclosures or the concentration of REO properties, the condition of the housing, or housing demand. In cities with relatively strong housing markets, for example, foreclosures may not ultimately end up as vacant properties, especially if properties are sold as “short sales” or at auction. In other neighborhoods, foreclosure rates may be lower, but the risk of abandonment and negative spillover effects may actually be higher due to local housing market dynamics. In 2008, The Federal Reserve Bank of Boston created the REO Stabilization Opportunity Score (SOS) Index,



NSP is designed to allow local governments to tailor interventions to suburban or inner city neighborhoods.

designed to help local jurisdictions target their NSP dollars.⁷ Rather than focusing on foreclosure data, the SOS Index bases a large part of its score on the number and duration of REOs in a zip code, which may better reflect neighborhood need. REOs and long term vacancies are more likely to drive negative spillover effects than the foreclosures themselves. Comparing the two indices, the Federal Reserve Bank of Boston showed that depending on the index used, different neighborhoods were shown as being “high need” areas, thus suggesting that despite their efforts to target public dollars, NSP funding may not be going to the areas most in need of public subsidy.

Shaping Strategy: Tailoring NSP Strategies to Local Housing Market Conditions

Identifying areas with the highest need was only the first goal of the NSP targeting. Grantees were also encouraged to think about how their local housing market conditions would shape their interventions. In *Bringing Buildings Back*, Allan Mallach shows how the most effective neighborhood stabilization strategies are “solidly grounded in the realities of property ownership and economic conditions in the community” and “are linked to larger strategies to improve the neighborhoods in which abandonment is taking place.”⁸ Case studies of Cleveland and Los Angeles illustrate how NSP grantees incorporated this principle in their NSP plans.

Cleveland: Using Neighborhood Typologies to Shape NSP Investments

For Cleveland, the foreclosure crisis exacerbated a longstanding challenge of dealing with abandoned and

foreclosed properties. Well before NSP, government and nonprofit stakeholders had been working to establish a market typology of Cleveland’s neighborhoods to help determine where to target new investments, distinguishing between neighborhoods that could support new market activity from those where the residential housing market was so weak that investments would merely be “thrown down the drain.” Using indicators of housing market strength, the typology classified the neighborhoods within Cuyahoga County along a continuum of neighborhood types, including “Regional Choice,” “Stable,” “Transitional,” “Fragile,” and “Distressed.” Cleveland’s non-profit community then utilized this typology to help select model blocks within the city. These model blocks, located in transition, fragile, and/or distressed neighborhoods, were chosen because they demonstrated signs of potential market recovery and/or the presence of neighborhood assets, such as proximity to an anchor institution or unmet housing demand. The goal was to ensure that community development funding—such as HOME, CDBG, and LIHTC—would flow into areas that were high need, but that also demonstrated that they were able to support both public and private investment.

With NSP, the city used this same typology to determine its neighborhood stabilization strategy. By overlaying the HUD foreclosure and abandonment risk index with the Cleveland Neighborhood Market Typology, the city identified areas where foreclosure risks were high, and where the need and market potential overlapped. Using this matrix, Cleveland developed an NSP plan with multiple interventions targeted at each of the neighborhood types. For example, in areas where the HUD foreclosure and abandonment risk was high, but where the neighborhood market typology suggested that the market was too weak to support investment, the city decided to concentrate on demolition, land banking and interim uses of land. In contrast, in areas where HUD’s need index overlapped the city’s “model blocks,” Cleveland proposed to use NSP funds in combination with HOME, CDBG and LIHTC resources to acquire and redevelop homes and return them to productive use. In Stable and Regional Choice markets, the city decided to target the funding to the rehabilitation of properties, rather than invest in large-scale property acquisition, since in these neighborhoods there would most likely be homebuyer demand.

