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Place-Based Initiatives

Plus:

Payday Lending in California

The Unbanked and Underbanked

Dr. CRA

CI Notebook

by Laura Choi, Editor

It's widely acknowledged that individual-level factors such as income, educational attainment, and even health status have important implications for a person's economic well-being. As a result, social services and public policies often focus on interventions that provide individual supports, such as the Temporary Assistance for Needy Families program or the Earned Income Tax Credit. However, we also know that people are deeply influenced by the places in which they live and work. To have better educational outcomes at the individual level, we need to have better schools in our neighborhoods. The potential to earn a good income requires access to viable economic opportunities relatively close to home. Recognizing that the fortunes of people and place are inextricably linked, how can community development initiatives be designed to bridge the two often separate policy worlds?

This is the goal of place-based investing. Place-based initiatives take a comprehensive approach to community development and aim to revitalize multiple aspects of an entire neighborhood (or even region) to create lasting change for its residents. While the place-based approach is not new, the fallout from the economic recession is forcing funders, policymakers, and practitioners to take a closer look at these initiatives and critically assess what is and isn't working in the field. In response to the changing economic landscape, the Federal Reserve Bank of San Francisco, in partnership with the Aspen Institute, brought together some of the leading professionals in the field to discuss the current challenges and future opportunities for place-based work.

This issue of *Community Investments* continues that conversation and I invite you to join in as we explore some of the key issues in place-based community development. The articles highlight some of the lessons learned over the past two decades of place-based work and introduce new ideas to inform future initiatives, such as using a neighborhood typology to inform investment strategies. We also consider the effect of place on youth and explore the very difficult task of evaluating place-based initiatives. In addition, our Eye on Community Development takes a look at payday lending and considers some potential solutions for stemming the harmful effects of predatory lending in low- and moderate-income communities. As always, Dr. CRA answers your toughest regulatory questions, and you'll learn more about the FDIC's survey of the unbanked and underbanked in this issue's Data Snapshot.

We hope this issue of *Community Investments* inspires you to take a closer look at the places in which you live and work, and consider how you can play a role in revitalizing low- and moderate-income communities. We encourage your comments and feedback and hope to keep this conversation going.



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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.



Federal Reserve Bank of San Francisco

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Improving the Outcomes of Place-Based

By Naomi Cytron



Initiatives



For more than five decades, public, private and nonprofit entities have implemented a range of targeted neighborhood revitalization strategies designed to tackle the challenges associated with concentrated poverty. These efforts have included urban renewal programs, loans and grants motivated by the Community Reinvestment Act, housing redevelopment through HOPE VI, Empowerment Zones, New Markets Tax Credit investments, as well as foundation-led comprehensive community initiatives and local nonprofit ventures. The most ambitious of these initiatives have aimed to concentrate multiple investments in both infrastructure and human capital in a single neighborhood.

At their core, these comprehensive initiatives try to tackle long-standing disparities in housing, employment, education, and health caused by public policy decisions, market forces and failures, and patterns of discrimination. Yet overcoming these inequalities has proven to be difficult. In some cases, place-based initiatives have led to measurable improvements; in others, efforts have struggled, failing to significantly “move the needle” on the challenges associated with deeply entrenched neighborhood poverty.

Despite these mixed-outcomes, place-based strategies are receiving increased attention and funding from both the public and private sector. The Obama Administration has explicitly endorsed place-based policy, and has launched an evaluation of existing federal place-based policies in an effort to identify areas of overlap and to seek avenues for interagency coordination. Additionally, the administration has budgeted for a new cohort of place-based anti-poverty programs. On a more local scale, a number of California-based foundations and CDFIs, as well as local government agencies, have also expanded investments in place-based initiatives.

While the goals of these initiatives are akin to those that have come before, the context in which they are being established has changed significantly. Encouragingly, the increasing range of institutional actors engaging in place-based initiatives creates new opportunities for alignment across institutions, including federal and local government, the private sector, philanthropy, and nonprofits, and across issue areas, including housing, health, workforce development and transportation. However, the continuing ripple effects from the recession—including the growth of state and local budget deficits, diminished resources flowing through private channels, and the deepened distress that households are experiencing—pose new challenges to the successful implementation of community change efforts. Cumulatively, these factors represent a “new normal,” one that both sets the stage for place-based initiatives to be even more strategic, efficient and collaborative than they have been in the past, and demands that funders from all sectors determine just how to do so.

In an effort to help funders of place-based initiatives respond to these conditions and think through the range of issues that might help improve planning and implementation going forward, on February 11-12, 2010, the Federal Reserve Bank of San Francisco and the Aspen Institute Roundtable on Community Change hosted a day and a half long convening, “Improving the Outcomes of Place-Based Initiatives.” This event was also an outgrowth of the Federal Reserve System’s partnership with the Brookings Institution to examine concentrated poverty in 16 case study communities around the nation. One of the core themes that resonated across all communities was the isolation that very poor neighborhoods face—not just geographic isolation, but isolation from the strategies, resources and

Proposed Federal Programs

- HUD's Choice Neighborhoods Program, which links ideas and funding across HUD, DOT, EPA, and the Department of Education, aims to support neighborhood revitalization efforts that integrate the construction and rehabilitation of affordable and energy efficient housing along with improvements in early childhood and K-12 educational opportunities, job training, and case management for families in crisis.
- The Department of Education's Promise Neighborhoods program—modeled on the Harlem Children's Zone and encouraging alignment among HUD, DOJ, HHS, EPA and ED—proposes funding the integrated planning and implementation of neighborhood-based early childhood education and afterschool programs along with health, workforce development, and community engagement programs.
- The Sustainable Communities Initiative, a partnership between HUD, DOT, and EPA funded in the 2010 budget, aims to improve regional planning efforts that integrate housing and transportation decisions in a manner that supports housing affordability, enhances access to employment centers, promotes public health, and reduces greenhouse gas emissions.
- The Healthy Food Financing Initiative, a collaboration between HHS, Treasury, and USDA, proposes to help finance grocery stores and other healthy food retailers in underserved urban and rural communities across America. This program is directly aimed at addressing the lack of healthy food access in high poverty neighborhoods and the high incidence of related health risks, like obesity and diabetes, in those neighborhoods.

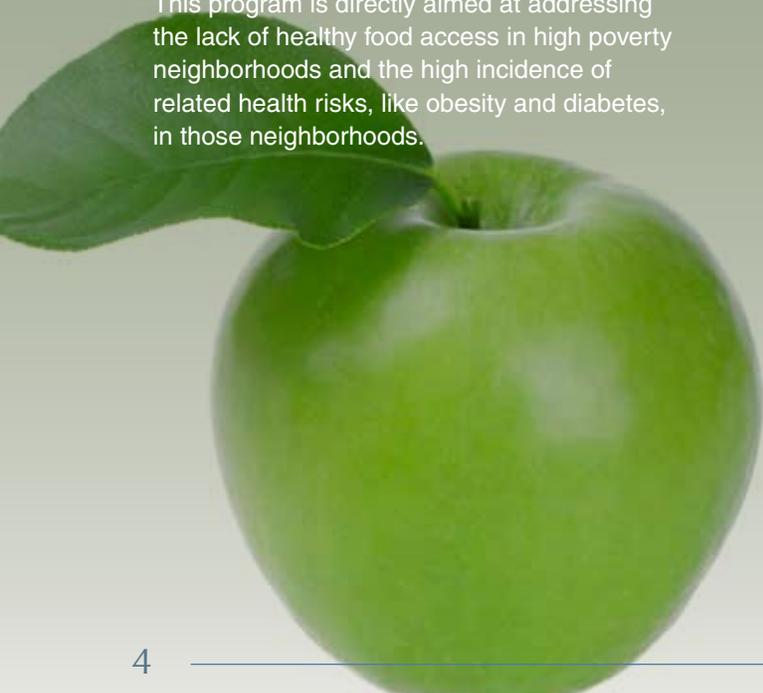
institutions that help generate economic opportunity. The case studies highlighted the need to build connections between high poverty communities and the institutional actors working on a range of issues both locally and in the surrounding region, and to improve the communication and collaboration across the variety of agents working to improve high poverty communities.

As such, "Improving the Outcomes of Place-Based Initiatives" was structured to bring together representatives of public, private, and nonprofit agencies working on place-based initiatives throughout California. Panelists and participants discussed ways to improve their understanding of the places in which they are investing, strengthen the capacities of their community partners, evaluate the outcomes of their investments, and align their strategies with other similarly-oriented efforts taking place both at other types of institutions and at different geographic scales. The conversations that took place during the convening were rich and multifaceted; this article aims to touch on some of the prominent themes and ideas that emerged over the course of the two days. For more detail on the event, including audio recordings of the sessions and PowerPoint presentations, please visit: <http://www.frbsf.org/community/resources/2010/0211>.

Federal Policy and Place Based Investing

"Things are really different in Washington." With these words, Raphael Bostic of HUD summarized the key message from the federal front: there is a sweeping movement within the federal government toward place-based policy-making. Bostic noted that all federal agencies have been explicitly directed to formally articulate, in essence, how place matters—a "path-breaking and unprecedented" approach to thinking about policy. Agencies that have historically operated largely in isolation of one another are being encouraged to find areas of overlap and opportunities for collaboration, and several interagency working groups have been formed to examine how to build policy along multiple dimensions. Additionally, several new programs in the proposed 2011 Budget, including Choice Neighborhoods, Promise Neighborhoods, Sustainable Communities and the Healthy Food Financing Initiatives (see sidebar), are representative of this commitment to integrate and align federal investments.