Los Angeles: Linking NSP to Local Housing Needs and Investments

From the outset of the foreclosure crisis, Mercedes Márquez, then the general manager of the Los Angeles Housing Department (LAHD), recognized that without targeting, the city’s \$17 million in NSP funds would not go far to stem the crisis. By September of 2008, more than

18,000 homes had gone into foreclosure in Los Angeles, covering an area larger than Manhattan, Cleveland, Detroit, and Chicago combined. To develop its strategy, the LAHD analyzed and mapped data from many sources, including: DataQuick Information Systems, HUD, Home Mortgage Disclosure Act (HMDA), U.S. Census, gang and crime violence data from the Los Angeles City Attorney's Office and the Police Department (LAPD). Representatives from LAHD also met with over 25 local organizations to help them understand where foreclosures were happening as well as the impact of those foreclosures on the neighborhood.

LA's index incorporated several data points, including the income level of the neighborhood, the incidence and percentage of foreclosed units, and the neighborhoods that had seen the greatest increases in crime. They also overlaid this with the HUD risk index and found significant overlap. The confluence of the above factors created clusters in Central, East and South Los Angeles and in the North and South Valley. In addition, the data showed that foreclosures in Los Angeles were a two-pronged problem: the city had to grapple with significant concentrations of multifamily foreclosures in South Los Angeles, a predominantly low-income, minority part of the city, as well as concentrations of foreclosed single-family homes in the San Fernando Valley. The data were also important in helping to build political support among city council members about the need for targeting interventions and avoided the problem of local infighting over which neighborhoods would get the most dollars.

The city then aligned these data with existing priorities, such as the preservation of affordable rental housing and transit-oriented development. Márquez noted that the guiding principle for developing LA's NSP plan was, "How many of our values can we hit with the same dollars?" The City thus developed a multi-pronged NSP strategy. First, using the infrastructure from its existing first-time homebuyer program, it implemented a direct to homeowner subsidy program, targeted at neighborhoods where there was an inventory of single family homes and continued unmet housing demand. The goal was to facilitate the purchase of homes without significant government intervention, relying instead on latent homebuyer demand. Unfortunately, several factors have limited the effectiveness of this component of the program. First, many of the foreclosed properties in NSP targeted neighborhoods were in much worse condition than initially anticipated, requiring rehabilitation investments beyond the limits of the Walk-In Program. In addition, the tightening of credit markets coupled with the recession both made it more

difficult for would-be borrowers to obtain mortgages, especially for properties needing significant rehabilitation after purchase.

More successful, however, has been the work of a newly created nonprofit, Restore Neighborhoods L.A. (RNLA), to acquire, rehabilitate and sell foreclosed properties. RNLA purchases both single-family and multifamily properties, and either sells them to first-time homebuyers or redevelops them into affordable rentals. By establishing a nonprofit—which is more agile and flexible and encounters fewer bureaucratic requirements than a city agency would when acquiring and transferring properties—Los Angeles has been able to be more effective in competing with investors for foreclosed homes (see article "When Investors Buy Up the Neighborhood"). RNLA also plays a significant role in rehabilitating properties, including bringing the unit up to code, incorporating environmentally responsible "green" building components, and "right-sizing" acquired properties to bring them in line with housing needs in Los Angeles; for example, many homes in South LA are two bedrooms with one bath, and many of the families that currently live there are much larger, reflecting the multi-generational household that is more common among Asian, African, and Latino populations. As of fourth quarter 2010, RNLA has purchased 94 properties totaling 182 units, including 61 single family homes and 121 units in multi-family properties.