Bostic noted, though, that "successful development and redevelopment is... at most, only facilitated by the federal government." The successful implementation and long-term sustainability of comprehensive programs will ultimately depend on the readiness and ability of local actors to effectively align with the efforts taking shape at the federal level. However, panelists noted that communities differ in their ability to do so and that there is continued need for capacity building—for both institutions and residents—within isolated and otherwise lagging commu-



nities. Bostic noted that the federal approach to this work will have multiple strands: one will aim to fund communities that have the capacity to implement programs; another strand will build the capacity of communities that need assistance in building the skills and partnerships necessary to effectively utilize significant financial resources; and, in recognition that it is not possible to fund all communities, a third will figure out how to get useful information to the communities that don't receive direct funding.

Understanding Neighborhood Context

The goal of the second panel was to present various approaches to understanding neighborhood context. Where should funders start? Funders have to make a variety of decisions when launching a place-based initiative, but “to be intentional and strategic,” said Vanitha Venugopal of The San Francisco Foundation, “they need to base decisions on a variety of data... that can inform what the opportunity is and where the point of entry should be.” Panelists Garth Taylor of the Metropolitan Chicago Information Center, Peter Pennekamp of the Humboldt Area Foundation, and Victor Rubin of PolicyLink discussed the types of information that can help shape a funder's strategy upon entering a community, including data on socioeconomic conditions, market strength, power systems and institutional capacity, the regional context of a given neighborhood, and the residents themselves.

A key theme of this discussion was that it is critical to distill the vast array of demographic and economic indicators into an understandable set of indices and benchmarks so that funders don't drown in data. Panelists also raised a point that synthesis of quantitative data is not enough for understanding community context. Rather, funders must make an effort to gain an understanding of the institutional assets and systems in a community; critically, this should be done before injecting significant capital into a community. Peter Pennekamp stressed that if funders “lead with money” without first closely examining institutional capacity and structure, they run the risk of reinforcing exclusive or otherwise broken systems that might derail the overall aims of a community initiative. Work must thus be done at the outset of an initiative to ensure that the configuration of community assets and institutions generates accountability among community partners, and not just accountability to an external funder.

The panel also highlighted a common pitfall of place-based work—the danger of focusing so closely on a neighborhood that its wider regional context is ignored. Panelists emphasized that a neighborhood's trajectory is often shaped more by its regional context than by local interventions, and that it is important for funders to help local leadership understand how metropolitan patterns shape local opportunities. Additionally, funders should

seek ways to help local entities gain improved access to the ingredients of social and economic success that may be outside neighborhood boundaries. However, Victor Rubin noted that it is also important to recognize that the level of urgency of local needs, as well as the potential for political, racial and ethnic divides between leadership at the local and regional levels, shapes the ability to substantially link local and regional agendas. Significant groundwork may thus be necessary to create the conditions for connecting a neighborhood to the assets and institutional infrastructure of its surrounding region.

New Roles and Investors in Place-Based Revitalization: Lessons from California

Who does place-based work, how do their approaches and roles differ, and how can they work together more effectively? Five leaders engaged in place-based initiatives in California from very different vantage points tackled these important questions: Tony Iton of the California Endowment, Jennifer Vanica of the Jacobs Center for Neighborhood Innovation (JCNI), Nancy Andrews of the Low Income Investment Fund (LIIF), Kimberly Wicoff of the San Francisco Mayor's Office, and Elwood Hopkins of Emerging Markets, Inc. Much of their discussion centered on the commonalities and differences in the roles that different types of institutions—whether foundations, community development financial institutions, government agencies or banks—play in community change efforts.

First, how do different funders decide how to use their financial resources within a community? Nancy Andrews shared that LIIF deploys grants in such a way as to create small examples of real success—such as a new childcare facility in an underserved neighborhood—which can then be used to leverage external resources and create a platform for policy advocacy. Jennifer Vanica noted that JCNI also funds small, incremental projects, but for different reasons. “You need visible signs of progress because people don't have hope,” said Vanica. She emphasized that, rather than just putting large sums of money “on the table” for local organizations to ultimately fight over, JCNI has learned to invest in resident-driven, short-term projects. In this way, residents are enabled to work together toward accomplishing tangible goals and can demonstrate to themselves that change is possible. This approach has generated trust amongst community residents and has helped JCNI to secure a commitment from residents to share in the responsibility for finding solutions to neighborhood problems. The key point here is that targeted, incremental investments from funders can serve to catalyze the engagement from both internal and external stakeholders that is critical for comprehensively tackling the multiple challenges associated with high poverty communities. In other words, small wins up front can set the stage for long-lasting and broader change.

Panelists also saw differences in how they can help to build the capacity of neighborhood residents to shape change efforts in their community. All speakers agreed that it is imperative to engage residents in decision-making processes and to build a variety of capacities—including advocacy skills around neighborhood interests and needs and the ability to work across racial, ethnic, and cultural lines toward a common agenda—among neighborhood residents. However, certain types of institutions may be better positioned than others to conduct capacity building and community organizing activities. “Leading as a government institution,” said Wicoff, “the power dynamics are such that you can’t do community organizing... you can do engagement, but you can’t train people to advocate against you.” Hopkins noted, however, that power building in a community is not always about fighting back and being adversarial. Bringing up the example of Community Benefit Agreements, which set forth the range of measures that a developer must provide as part of a development project in exchange for community support, Hopkins emphasized that community power can be about demonstrating assets and bringing residents together to proactively demand that externally-driven development is aligned with community interests. Overall, the panel drew attention to the need for funders to be cognizant of power dynamics and the ways in which they are perceived by a community, as well as the type and direction of momentum they might be able to generate, in seeking to build community capacity. In addition, funders may need to partner with other organizations to carry out the community and capacity building activities that they themselves might not be positioned to conduct.

The New Normal

If there was any doubt that external factors can dramatically shape local outcomes, it was put to rest by the discussion on the current economic and fiscal crisis in California and its impact on local communities. Tracy Gordon of the University of Maryland spoke of the challenges posed by California’s budget situation, noting that this past year was the worst on record for state tax revenues and that huge budget shortfalls are projected for the coming years. California’s budget woes are related not just to the current economic climate, but to other factors as well. Some factors are political in nature, such as Proposition 13, which caps property tax increases and also contains language requiring a two-thirds majority vote in the legislature for approving the budget as well as future tax increases. California’s narrow and volatile tax base, cost drivers that stem from demographics and eligibility rules for public programs, and policy choices about where to allocate resources have also fueled the budget strain. Gordon put particular emphasis on this last factor, saying, “Budgets are about much more than numbers. They’re really about tradeoffs and the choices that we make as a society as to what we care about.” The values that drive the tradeoffs here in California impact the distribution of resources across education, health, transportation, and other systems that compose both the backbone and safety net of the state. This point had broader relevance to community change initiatives, in that to be effective over the long-term, local place-based interventions need to be rolled up into systems change and policy advocacy.

Tim Rios of Wells Fargo and Denise Fairchild of the Community Development Technologies Center spoke

Neighborhood residents participating in a community investors meeting. Photo Credit: Jacobs Center for Neighborhood Innovation



about the ways they are seeing the economic crisis affect organizations on the ground. Rios noted that in California's Central Valley, nonprofits are seeking and competing for additional sources of capital to stay afloat, including stimulus dollars and grants as well as bank loans and lines of credit. However, he noted that many organizations are stretching to qualify for funds or do not know how to apply for funds, and are otherwise struggling with capacity-related issues. Fairchild offered a more optimistic view, suggesting that the economic crisis is offering the potential for organizations to think outside of the box—that it provides the opportunity to redefine notions of growth, development, and change, and necessitates that organizations become more engaged in the policy process as a voice for equity. "It's a new day and we really have to begin a transformation," said Fairchild, imploring participants to reexamine local and regional economies and to seek ways to bring a higher level of environmental consciousness to the work of community building and revitalization.

Assessing Outcomes and Measuring Impact

One of the most challenging aspects of place-based work is measuring impact and demonstrating outcomes. During the last panel of the conference, Clare Nolan of Harder + Company, Melanie Moore Kubo of See Change, and Carla Javits of REDF discussed the complexities of evaluating place-based initiatives and measuring the return on investments made by the variety of stakeholders working in a neighborhood.

A central theme of this discussion was that because place-based initiatives involve moving parts and multiple stakeholders with information interests that shift over time, simple outcome metrics will not do. Rather, if the goal is to truly both describe and explain neighborhood change, multi-faceted, creative, and malleable strategies are needed. Panelists emphasized that a mixed-methods evaluation design is critical here—that bundling together a variety of evaluation tools can allow stakeholders to understand not just the "what" of change, but the "how" of change. Moore Kubo noted that investigating qualitative, process-related issues, and not just quantitative outcome measures, can also reveal what might be driving "implementation gaps"—the relationships, day-to-day politics, power structures, or other factors that might be posing a detrimental effect on progress. This kind of qualitative information is vital for finding ways to improve a place-based initiative mid-stream, and for teasing out lessons for funders about how to construct initiatives going forward.

Another key point of this discussion was that information about community change is valuable not just for reporting purposes or to point out course correction

needs—it's also a powerful tool for generating additional investment from external agents. As such, funders need to be able to communicate about change in a way that resonates with a variety of stakeholders. Javits spoke of the ways that REDF is looking for ways to document the social return on investment (SROI) as a means to help communicate with the business community about how the input of financial resources is related to the production of certain community and social outcomes. "Business leadership still influences the allocation of resources in our society like almost nothing else," she said. "ROI and SROI is language they understand, and if we speak to them in language that they understand, while incorporating the subtleties of what we do, we can move some very powerful actors to help us invest in communities," she said.

Panelists also raised bigger questions about place-based initiatives and what we know about them. What are the best practices for building capacity of both organizations and community residents? When capacity is present, what are the best kinds of resources to inject so that high-capacity places can really make a leap forward? These questions are more easily asked than answered, but they represent core issues for the field to resolve.