Conclusion

Consistent with the underlying intent of NSP to give communities local control of stabilization funds, the case study cities of Cleveland and Los Angeles demonstrate that strategic responses must take local housing market conditions and regional context into account. In addition, both of the case studies above demonstrate how NSP grantees used local data in crafting responsive and appropriate community stabilization strategies. In the same way that geography of housing and mortgage markets played an integral role in the unfolding of the foreclosure crisis, they will also be key factors in NSP's success. At the end of 2010, more than 36,000 properties were either under construction or rehab as a result of NSP. While this is small in comparison to the total number of foreclosures, those 36,000 properties make up approximately 20 percent of the REO in NSP-targeted areas.⁹ Although more research is needed to truly understand neighborhood dynamics after the foreclosure crisis, past research would suggest that these investments will have a multiplier effect, spurring other private investment in these communities and helping to spark neighborhood recovery. **CI**

RESEARCH BRIEFS

Small Business and Job Creation

It is a common belief among policymakers that small businesses are the engines of economic growth and job creation. This belief underlies government investments in and subsidies for small business, such as tax incentives, the loan guarantee programs run by the Small Business Administration, and programs that provide technical assistance and other small business development support. Yet academic research has been less sanguine about the relationship between business size and job growth. At issue are questions of methodology and data suitability – depending on the methodological approach taken and the data used, researchers have found mixed results for whether or not small businesses create more jobs than large ones.

In a recent NBER working paper, John Haltiwanger, Ron Jarmin, and Javier Miranda take on this question, and in doing so, provide new insights into why and how small businesses create jobs. Interestingly, although they find that job growth rates go down as business size goes up, this relationship disappears once they control for the age of the business. In fact, they find that the startup, or “birth,” of a business is the key factor influencing both gross and net job creation. Because new businesses tend to be small, the inverse association between business size and job creation in previous studies is almost entirely attributable to the fact that small businesses are often also new businesses.

This finding emphasizes the critical role played by startups in U.S. employment growth dynamics. Conditional on survival, young businesses grow more rapidly than their more mature counterparts, therefore accounting for a greater share of job growth. However, new businesses are also more likely to fail, which can also lead to significant job losses.

Haltiwanger and his colleagues emphasize that we need a better understanding of startups and young businesses, including the challenges they face in becoming established, their role in innovation and productivity growth, and how they fare in economic downturns and credit crunches. The research also points to the critical role that small business development organizations can play in helping to get new firms successfully off the ground.

John C. Haltiwanger, Ron S. Jarmin, and Javier Miranda (2010). “Who Creates Jobs? Small vs. Large vs. Young,” NBER Working Paper 16300, available online at <http://www.nber.org/papers/w16300>.

Financial Literacy and Wealth

According to traditional economy theory, individuals use economic information to make financial decisions that maximize their well-being across the life course. In general, this would lead to an accumulation of wealth during the working years, which in turn would support consumption after retirement. Yet survey evidence reveals that many older adults face significant retirement saving shortfalls, and that fewer than half of U.S. workers have even attempted to estimate how much money they might need in retirement.

Given this gap, is there a role for increased investments in financial literacy, which could improve retirement savings outcomes? What role does financial literacy play in wealth accumulation, particularly in terms of retirement savings? Jere Behrman and his colleagues examine this question in a recent NBER working paper. Previous studies have reported strong correlations between financial literacy and asset accumulation as well as retirement planning, yet questions remain about whether these associations reflect causality. Using a unique dataset on Chilean households, Behrman and colleagues are able to develop a more rigorous model to assess the importance of financial education for wealth accumulation over the life course.

The results show that for a nationally-representative sample of adults in Chile, financial literacy and educational attainment are both positively and significantly correlated with wealth accumulation, pension contributions, and retirement planning. Indeed, their estimates suggest that financial literacy is at least as important, if not more so, than schooling in explaining variation in household wealth and pension contributions. Behrman and colleagues argue that their findings are a strong endorsement of investments in financial literacy given its role in building household net wealth.

It is unlikely, however, that Behrman’s study closes the door on the question of the effectiveness of financial literacy. Are the findings from Chile transferable to the US context? Perhaps more importantly, their survey tested financial knowledge. Important questions still remain on how to teach financial knowledge, and which methods are the most effective. Still, Behrman and his colleagues provide compelling evidence that financial literacy does matter for long-term financial well-being.