Conclusion

Federal Reserve Bank of San Francisco President and CEO Janet Yellen noted in her closing keynote address that "strong local networks are an essential precondition for effectively using money—whether private, for-profit capital, socially responsible investment, or government subsidy—to invest in communities facing persistent poverty." This event aimed to build these kinds of networks, engaging leaders from a variety of sectors, including public health, education, and transportation, as well as those from key community institutions, such as foundations, government agencies, financial institutions, nonprofits, and universities, many of whom had not met in the same room to talk about place-based investing. Jennifer Vanica underscored the importance of this type of cross-sector communication in drawing a parallel between place-based work and jazz music. "In jazz, everybody leads, but you have to listen really intently to know when the right time is for you to step into the leadership role. And, it requires a different type of thinking so that you're making music and not noise." While this convening provided a venue for "band-mates" to get to know one another and share notes (pun intended!), much work remains, including finding ways to better share data and outcomes, disseminate best practices, and bring residents into the discussion. We must continue to communicate openly and challenge each other to consider how we can leverage resources to help improve the outcomes of place-based initiatives. **CI**



Community Change Initiatives from 1990-2010:

Accomplishments and Implications for Future Work

By Anne C. Kubisch, Patricia Auspos, Prudence Brown, and Thomas Dewar
The Aspen Institute, Roundtable on Community Change

In the 1990s, comprehensive community initiatives (CCIs) arose as an ambitious strategy to address the needs of residents of poor communities. They intended to go beyond the achievements of existing community-based organizations, notably social service agencies and community development corporations (CDCs), by concentrating resources and combining the “best” of what had been learned from social, economic, physical and civic development in order to catalyze transformation of distressed neighborhoods. In contrast to other community initiatives that focused on one intervention at a time—e.g. the production of affordable housing units—CCIs adopted a comprehensive approach to neighborhood change and worked according to community building principles that value resident engagement and community capacity building.

With the goal of learning from these experiences, The Aspen Institute Roundtable on Community Change is currently completing a review of 43 major CCIs and related community change efforts from the last two decades.¹ About \$1 billion in philanthropic dollars has been invested in these initiatives and when the broader universe of similar place-based community change efforts, especially federal government investments, is included, the total investment exceeds \$10 billion. Understanding the factors that contribute to high quality design, effective implementation, and improved outcomes can help us to identify key lessons and implications for the next generation of community-based work. This article summarizes these lessons and provides a framework for thinking about place-based investing going forward.

Investments to Improve Human, Physical, and Economic Development in Poor Neighborhoods

CCI accomplishments in the programmatic arena—that is, activities focusing on human, physical and economic development—have been mixed. On the positive side, the quantity and quality of programs to support low-income families increased in most of the target neighborhoods. CCIs successfully assembled and implemented “best practices” and “programs that work” in areas such as workforce development, family services, and education. As a result, many of the initiatives showed improvements in the wellbeing of individual residents who participated in programs in their target neighborhoods. Some CCIs produced physical change in their neighborhoods as a result of housing production and rehabilitation carried out by place-based CDCs, non-profits, and for-profit housing developers. Those CCIs were able to show related positive outcomes such as increased property values and reduced crime. Community-based actors also succeeded in sparking commercial development, often working in partnership with local government and developers to plan retail spaces and commercial corridors with stores, restaurants, services, entertainment and other businesses that serve the residents’ needs and help stabilize the community.

By and large however, place-based efforts have had difficulty stimulating economic development, as too many of the forces that drive economic activity are outside of the control of neighborhood actors. Some CCIs found ways to connect neighborhood residents to economic opportunities in the larger region through, for example, sectoral employment programs, transportation strategies that link workers to jobs, and efforts to organize residents to ensure that they obtain jobs in major industrial or civic development projects in their locale. A more ambitious approach to economic revitalization would aim to ensure that low- and moderate-income neighborhoods get their share of the economic spoils of the larger region, which would also work to reduce structural and racial inequities. Experience on this front is only just emerging, and this will be a focus for next-generation work.

Investments to Strengthen Community Capacity

Programmatic outcomes are not the only goal of community change efforts. CCIs also aim to mobilize citizens and their connections to one another, foster their ownership of the work, identify and build on their assets, and strengthen their civic capacity. This dimension of the work generally goes by the term “community building,” and its goal is to create stronger and more resilient communities.

The CCIs of the last two decades have generally undertaken four types of community building investments:

developing individual leadership; increasing organizational capacity; increasing social capital and a sense of community among residents; and increasing civic capacity and voice. Virtually all of the efforts reviewed by the Aspen Roundtable can point to accomplishments on the community building front. While much harder to measure quantitatively, qualitative data and the conviction expressed by those who are engaged in the work provide powerful evidence of these increases in capacity at the local level. CCIs demonstrated increased neighborhood capacity in the form of stronger leadership, networks or organizations, and/or improved connections between the neighborhood and external entities in the public, private and non-profit sectors.

For some in this field, community building outcomes are valid indicators of success in their own right. This constituency places a high value on strengthening the participatory democratic process among the most disempowered and alienated members of society. For others, community building is a means to an end. They argue that if improvements in programmatic outcomes do not follow, then community building is only about “process” and “feel-good” strategies, which could divert resources and time away from direct poverty reduction efforts. While many are tempted to gloss over this distinction and accept that the work is about both community building and tangible outcomes, this issue is an unresolved source of contention in the field. Exacerbating this long-standing schism is an absence of empirical evidence demonstrating that increases in community capacity lead to improved outcomes at the individual, family or community level. Such evidence would require sophisticated demonstration research and evaluation which, to date, funders have been unwilling to invest in.

Investments to Generate Policy and Systems Change

In addition to their direct interventions at the neighborhood level, CCIs also aim to spark policy and systems reform in ways that could yield positive returns for their neighborhood over the long term. One hope was that community change efforts could break down the silos of categorical funding streams and integrate services across different sectors such as housing and education. Experience to date shows that community-based efforts partially compensated for, but did not solve, the problems of siloed public and private funding. At present, there are examples of successful co-location of activities, a small number of which have the potential to be implemented with enough intensity to test whether synergy among programs can be sparked. Yet in many cases, organizations engaged in place-based work must still contend with the complicated matrix of funding sources and agencies that work in the anti-poverty arena.



There are two ways in which community change efforts succeeded in changing policies or systems. One indicator was funding levels. The presence of an organized, legitimate and effective community intervention in a neighborhood increased its visibility and influence, helping to leverage new public, private and philanthropic resources. The other example of policy and systems change came from powerful partnerships between communities and institutions that had access, leverage and influence in the public sector. As a result, some initiatives built in a two-pronged strategy where the community work occurred locally and a separate line of work focused on policy and systems change. In this view, systems change is better done by actors who have better access to the policy reform process including advocates, special commissions, and other entities with civic capacity.

Where Is the Field at This Moment?

Despite these accomplishments at the programmatic, community and system levels, most of the CCIs have not produced the degree of community transformation envisioned by their designers. For example, few, if any, were able to demonstrate widespread changes in child and family well-being or reductions in the neighborhood poverty rate. The reasons for this can be attributed both to “theory failure” and “implementation failure.” On the theory side, it appears that it was overly optimistic to expect that a relatively modest amount of philanthropic or government dollars (usually about \$1-3 million per year) was enough to catalyze a series of events that could build on each other and lead to major improvements in well-being for the poorest people in the most distressed communities within a limited time frame (usually about 7-10 years). On the implementation side, issues such as weak capacity resulting from long-term underinvestment, the difficulty of balancing “process” and “product” objectives, the challenge of managing multiple relationships and activities, and inconsistent or abbreviated funding often stood in the way of sustainable community change. As a result, the actual programmatic effort did not achieve the necessary dose or scale.

Nevertheless, policymakers, philanthropists, practitioners, and community residents continue to put a high value on “place” as an organizing principle for social and economic change for a number of reasons, which include: administrative and jurisdictional expediency; the fact that poverty is spatially concentrated, especially for people of color; and growing evidence about how community factors affect outcomes for individuals. Indeed, over the course of the last 10-15 years, the landscape of community change work has grown and diversified in many important and welcome ways. Most significant is that new kinds of public and philanthropic funding have become

... having agreement among all stakeholders about the work that will be approached is key to creating and maintaining focus.

available and more institutional actors are taking on this work including CDFIs, banks, anchor institutions (such as hospitals or universities), and new local family and health conversion foundations. These institutions have expanded the range of connections, leverage, and capacity available to poor communities, and have created opportunities for powerful and innovative work going forward.

It is critical at this point in the field's development for practitioners, analysts, policymakers and funders to be as clear as possible about what community change efforts can and cannot accomplish, what structures and actions are most effective, and what needs to be changed for future place-based work to be more successful.

Progress Requires Better Alignment of Mission, Action, Capacity, Collaboration and Learning

Recent community change efforts have applied best practices from social services and human development programs; they have taken advantage of government incentives and private sector development expertise to undertake housing and other kinds of physical development; they have been both pragmatic and creative as they seek strategies to increase assets, income, employment and economic activity; and they have benefited from decades of experience in effective community building, organizing, and engagement. Their challenge has been to weave these pieces together in a way that maximizes each contribution so that the whole is greater than the sum of its parts.

The efforts that stand out as exemplary have been the ones that aligned all pieces of their work and ensured that they reinforced each other. Our review suggests five dimensions of alignment associated with success.

Clarity about Mission, Desired Outcomes, and Operating Principles

Ensuring all actors are in agreement about the core purpose of the work is critical. This might seem an obvious, or perhaps even trivial, conclusion to draw, but in the context of a comprehensive initiative that covers many programmatic domains, requires multiple partners, and has many accountability pathways, this has been a significant challenge. Answering even the most fundamental question about community change efforts—what

would “success” look like?—has turned out to be problematic. Too often, the goals sought by community change interventions are poorly defined at the outset, often defined too broadly or abstractly. Sometimes the lack of clarity is purposeful so that the initiative will resonate with a wide variety of stakeholders and they will invest in it. Moreover, because the work is tailored to community circumstances and is purposely developmental and emergent, clarity presents both a conceptual and practical challenge. That said, having agreement among all stakeholders about the work that will be approached is key to creating and maintaining focus. This could include identifying core values or philosophy or developing an overarching goal that guides practice and decision-making. A common framework and vision provides participants with shared language and a focused set of goals around which to engage people and interests, both inside and outside the community.

Intentionality in Action

Where community interventions invested deliberate program effort, they counted program successes and improved outcomes. CCI that did not make deliberate investments or that made assumptions that investments in one domain would have spill-over effects in others, did not improve outcomes. Thus, better educational outcomes require work in the schools; improvements in neighborhood conditions require investment in physical revitalization; increased community capacity requires direct investment in leadership, organizations, and access to power. Even when an intervention aims to increase a less tangible outcome, such as social capital, investments must be intentional and not simply the hoped-for by-product of other strategies. Again, this lesson may seem readily apparent, but the problem becomes acute in an initiative that works across multiple dimensions and aims for comprehensiveness. The objective is to bring a comprehensive lens to the work while still implementing targeted and high quality programs in the various sectors.

Assessing and Building Capacity

The theory underlying community change efforts is based in systems thinking, which views the strands of community life as interconnected and interdependent. The challenge has been that any resulting design, especially of CCIs, requires significant capacity to implement—capacity that under-resourced organizations in distressed neighborhoods often do not have. In retrospect, too many of the CCIs and other place-based change efforts stumbled on implementation. Therefore, goals must be assessed in light of actual capacity to implement, and if that capacity is weak, there are two options: goals must be scaled back, or investments must be made to build the capacity to do the work. When ambitious time frames for change

are overlaid on top of these highly complex interventions, they can set the initiative up for failure.

Capacity building is often one of the purposes of community change efforts, but oftentimes it is focused on helping an organization build the capacity to implement a particular initiative. Future work should move beyond this narrow definition of capacity and instead focus on a broader mission of building the capacity of a community more generally to set agendas, gain access to resources, and respond to community needs. Foundations are likely to be the source of the most flexible funding for capacity building activities whereas public funds are likely to be more circumscribed for programmatic activities. Practitioners must aim for a creative blending of the two.

Effective Management of Partnerships and Collaborations

Managing a community change effort requires managing a complex web of relationships among residents, funders, intermediaries, neighborhood organizations, public sector agencies, private sector financial institutions, and consultants. Aligning all of these actors is largely about building relationships and understanding self-interest, and can be impeded by many things: the lack of real or perceived self-interest; cultural, historical, racial, or legal barriers; or the direct personnel and institutional costs associated with making the relationships effective. To overcome such obstacles, a range of actors must expend significant time as well as political, social, and economic capital. They must literally and metaphorically “subsidize” the relationships, sectors and interests until new habits of thinking, acting, and collaborating enable alignment to occur more naturally. Usually, intermediaries or brokers are required to build relationships, raise money, remove both political and practical obstacles, and move information back and forth. Such intensive, targeted, and prolonged brokering can lead to lasting change for poor communities by altering the way key individual and institutional actors see their interests, their relationship to one another, and the range of possible strategies they can engage in collaboratively. It is a fundamental way to get the most out of place-based work. Successful brokering can change perceptions as well as systems, and play a decisive role in how resources are allocated.

Learning and Adapting along the Way

Learning is a continuous process; it requires a commitment to support people to reflect on their work in ways that can lead to ever-improving performance. Evaluation in community change work has been increasingly viewed as a means to enhance real-time learning and decision-making, refine strategy, and institute midcourse corrections. Soliciting the opinions and priorities of multiple and diverse stakeholders in developing key evaluation questions cultivates ownership of the learning process and increases the likelihood that results will be useful, relevant and credible for potential users. The iterative process of learning and doing helps to position evaluation as a tool for improving practices and nurturing change at every level. No longer an outsourced function, it becomes the collective responsibility of all stakeholders. In order to support this process, funders and evaluators must often work hard to provide sufficient resources and structures to support learning, and to create a culture that values candid dialogue and analysis and embraces the idea of learning while doing.

Conclusion

When the first CCIs were created more than two decades ago, their designers understood that alignment of their many parts would be the critical step in generating meaningful change in poor communities. The assumption was that a “comprehensive” approach to neighborhood change would generate the necessary alignment in programs and strategies, and that “community building” would generate the necessary alignment among stakeholders. As it has turned out, alignment has been harder to achieve than was anticipated. It does not automatically result from a one-time community planning process or from a foundation-sponsored initiative. The alignment that is needed is about fundamental ways of working and addresses goals, activities, capacities, relationships and learning priorities. It also needs regular recalibration as the work proceeds. As with most ambitious change endeavors, we start with a hope for an efficient and direct route to our goals, only to find that there is no easy path or short-cut. As a result, it is critical to identify lessons as we go along and incorporate them into the next round of work. **CI**



Understanding the Different Types of Low-Income Neighborhoods

By Elwood Hopkins¹, Emerging Markets, Inc.

No one who has ever searched for a new apartment would suggest that all neighborhoods are the same. Some have rows of old houses and bungalows, divided into rentable units while others offer tall high rises with underground parking. Some neighborhoods are quiet and family-centered; adults commute elsewhere to work, and schools and playgrounds are the only sites of daytime activity. Others are hipper, edgier. They come to life in the evening with street noise, restaurants, and shops that are open late. Some feel like cheerful places where positive changes are afoot. Others feel abandoned.

These differences matter when it comes to place-based investing. A major retailer scouting new store locations would not make the mistake of treating all neighborhoods equally. There are places with pedestrian traffic and rows of small shops clustered tightly in commercial districts. There are others defined by pass-through vehicular traffic. Some are clearly disinvested, with deferred maintenance

on buildings and telltale broken windows. Others have evidence of small repair projects and manicured lawns. Some feel safe. Others do not.

And yet, when foundations and governments carry out place-based initiatives aimed at revitalizing low-income neighborhoods, they often rely on routine data points—the poverty rate, the unemployment rate, the level of childhood asthma—that fail to capture the diversity of low-income neighborhoods, not only their challenges but also their assets. As a result, place-based initiatives are endlessly and unnecessarily surprising to the people who manage them. Professionals are constantly learning anew that a job training program that worked well in one community seems to be slower to achieve results in another. And while a major multi-use development sparked additional investments in one neighborhood, a similar project had no apparent secondary effects in another. While there is a lot to be said for “learning by doing,” many of these “lessons” could have been anticipated if there had been a

Low-income neighborhoods are not all the same. But neither are they so unique that we must shrug our shoulders and abandon any hope of finding patterns.

systematic way of organizing what we know about different types of low-income neighborhoods.

This article has a simple premise: Low-income neighborhoods are not all the same. But neither are they so unique that we must shrug our shoulders and abandon any hope of finding patterns. Neighborhoods, of course, cannot be fully known through predictable, scientific models. Their populations are ever-shifting, their boundaries are permeable, and their very existence is conceptual. A neighborhood provides none of the laboratory conditions that allow for control groups or double-blind studies.

But there are helpful patterns that we can use to classify neighborhoods into an array of types—a typology, if you will. And these types can be instructive, informing the choice of strategies and interventions, the kind of outcomes that can realistically be attained, and the timeframe required. But how do you create such a typology? And how do you classify specific neighborhoods within this typology?

Establishing Neighborhood Typologies

Interest in neighborhood typologies has risen in the last decade, stimulated by the availability of new, accessible data sources, like the National Neighborhood Indicators Project and GIS mapping programs. Through a statistical technique called “cluster analysis,” researchers can sift through raw data by geographic area, identifying and grouping those neighborhoods that share the same bundle of characteristics.

Depending on the data collected, researchers can devise typologies through a wide variety of lenses. One of the most common typology systems categorizes neighborhoods in terms of their housing situation, for example, the condition of the housing stock and the level of home ownership.² Typologies concerned with housing have multiplied as policymakers cope with the foreclosure crisis. The more that policymakers and developers can differentiate neighborhoods by the level of foreclosure risk and the financial situations of residents, the more readily they can design neighborhood-specific responses.³

Another common lens is health. Where someone lives has direct and indirect implications for their health. The ability of public health officials to classify neighborhoods by the various factors that impact health enables them to make informed choices about the kind of prevention and

treatment strategies they should pursue, as well as inform the work of land use and infrastructure planners whose decisions can influence resident behavior.⁴

Neighborhoods can also be classified from the vantage point of transportation and the way they are shaped by traffic flows. Planners understand that communities with dead end streets, challenging topographies, and cul de sacs have different travel patterns than ones with gridded streets, heavy pass-through traffic, or direct access to freeways and mass transit.⁵ Decisions about transportation networks have a broader influence on quality of life, as well, affecting energy consumption, air pollution, and access to jobs and neighborhood services.

For social service programs, neighborhoods are often studied in terms of family needs and the socio-demographic composition of the neighborhood. A city or county's social service infrastructure encompasses a wide array of interventions: support for foster families, early childhood development programs, structured after school activities, parenting classes, domestic abuse, and many others. Deploying the right mix of programming depends on a nuanced understanding of what the neighborhood looks like in terms of family structures and needs.⁶

Race and class are also powerful frameworks for classifying neighborhoods, as well as for monitoring neighborhood change. Much transition in urban neighborhoods is fundamentally about one economic class or income group displacing another, as in the case of gentrification, or one ethnic group arriving or leaving. Race or class taxonomies can help planners and practitioners to be conscious of seemingly subtle transformations as a community evolves from one type to another.⁷

Finally, the Harwood Institute has developed a neighborhood typology system that seeks to assess a given community's local problem-solving capacity. The “Community Rhythms” model proposes a five-stage process through which communities develop their social capital, accumulating leaders, strong organizations, and capacity for collaboration over time.

Market-Oriented Typologies

Increasingly, particularly as public subsidy must often be leveraged with private investment, neighborhood typologies have moved toward an explicit market-orientation. These market-oriented typologies categorize neighborhoods according to their ability to participate in regional economies.