Jere R. Behrman, Olivia S. Mitchell, Cindy Soo, and David Bravo (2010). “Financial Literacy, Schooling, and Wealth Accumulation,” NBER Working Paper 16452, available online at <http://www.nber.org/papers/w16452>

Suburban Gentrification

Say “gentrification”, and the image it conjures is almost always that of an older, inner-city neighborhood being taken over by new high-end restaurants, shops, and art galleries. But gentrification can happen in other neighborhoods as well, including inner-ring suburbs comprised mostly of single family homes.

Suzanne Lanyi Charles examines what is happening in these inner-ring suburbs in Chicago, and explores the factors that lead to a private sector driven residential development process in which older single-family housing is demolished and replaced with larger single-family housing. Single-family housing in inner-ring suburbs remains a significant part of the metropolitan landscape, and contains approximately 20 percent of the housing stock in the United States. As inner-ring suburbs have aged, some have begun to experience population and income decline, crime increase, and reduction in their tax base. Others, however, are experiencing a significant amount of reinvestment.

Charles explores what factors influence this reinvestment process, and finds that lots with smaller houses, lower floor area-to-lot size ratios (FAR), and lower ratios of their value to that of their neighborhood are more likely to be redeveloped. The median property value of a neighborhood does not have a large effect on whether a property is redeveloped, but neighborhoods with higher proportions of Black and Hispanic residents were significantly less likely to experience redevelopment. Increased distance of a property from the Chicago CBD, the nearest

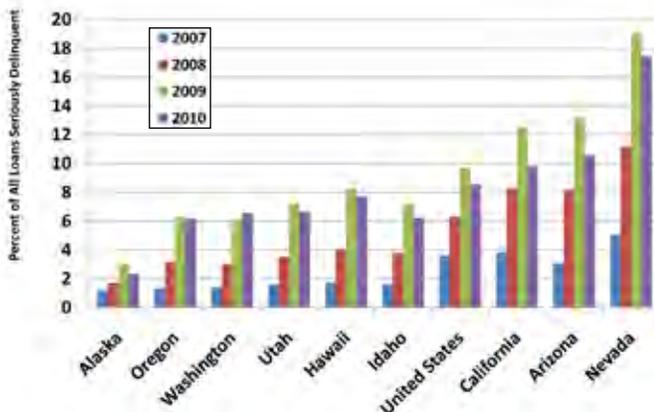
commuter rail station, and the nearest highway access point are each associated with a decrease in the odds of redevelopment. School district quality was very highly associated with redevelopment; the odds of redevelopment for properties located in the highest-ranked school districts are 2.5 times that of those that are not.

Understanding these processes of suburban gentrification is important since physical changes in the housing stock may lead to the displacement of original residents. Charles finds that when the properties in Chicago are redeveloped, the sale prices are typically at least three times that of the original. As Charles points out, continued redevelopment of single-family housing may limit housing options for low- and moderate-income households, especially in neighborhoods with good schools and access to other amenities such as transportation access. Charles’s paper helps to better understand why redevelopment occurs in some areas and not in others, information that can be used to craft more equitable and effective housing and urban development policies.

Suzanne Lanyi Charles (2011). “Suburban Gentrification: Understanding the Determinants of Single-family Residential Redevelopment, A Case Study of the Inner-Ring Suburbs of Chicago, IL, 2000-2010,” Joint Center for Housing Studies Working Paper W11-1, available online at http://www.jchs.harvard.edu/publications/publications_by_year.htm.