In 2001, for instance, The Reinvestment Fund (TRF) developed a taxonomy of “market types,” which assesses the market value of various neighborhoods and sorts them into categories such as Regional Choice, High Value/Appreciating, Steady, Traditional, Distressed, and Reclamation Areas. For each category, TRF recommends a different

set of priorities for public sector interventions. In doing so, TRF directly shaped the City of Philadelphia's Neighborhood Transformation Initiative, creating a new kind of policy conversation regarding how government can best stimulate market forces in distressed neighborhoods.

D. Garth Taylor, Senior Research Fellow at the Metro Chicago Information Center, worked with the John D. and Catherine T. MacArthur Foundation to devise neighborhood typologies that could guide philanthropic investments in Chicago neighborhoods. A particular contribution of Taylor's work was a categorization of communities according to their degree of connection to regional economic opportunities (derived in part by finding the zip codes of each resident's place of employment) as well as their resiliency to economic downturn. The foundation was able to customize its investments to each community's situation.

Robert Weissbord and his firm, RW Ventures, has partnered with Living Cities in an ambitious effort at creating the Dynamic Neighborhood Taxonomy. The goal is to move beyond a static set of neighborhood types to understand how neighborhoods evolve from one type to another. Their work is based on the assumption that the evolution of a neighborhood's type depends not only on traits inherent to that neighborhood, but how the neighborhood is positioned relative to larger economic, social, and political forces. The Dynamic Neighborhood Taxonomy not only includes a nomenclature for different types of neighborhoods (e.g. Bedroom Community, Bohemian, Urban Commercialized, or Starting Families), it measures

the degree of deterioration or improvement and monitors shifts from one type to another. The system also describes change as gradual or "tipping point" and identifies key drivers for change.

Emerging Markets: A Retail Market Typology

Like the Reinvestment Fund, Metro Chicago Information Center, and RW Ventures, then, the Emerging Markets approach to neighborhood typology is market-oriented. But it is expressly designed to inform our work. Emerging Markets, Inc., a for-profit consulting firm is hired by major corporations, especially banks and supermarkets, to open up retail locations in under-served neighborhoods and grow profitable business opportunities. The Center for Place-Based Initiatives mobilizes philanthropic and public sector resources to help those neighborhoods become ready as markets to receive those corporations. Our neighborhood typology is intended to serve as a shared strategic framework for helping these two entities to work together in Los Angeles neighborhoods.

Since our ultimate goal is to bring corporate retailers into the neighborhoods, we need to understand the community's ability to absorb these retail investments and to identify the structural barriers that have prevented them from accessing regional economic opportunities. And we need to explain these market imperfections in ways that are helpful to big banks and supermarkets as they prepare their business growth strategy, and informative to funders who wish to build community capacity.



To develop this picture of the neighborhood, we developed six distinct sets of questions. Each set aimed to characterize a particular aspect of the neighborhood's economic capacity.

1. *Degree of Assimilation:* Is there a large immigrant population in the neighborhood? What is their degree of economic assimilation? Do they work in informal sector micro-enterprises? Do they use banks or operate in the cash economy? Do they mainly speak English or their language of origin? All of these questions begin to paint a picture of whether the households in the neighborhoods are prepared to connect to the mainstream economy or more likely to exist at the fringes.

2. *Stabilization:* Have local households and firms existed in the area for long periods of time? What is the home ownership level and average length of tenure? Is there a demographic shift or migration of some kind taking place? Is it a contested change, fueling conflicts among groups or an orderly one? Are there long-standing civic associations (like block clubs, neighborhood watch groups, or high school alumni associations)? These questions show whether the community is a settled place where residents are more likely to invest in their surroundings and establish strong social networks with friends and neighborhoods.

3. *Value:* Are land values rising, falling, or staying the same? How do they relate to median land values for the city and to those of surrounding neighborhoods? What about rents? Are there large numbers of home sales? Are they generally owner-occupied or do they have absentee owners? Are yards well cared for and manicured? Are there high numbers of property crimes? What do realtors have to say about the local housing market? These questions speak to the value of property and whether that value is accruing to the residents or others.

4. *Competitive Labor Pool:* What are the employment and income levels of adults in the neighborhood? Is employment rising or falling? Are specific types of jobs affected? Are the skills of the unemployed transferable to new or growing industries? Are the educational attainment and skill levels of residents positioning them for the available jobs? What types of salaries can residents likely earn in the short-term? These questions aim to characterize the local labor pool, its readiness for the workforce, and its competitiveness relative to other neighborhoods.

5. *Capital Flows:* Can we measure the inflow and outflow of money that is taking place in a given neighborhood? Are residents spending money in local businesses, or are they shopping outside of the neighborhood, in a phenomenon known as *leakage*? Are they saving, even modest amounts, or accumulating assets? Are absentee

In the real world, a neighborhood can share traits from more than one type. But there is almost always one type that best characterizes a given neighborhood.

landowners investing in the upkeep or improvement of their properties? Are they keeping them in active use, or are they speculating? Are local employers hiring and contracting from within the neighborhood?

6. *Political Economy:* Is the local government connected with regional business leaders in a productive way? Does it have a metropolitan orientation, or a small town feel? Do elected officials and local government bureaucrats understand the economic conditions of their neighborhood, and the capabilities of their labor pool? Do they understand their neighborhood's competitive advantages relative to other neighborhoods? Do they have the wherewithal to act on that understanding? Does the civic and nonprofit infrastructure have an economic orientation?

In the method we're developing, we collect information for each of these six thematic sets of questions. Some questions require empirical or statistical data. Others call for more subjective assessments, culled from interviews or focus groups conducted among different population segments. For each set of questions, a neighborhood is given a numerical ranking that situates it along a spectrum between two extremes. A neighborhood can demonstrate traits from both sides of a spectrum—recent immigrants can exist side-by-side with families that have lived where they are for generations. Neighborhoods with similar combinations of rankings are grouped together as a type. These types are not mutually exclusive. In the real world, a neighborhood can share traits from more than one type. But there is almost always one type that best characterizes a given neighborhood. This type can be used as a "strawman" to be reacted to and refined. Neighborhoods can also transition from one type to another. Although it is common to speak of neighborhoods "getting better" or "getting worse," these neighborhood types cannot be ordered from "good" to "bad," and there is no singular pathway along which a neighborhood proceeds from one type to the next. The reality is more complex. In any given neighborhood, some factors can be improving at the same time that others are worsening. And while a neighborhood may evolve from one type to the next, it does not follow a pre-ordained process for doing so.

Los Angeles: Eight Types of Low-Income Neighborhoods

Using the process described in the article, we analyzed neighborhoods throughout Greater Los Angeles, and identified eight neighborhood types, each one defined by its prospects for economic development and the readiness of its residents and organizations to maximize those prospects.

Almost Middle-Class Neighborhoods (e.g. Boyle Heights or Hyde Park): These neighborhoods are comprised of long-term residents, with high levels of both home ownership and civic engagement, as well as a sense of neighborhood identity. Incomes may be low, but adults often have jobs with promising career ladders, and young adults have both the aspirations and the ability to pursue higher education after high school. These communities can often be transformed by market forces and require less public investment than other neighborhoods.

Invasion Zone (e.g. Exposition Park): These neighborhoods are characterized by rapid gentrification that displaces residents as land values escalate. In a real sense, it feels like an invasion. Although gentrification can be slowed through public sector interventions, most communities allow development to happen, but try to ensure the rights of residents to stay and benefit from the improvements.

Company Towns (e.g. San Pedro): These neighborhoods have an “anchor institution” — a university, large hospital, industrial district, or airport within their boundaries. These institutions, by virtue of their hiring capacity, spending and subcontracting patterns, and overall tendency to attract investments can fuel the local economy. But too often, barriers prevent residents from taking advantage of these opportunities, and the challenge is to better link the neighborhood to the anchor institution.

Working-Class Enclaves: In these neighborhoods, households tend to be working families. Although some are underemployed, many have full-time living wage jobs that allow families to begin saving, which creates a sense of hope and future orientation. As residents grow in consumer power, they typically shop outside the neighborhood, heading to major retailers that have not yet been convinced of the community’s buying power.

Suburban Poverty Pockets (e.g. Moreno Valley, Palmdale, Hesperia): These communities, once the domain of the African American and Mexican middle class, have seen an evaporation of employment opportunities and a rise in poverty rates and crime. Entrenched barriers prevent residents from fully availing themselves of the opportunities around them. There is a need to develop social networks, consolidate their political power, and take advantage of their economic opportunities.

Portal Neighborhoods (e.g. Westlake/MacArthur Park): Portal or “gateway” neighborhoods are the first point of entry into a region for immigrants. Gateway communities often have a profusion of single room occupancy hotels and short-term rentals. Residents may be contending with immigration status issues, speak little or no English, and may be unfamiliar with mainstream financial services, or operate in the cash economy.

Hinterlands: These neighborhoods are so geographically remote from the economic centers of the region that they almost function as rural communities. Low-income families who live in these communities find it harder to secure jobs, resorting to long commutes for entry-level or dead-end jobs. The lack of density makes it difficult to attract businesses and outside capital.

Dormant Communities (e.g. Watts): These neighborhoods were shaped by massive public housing projects, which served to isolate low-income families and have led to high crime rates, low educational attainment and lack of employment. Major public investments are needed in these communities to rebuild the housing stock (such as the HOPE VI program) and to repair the infrastructure needed to attract market forces.

Using a Neighborhood Typology

Neighborhood typologies are not data just for the sake of data; they play a distinct role in ensuring the success of both public and private revitalization initiatives.