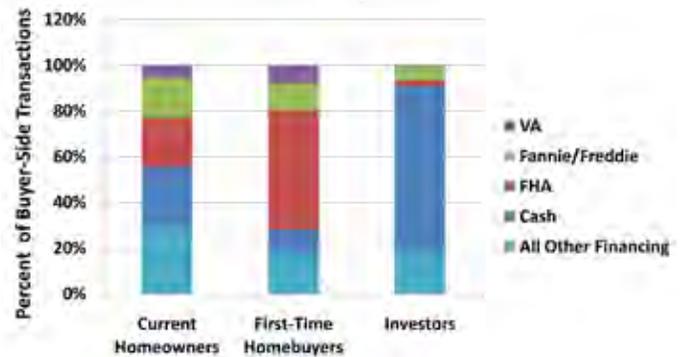
DATA SNAPSHOT

Trends in Serious Delinquent Mortgages, 12th District



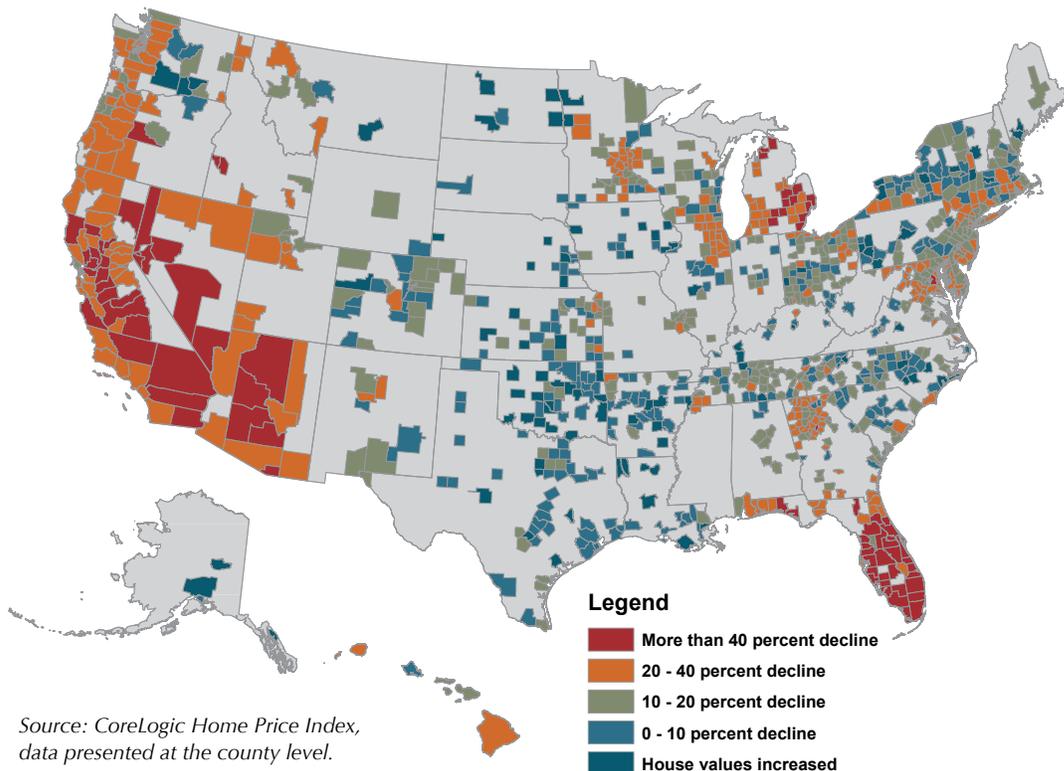
Source: Mortgage Bankers Association, National Delinquency Survey, 4th Qtr 2010. Data are for 4th Quarter of each year. Seriously delinquent loans include those with mortgage payments 90 days + past due and in foreclosure.

FHA Loans Finance Majority of Purchases by First-Time Homebuyers



Source: Campbell/Inside Mortgage Finance HousingPulse™ Monthly Survey of Real Estate Market Conditions, January 2011.

Percent Change in House Values, January 2007 – November 2010



Source: CoreLogic Home Price Index, data presented at the county level.

DOCTOR CRA

by John Olson



Dear Dr. CRA –

The last time we heard from you, you mentioned that there were some new rules that were pending on how the CRA might be changed to accommodate the Neighborhood Stabilization Program. My bank has been active in the program and I've got a CRA exam around the corner. I need help right away!