In the first instance, a neighborhood typology can help to elevate the dialogue about the goals of the initiative. By engaging around a neighborhood's type, discussions among stakeholders are shifted from a rehashing of the problems and a review of off-the-cuff solutions to a nuanced discussion about what can actually be done to increase economic opportunity in this particular neighborhood. By starting with an assumption about a neighborhood's type, discussion is automatically lifted to more sophisticated questions of strategic choice and economic opportunities. Second, they can help target strategies to the neighborhood. The toolbox of community development instruments has grown incredibly diverse, ranging from affordable housing production to individual development accounts and family asset-building programs, yet not every strategy is the right tool for every neighborhood. And yet nonprofits and funders often choose strategies on the basis of a nonprofit's core competencies or a funder's interest—completely separate from a holistic understanding of the neighborhood, its possible trajectory, and what is really needed. For example, in Vermont/Manchester, community leaders concluded that the attraction of new retailers might not be immediately feasible, so they organized consumers to demonstrate their collective buying power and needs, working with existing supermarkets to improve service standards, product mix, and profitability. This strategy proved to be more fruitful than trying to provide new retailers tax credits or other incentives to locate in the neighborhood.

This also extends to the selection of partners. When the strategy is clear, the choice of partners falls into place, too. And while community development corporations are likely to perform important roles in the initiative, they are by no means the only or even the best players. If a strategy is to be truly market-oriented, it may be more prudent to partner with trade associations, local chambers of commerce, or business improvement districts. What's more, it may be wiser to partner directly with major employers, investing in them as the anchor institutions that can transform their neighborhoods.

Third, a neighborhood typology allows you to establish upfront the financial resources that will be required to create change. Some neighborhoods require massive public sector investments in infrastructure as a precondition

to change. Others will require major private sector investment. Philanthropic dollars are probably only useful insofar as they can leverage or guide the resource flow from these other sectors. Sizing the financial commitment is crucial, because it erases any illusion that a handful of nonprofits financed by limited grant dollars can accomplish the task. Setting a realistic time frame is also crucial. The simple fact is that altering the overall character of a neighborhood takes time. And change will almost certainly take place incrementally, not in a sudden flash. Understanding this reality will help to sustain the proper attitudes and morale throughout the process. Finally, one of the most powerful uses of the typology is that it can help create a widely-shared understanding of where the neighborhood is going that everyone, not just urban planners and community development practitioners will understand. Too often, discussions of workforce pipelines and real estate developments happen "above the heads" of neighborhood residents. But while residents may not be directly involved in the allocation of funding or the technical details of a real estate transaction, they are the prime participants in shaping a neighborhood's future. If the goal is to promote local shopping and prevent "leakage," there is nothing more important than having local consumers mobilized around this idea. For instance, in Pacoima, in the Northeast San Fernando Valley, a bank was concerned that it might not succeed, because residents lacked basic familiarity with banking services. School-based parents' centers and churches worked together to mount a neighborhood-wide financial education strategy. And if the need is for major infrastructure investments, only significant grassroots mobilization will create the political will for such investments.

In short, the neighborhood taxonomy provides a shared framework and common language through which the private, public, and nonprofit sectors can frame collaborative approaches to guiding the development of the neighborhoods in which they had an interest. And that may be the most compelling use for a neighborhood typology.

At the end of the day, typologies like these may even promote new types of neighborhoods, with new mixtures of income groups living side by side. In any market economy, there will always be "sorting of residents" by ability, personal preferences, and inherited assets. But in a region that works, that sorting will be a little fairer. Neighborhoods will not be dead-ends, but staging grounds from which people will access economic opportunities. **CI**



Five Simple Rules for Evaluating Complex Community Initiatives

By Thomas Kelly, Jr., The Annie E. Casey Foundation

Complex community initiatives are... complex. Evaluating them can be an even more complex undertaking. Community change initiatives (CCIs)¹, indeed most comprehensive place-based initiatives, consist of multiple interventions over a number of years at individual, group, institutional, social, and political levels. Any one of these interventions could be an evaluation in and of itself, but with a CCI, you want to capture what matters. But what do you measure? How often? Which methods should be used? And how does what you measure influence the very nature of the CCI itself?

Over the past 10 years, the Annie E. Casey Foundation has been funding, implementing, and evaluating Making Connections, a CCI in 10 urban neighborhoods across the U.S. As part of the evaluation team for this initiative, I found that I have compiled lists of rules and lessons for myself about the evaluation process, and these lists have

become important reminders of things to consider when embarking on the evaluation of a comprehensive place-based initiative. In particular, the final evaluation and documentation of Making Connections has reinforced five lessons about evaluating CCIs that I wish I had known ten years ago. They're certainly not hard-and-fast rules—maybe one lesson I've learned from this work is that there are no hard-and-fast rules! Instead, think of them as prompts to consider when planning and implementing evaluations of CCIs and other place-based initiatives.

1. Evaluations of complex, major initiatives are not experiments but part of the community change process

When it comes to CCIs, there is no single theory or model, no simple causal relationship that can be tested with traditional experimental designs. You can forget



classic approaches such as the objective view of the evaluator and random assignment or control versus treatment cases. Communities are much too complex, and constantly changing as a result of both internal and external forces, and so the community in a place-based initiative becomes simultaneously the experimenter, the research subject, and part of the interventions.

Controlling all the factors at play in a community is impossible. Too many contextual variables are present for evaluators to control for or examine fully—think about the rich fabric of community life, and all the relationships, transactions, forces, and happenstances that occur every day. As researchers, we are limited in our ability to define and control the conditions under which we implement place-based interventions. As a result, CCIs are not appropriate for experimental or quasi-experimental research designs that require both a more certain pre-definition of the intervention we want to test and more control of variables than we are able to have in a changing environment. For example, if a CCI includes a workforce development component and manages to move 100 residents into new jobs, but then a huge company opens up a plant in the neighboring “non-treatment” community and commits to employing 1,000 neighborhood residents, would that mean that the CCI was not effective compared to the community that didn’t have a CCI?

This does not mean that CCIs are not evaluable. To truly understand the impact of a CCI, evaluations must be designed so that they include constant assessment, adaptation of strategy, and accommodation of interventions to new and changing conditions. They must include rigorous measurement tools and methods, and be implemented throughout the life of an initiative, not just at the beginning and the end. The evaluation should catch the construction of the plant in the neighboring community well before the final employment statistics are revealed, and this knowledge should help to direct choices about workforce development as part of the CCI. In this way, the evaluation constantly informs the choices and strategies for community change. The very process of collecting and reporting data become interventions.

This means the evaluation itself is capable of changing a community.

This point alone argues that evaluation must be developed as part of a CCI, linked closely to the CCI’s goals and theories, and not just tagged on as an afterthought to satisfy a donor.

2. Evaluations of CCIs need a strong focus on the processes of community change

Building on the first point, credible, useful, and relevant evaluations of CCIs need to focus not on simple cause-and-effect relationships, but instead should strive to illuminate the interactions across multiple pathways over

time. Predicting cause and effect isn't possible in complex community systems, nor can we replicate the exact conditions and interactions in another community because of the unique factors and history of each one. For this reason, an evaluation that focuses solely on establishing causal relationships will not contribute meaningful and useful information; even if a methodologically rigorous evaluation could uncover the relevant cause-effect relationships, we would be unable to replicate the same success in another place and at a different time.

Instead, evaluations of CCI should include a strong focus on documenting and examining process, implementation, interactions, and multiple effects (intended and unintended); and these methods must provide information in real-time (or as close as possible) for learning and feedback to the community. Unfortunately, many evaluations give process less attention and dedicate the majority of resources to documenting outcomes and establishing causality. But in CCIs, the process of community change is both the intervention and the intended outcome (as well as the output) and as such, we need an intentional focus on documenting the factors that influence change, not just what the change results in on the other side. Moreover, focusing on the process allows the evaluation to directly inform ongoing decisions related to strategy and approach. One prominent evaluation researcher calls this approach complexity-based developmental evaluation.² Developmental evaluation offers CCIs the ability to include in their multiple interventions the assessment, learning, and critical analysis that evaluation can bring if it is both integrated in and responsive to the changing needs of the community.

3. Evaluations of CCIs need to measure ongoing progress towards achieving outcomes and results in order to help a community guide its change process and hold itself accountable

Although a stronger focus needs to be placed on assessing and providing feedback on the process, complex relationships, and interactions present in a CCI, this does not mean that outcomes and results should not or cannot be defined or measured. In fact, the 10-year experience of Making Connections emphasized the need for complex community initiatives to define specific results on which all community participants can focus, and hold themselves collectively accountable as well.

Achievement of positive outcomes and results is how the process of community change is reinforced and sustained. CCIs are the most successful when they have been able to define explicit results and outcomes that multiple agents and community constituencies can share. These results provide the focus and mission (the "so what"), but also the relevancy and reinforcement that community change processes must have to justify the difficulties

With transparent reporting of data, it is also an instrument of accountability and feedback capable of motivating, informing, and reinforcing positive change.

of transforming the status quo. For example, despite the diversity of the Making Connections sites (and their very different development trajectories), each of the communities was focused on achieving a few positive outcomes such as an increase in the number of children who are prepared to succeed in school. A goal like this can serve as a benchmark for multiple stakeholders in a community, even though each stakeholder may approach it quite differently, be it providing immunizations, creating an urban garden to ensure access to fresh fruits and vegetables, launching a literacy campaign, or lobbying for educational policy changes in the school district.

The extent to which communities can collaboratively and comprehensively come to common agreement and understanding of a reasonably sized shared list of outcomes is again a measure of whether community change, that is change of and by the community, is possible. Evaluations play a role in helping communities define not only reasonable outcomes based on their goals and needs, but also in developing meaningful measures of progress that will inform and provide feedback on an ongoing basis over several years.

Evaluations of CCIs also need to help communities understand the difference between program or single agency-level outcomes and neighborhood-wide or population-level outcomes, and measure each. Community-wide change at the population level is rarely achieved through an additive process of multiple tactics or actors. Instead, simultaneous strategies occurring at multiple levels within the system are needed. Data measurement and evaluation must help communities and implementers measure incremental changes, such as the number of community residents who found new jobs, as well as instrumental or system change, such as a drop in the neighborhood unemployment rate or a shift in workforce development policies at the state level.