Signed,
Need Status Promptly

Dear NSP –

You're in luck! The rules that we discussed last time are now final. On December 15, 2010, the agencies issued a press release announcing the final rules regarding the expansion of the CRA to include NSP-related activities. I'll give you a quick overview here, but if you need all the details, you can find the press release on the Fed's website at <http://www.federalreserve.gov>. Look under "News and Events" for the press release that contains a link to the Federal Register notice.

The final text of the rule highlights the "pressing need to provide housing-related assistance to stabilize communities." The rule also notes that "high levels of foreclosures have devastated communities and are projected to continue into 2012 and beyond with damaging spillover effects for low- and moderate-income census tracts, as well as middle-income tracts." (emphasis added)

The rule as adopted expands the definition of community development to now include loans, investments, or services that support, enable, or facilitate projects or activities that meet the eligible uses criteria of the NSP, and are located in a designated target area in a HUD-approved plan, whether or not any NSP funds are used. The activity must benefit low-, moderate-, or middle-income geographies in the bank's assessment area. The activity can also qualify if it falls outside the bank's assessment area if the bank has adequately addressed the community development needs of its assessment area.

As always, check with your friendly local examiner if you have any questions about the new rule, or if you are uncertain whether it will apply in your situation.

Endnotes

Prize Linked Accounts for Youth (PLAY): A New Approach to Youth Financial Education and Savings

1. All names of youth participants have been changed to protect their identity.
2. Jump\$tart Coalition for Personal Finance. *2008 Survey of Personal Financial Literacy among High School Seniors*.
3. *Ibid.*
4. GfK Custom Research. (2005). Rising Individualism and Growing Wallets Among Teens and Tweens - GfK NOP Announces Results of Annual Youth Report. Press Release, September 19, 2005.
5. Im, Lena and Camille Busette. (2010). "What Motivates Low Income Earners to Save Money?" EARN Research Brief, January 2010. http://www.earn.org/files/EARN_Saver_Study_Jan_2010.pdf
6. For more on prize linked savings, see: Maynard, Nick (2007). "Prize-Based Savings: Product Innovation to Make Saving Fun" D2D Fund; Maynard, Nick, De Neve, Jan-Emmanuel and Tufano, Peter (2008). Consumer Demand for Prize-Linked Savings: A Preliminary Analysis (February 8, 2008). Harvard Business School Finance Working Paper No. 08-061.
7. Bank on San Francisco, an initiative designed to help the unbanked access mainstream financial services, provides microgrants to nonprofits within the city to help cover the costs of providing financial education. Nonprofit partners can apply for these grants from the city.

A Promising Way Forward for Homeownership: Assessing the Benefits of Shared Equity Programs

1. Boehm, Thomas P. and Alan M. Schlottmann. 2001. *Housing and Wealth Accumulation: Intergenerational Impacts*. <http://www.jchs.harvard.edu/publications/homeownership/liho01-15.pdf>
2. Davis, John Emmeus. 2006. *Shared Equity Homeownership: The Changing Landscape of Resale-restricted, Owner-occupied Housing*. Montclair, NJ: National Housing Institute.
3. Affordability can be preserved through a very wide range of different legal and financial mechanisms and, complicating matters, these mechanisms themselves are frequently known by different names in different regions of the country. "Subsidy recapture" programs require homebuyers to repay public subsidies when they sell their homes. Some recapture programs require repayment of only the initial principal at resale, while others require repayment of principal along with deferred interest. Others require sellers to repay principal along with a share of any home price appreciation. A different approach to the same problem involves retaining the subsidy in the assisted home and imposing a resale price restriction which enables future buyers to purchase the home at an affordable price. These price restriction programs are known by many names including: Permanently affordable, Long-term Affordable, Limited Equity, Below Market Rate, Moderately Priced Dwelling Units, Deed Restricted, etc. Davis used the term "Shared Equity Homeownership" to refer to the full range of these programs which offer "resale restricted, owner occupied housing", and we adopt that term here.
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