Evaluation here is not simply the regular measurement of performance and interim progress. With transparent reporting of data, it is also an instrument of accountability and feedback capable of motivating, informing, and reinforcing positive change. CCIs need to include and integrate evaluation as an intentional intervention and evaluators need to be prepared to act and interact within the community change process in this way—evaluation as an instrument of learning and accountability.

4. Evaluations of CCIs need to understand, document, and explain the multiple theories of change at work over time

Given the broad scope of intervention and reach that CCIs embrace, many initiatives have struggled with focus and an integrated approach or theory. Often what is named or defined as “theory” within CCIs is a general theory of implementation, a theory of how the primary funders and implementers intend to act on and with the community. Too often, we do not explicitly define upfront the theories of achieving broad community scale and reaching an improved and sustainable state of transformation. However, having a clear, broadly shared theory of how community change happens is important to helping the field advance.³

Evaluations traditionally focus on single theories—for example, increasing the childcare tax credit will increase work among single mothers—but in a CCI a single theory is not sufficient. CCIs are usually driven by multiple theories from a wide range of disciplines. Microeconomics, macroeconomics, sociology, cultural anthropology, individual and community psychology, organizational behavior, management science, political science, and many other frameworks or theories provide a basis of understanding community change and their related interventions. Evaluations of CCIs cannot track and measure all these theories. However, they should help communities and implementers understand the implications of these theories for program design and document the effects that the critical ones have on the community change process at different times.

As stated in rule #1, CCI evaluations cannot be conducted with a goal of documenting and proving a single strategy for replicating community change because community transformation is a complex process that cannot be replicated exactly. Instead, evaluations in these initiatives need to document and explain which relevant forces, strategies, and interactions are important to pay attention to at different stages of change. This will help inform future decisions and implementation strategies that increase the likelihood of positive impact.

5. Evaluations of CCIs need to prioritize real-time learning and the community’s capacity to understand and use data from evaluations

CCI evaluations and evaluators need to prioritize the learning and accountability capacity of the community as a critical requirement of the evaluation but also a necessary element of community change. This self-assessment and learning capacity cannot be built only within a few individuals or organizations. If communities are going to create and sustain large-scale change within their systems, learning and accountability need to be fundamentally integrated at all levels and across the community as a whole.

Building self-evaluation, learning, and accountability capacity and infrastructure among and inside organizations, systems, and the community is a necessary task of the evaluation. CCI evaluators need to understand and apply adult-learning and organizational change approaches to building and incentivizing assessment and analysis capabilities. CCI evaluators need to build their own capacity to evaluate change while simultaneously being an engaged and trusted participant in the community change process and in community itself. Also, to be relevant and effective, CCI evaluations cannot be implemented “outside” the community. Both the community and evaluators need to build relationships and capacity to work together to make sure that effective community transformation is informed and reinforced by strong and relevant data collection, analysis, and reporting on process and outcomes.

Conclusion

As part of Making Connections, The Annie E. Casey Foundation made a commitment to undertaking this type of broad evaluation of its sites, and gathered both quantitative and qualitative data to help to inform the community change process and its outcomes. But perhaps most importantly, the lessons from Making Connections and other place-based demonstrations will help others to understand not only the links between process, interventions and outcomes, but also the critical role that evaluation can play in ensuring those outcomes. Evaluation implemented well and practiced intentionally can be the most critical ingredient of transformative community change. **CI**



Understanding How Place Matters for Kids

By Susan J. Popkin, Gregory Acs, and Robin Smith, The Urban Institute

Introduction

A central goal of U.S. social welfare policy is to ensure that all children have the opportunity to reach their full potential as productive adults. Yet it is increasingly clear that where children live plays a central role in determining their life chances. Children growing up in high-poverty neighborhoods, with extreme levels of racial and economic segregation and inadequate public services—police, schools, sanitation, grocery stores—are at risk for a range of negative outcomes, including poor physical and mental health, cognitive delays, risky sexual behavior, and delinquency.¹ The consequences for these children's life chances—and for society—are severe: they are more likely than those who grow up in less distressed communities to drop out of high school, get involved in gangs, become teen parents, and less likely to be employed when they reach adulthood.²

Despite the importance of place, there has been comparatively little research on the ways that the neigh-

borhoods where children live affect their transitions to adulthood or on the characteristics other than poverty that might influence their development. Even fewer programs or policies have tried to address the community mechanisms that might be causing such bad outcomes. Rather, the majority of research and policy attention concentrates on the individual child, the child's family, and school settings, touching on many points along the path to adulthood, beginning with pregnancy planning, and continuing through pre- and postnatal care, early childhood development, schooling, and the myriad challenges confronting adolescents as they transition into adulthood. As a result, policies aimed at helping disadvantaged children and youth tend to focus on individual families and children and on school-based reforms. Even the highly regarded Harlem Children's Zone, which does aim to address multiple dimensions of the broader community, has as its core a state-of-the-art charter school program.³

Current research on neighborhoods and their impact on children and youth shows a strong correlation between concentrated poverty and a range of negative outcomes.

Part of the problem is a lack of research that explicitly ties youth outcomes to neighborhood factors, as opposed to parental or other household socio-economic variables. The Urban Institute has long been involved in trying to understand how places matter, and we have recently extended our focus to look explicitly at youth. Our view of how neighborhoods influence and interact with other factors to impact youth draws on Bronfenbrenner's ecological systems theory of human development.⁴ Specifically, we believe that there are multiple layers or spheres of influence that affect children and adolescents as they move toward adulthood. These spheres include a youth's own individual characteristics (e.g., self-esteem, attachment to achievement in school, attitudes about relationships, aspirations, intelligence); family background (e.g., family structure, income, residential stability); school (e.g., staff to student ratio, mobility, proportion of children receiving free lunch); and neighborhood (e.g., concentrated poverty, large gang presence, high levels of social and physical disorder, weak social institutions).

So how does the neighborhood sphere influence youth outcomes? Current research on neighborhoods and their impact on children and youth shows a strong correlation between concentrated poverty and a range of negative outcomes. As noted above, adolescents growing up in neighborhoods marked by concentrated poverty are at risk for many negative outcomes, including poor physical and mental health, risky sexual behavior, and delinquency.⁵ Boys are at greater risk for becoming involved in delinquency and crime, and there is much concern about the long-term effects of incarceration and disconnection from the labor market.⁶ Girls growing up in high poverty face gender-specific risks, including pressure to become sexually active at increasingly younger ages, with early sexual initiation bringing its own hazards: pregnancy, the risk of sexually transmitted disease, and dropping out of school to care for children.⁷ All of these threats have serious, long-term implications for the life chances of low-income adolescent girls.⁸ And because of these risks, parents are more likely to severely restrict girls' activity and keep them close to home,⁹ limiting their ability to take advantage of educational or recreational opportunities and placing them at risk for obesity.

Yet the mechanisms that shape these outcomes are less well known, and our understanding of which types of youth outcomes are most sensitive to youths' neighborhood contexts are similarly limited.¹⁰ There are a number of theories as to why kids in better neighborhoods do better, including: (1) higher levels of social organization or collective efficacy (the trust neighbors have in one another and their shared expectations) that promote monitoring of residents' behavior and consequent reductions in threats of neighborhood danger, disorder, and associated conditions;¹¹ (2) stronger institutional resources for youth and their families, including higher quality schools, youth programs, and health services;¹² (3) affiliation with less deviant peer groups;¹³ and (4) higher levels of parental well-being and behavior that promote positive family functioning.¹⁴

But other aspects of the social and physical neighborhood environment that have not as yet been explored may also affect youth outcomes in ways we do not yet understand.

Key Areas for Future Study

Further research is necessary to better understand how specific features of a neighborhood influence outcomes for youth from various demographic backgrounds. The Urban Institute's Program on Neighborhoods and Youth Development is dedicated to filling this gap in research and policy knowledge. Building on our past research, we have identified three key research priorities: (1) improving outcomes for adolescent girls in distressed neighborhoods, (2) assessing housing and neighborhood-based interventions aimed at improving outcomes for at-risk youth, and (3) supporting vulnerable youth and their transition to adulthood.

Adolescent Girls in Distressed Neighborhoods

Previous research on the Moving to Opportunity for Fair Housing (MTO) Demonstration revealed some puzzling findings about the impact of place on adolescent girls.¹⁵ MTO was a unique attempt to try to improve the life chances of very poor families with children by helping them leave the disadvantaged environments thought to contribute to adverse outcomes. MTO targeted families, most of them African American or Latino, living in some of the nation's worst neighborhoods—distressed public housing—and used housing subsidies to offer them a chance to move to lower-poverty communities. The hope was that moving would provide access to safer neighborhoods with better schools. In these safer neighborhoods, adolescents—both girls and boys—would be exposed to fewer negative influences like gangs and drugs, and should then be at lower risk for mental health problems and delinquency and other risky behavior. But, surprisingly, interim findings from the MTO demonstration showed

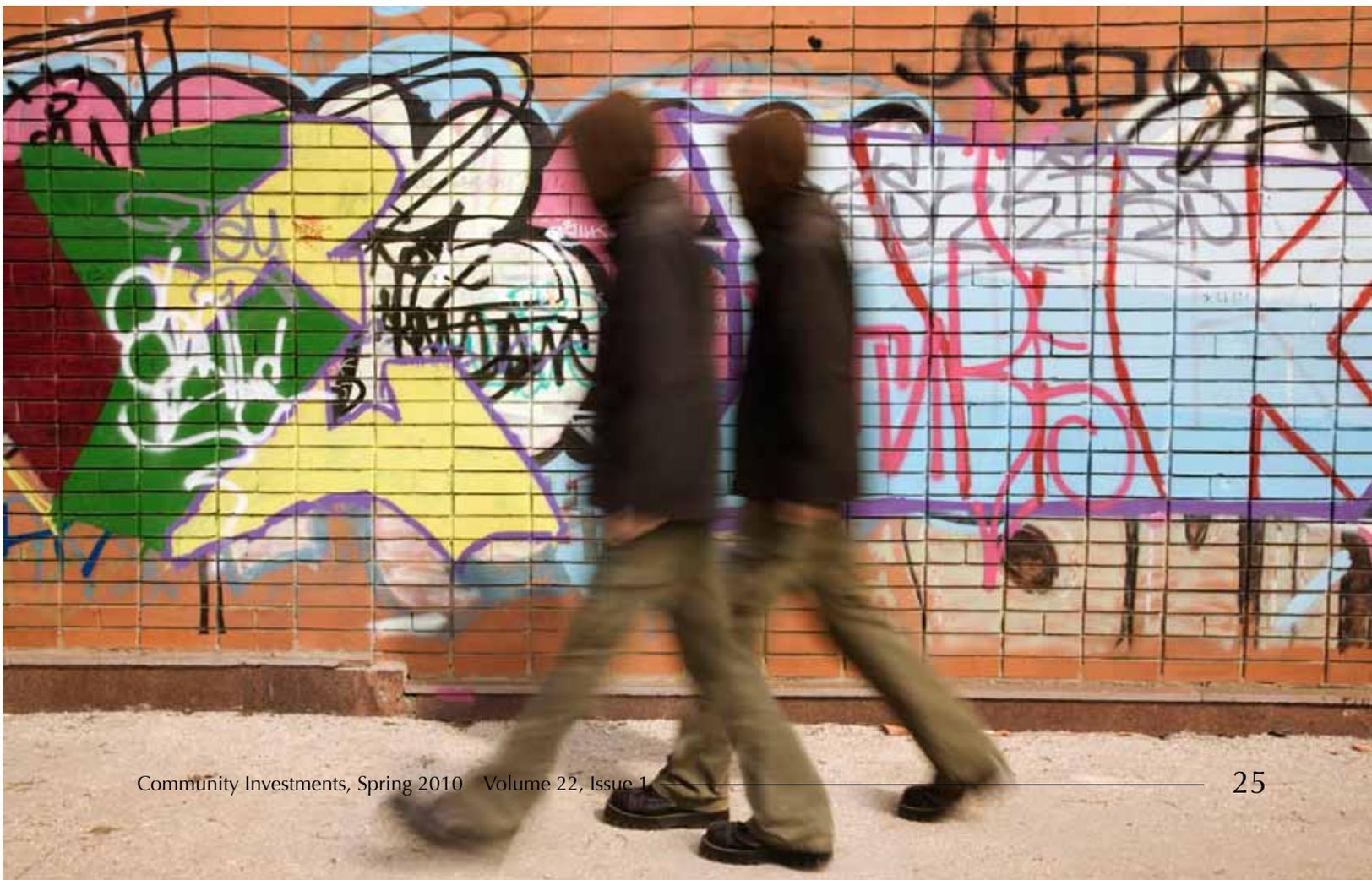
dramatic improvements for adolescent girls in the experimental group in terms of mental health and reduced delinquency, but no comparable benefits for boys.¹⁶ Qualitative research intended to probe this puzzle suggested a potential explanation for these gender differences, specifically that for girls, moving to lower poverty not only meant less exposure to gang violence and drug trafficking, but a profound reduction in fear of sexual harassment, coercion, and violence.¹⁷

Based on these findings, we theorize that certain high poverty neighborhoods are characterized by a coercive sexual environment (CSE), and it will be important to articulate the elements of CSE within neighborhoods; develop a measure of CSE that can be tested via a comprehensive survey of adolescent girls; and create a measurement tool or index to assess community-level risk factors and allow practitioners to more strategically target interventions aimed at the neighborhoods in which at-risk middle and high school youth reside.

Although CSE may influence many outcomes for youth of different ages, sexes, and race/ethnicities, we believe the issue is particularly important among adolescent girls. Adolescent girls in high-poverty neighborhoods are at high risk for sexual coercion and assault. Such victim-

ization has profound long-term consequences for girls' overall well-being; thus, it is critical for prevention efforts to identify modifiable factors that can reduce the risk of victimization. Evidence that poverty and disadvantage within neighborhoods correlate with intimate partner violence and sexual assault highlights the role of neighborhood environments; however, characteristics such as poverty and disadvantage are not likely to be causally related to such victimization. Rather, our qualitative evidence from research on MTO strongly suggests the role of omnipresent sexual threats, sexual harassment, and a resulting climate of fear of victimization within many disadvantaged communities.

However, to understand how a CSE might lead to negative youth outcomes, we need to better understand the elements that make up a coercive environment, and then explore the role of a CSE in increasing risk for adolescent girls. The ultimate goal of this research is to provide guidance for the development of targeted neighborhood-level interventions to reduce the CSE, and ultimately reduce the burden of sexual violence and coercion among female adolescents. The hope is that in targeting CSEs, we can improve other critical outcomes, such as school completion and delaying childbirth until adulthood.



In comparing youth from distressed neighborhoods with youth from more economically advantaged neighborhoods, researchers found that twice as many youth from distressed neighborhoods fail to earn a high school degree than those from nondistressed neighborhoods.

Housing and Neighborhood-Level Interventions

A second key area for further exploration is the impact of housing and neighborhood-level interventions aimed at improving the life circumstances of very low-income families. Much of this research has focused on interventions aimed at families living in distressed public housing; these families are extremely poor and live in what are some of the most distressed communities in the nation.

The Urban Institute's five-site HOPE VI Panel Study explored the impact of the HOPE VI program, the \$6 billion federal effort to transform distressed public housing into healthy, mixed-income communities, on residents' lives.¹⁸ Our research indicated that most of these families ended up using vouchers to move to communities that were less poor and distressed than their original developments, relatively few returned to the new developments, and a substantial minority ended up in other traditional public housing. Outcomes for children were a critical part of this research; our findings indicated that those who moved out of public housing benefited from living in neighborhoods that were dramatically safer, but as in MTO, did not move to areas that offered access to better schools or employment opportunities. Further, our research indicated that youth who remained in distressed public housing were experiencing higher rates of behavior problems and delinquent behavior over time—most worrying, this effect was especially pronounced for girls.¹⁹ We are currently conducting follow-up research in one of the HOPE VI Panel Study sites, Chicago, and will have more evidence on longer-term outcomes for these families.

Vulnerable Youth and the Transition to Adulthood

The Urban Institute recently completed a project for the Office of the Assistant Secretary for Planning of Evaluation at the U.S. Department of Health and Human Services that examined the role of different aspects of youth vulnerability and risk-taking behaviors on several outcomes for young adults. The project used data from the National Longitudinal Survey of Youth 1997 Cohort. In comparing youth from distressed neighborhoods with youth from more economically advantaged neighborhoods, researchers found that twice as many youth from distressed neighborhoods fail to earn a high school degree than those from nondistressed neighborhoods. Similarly, youth from distressed neighborhoods are half as likely to be consistently connected to work or school between the ages of 18 and 24 than their counterparts from nondistressed neighborhoods. Finally, youth from distressed neighborhoods are more than three times as likely to have had sex before age 13 than those from less-distressed communities. In future work, Urban Institute researchers hope to gain a better understanding of how neighborhood distress influences these outcomes and to identify modifiable neighborhood level factors that may affect youth at younger ages and set them down a path toward negative outcomes.

Conclusion

Many children who grow up in poor families in low-income neighborhoods go on to finish high school and even college and escape poverty as adults, but too many do not. In particular, adolescents growing up in communities of concentrated poverty are at risk for a range of negative outcomes including teen pregnancy, sexual victimization, dependence on public assistance, and engaging in substance abuse and criminal activity. Although there is considerable research on the relationship between easily measured neighborhood attributes (like poverty and male joblessness) and youth outcomes, recent work suggests that previously underappreciated elements of many low-income communities may contribute to poor transitions to adulthood for adolescents. To date there has been little exploration of the connection between such pressures, neighborhood context, and youth development. We hope the work of the Urban Institute's Program on Neighborhoods and Youth Development can help fill the gap and give policymakers and service providers the information they need to improve the life chances of young people. **CI**



Photo Credit: Taber Andrew Bain

The End of the 460 Percent APR: *Tackling Payday Lending in California*

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Public Interest Law Firm of the Law Foundation of Silicon Valley and
Silicon Valley Community Foundation

Introduction

In these difficult economic times, many consumers are living paycheck to paycheck or struggling to cope with the loss of a job. Regular and unforeseen expenses can quickly pile up, creating immediate liquidity shortages, particularly among low- and moderate-income (LMI) households. Unfortunately, far too many individuals are turning to high-cost payday loans to meet their short-term cash needs.

Payday loans are transactions in which a borrower provides a lender with a post-dated check and receives immediate cash. The borrower's check includes not only the principal, but also any interest and fees charged by the lender. The lender then cashes the check on the borrower's next payday.

Payday loans, sometimes called deferred deposit transactions or cash advances, comprise one corner of a larger

universe of "alternative financial services," which also include check cashing services, pawn brokers, and rent-to-own stores.² Payday loans are typically small—between \$100 and \$300—and California state law caps the amount at \$300.³ The fees for payday loans tend to be extremely high: up to \$17.50 for every \$100 borrowed.⁴ While \$17.50 may not seem like much, on these small loans, it translates into a staggering 429 percent average annual percentage rate (APR), according to the California Department of Corporations.⁵ All of this means that LMI households pay very large fees—well beyond those of the average credit card—in order to meet their short-term cash needs.⁶

This article will examine the current state of the payday lending industry in California and its impact on LMI communities. In addition, we'll explore how policy efforts and access to mainstream banking can limit the negative influence of payday lenders.

The Predatory Nature of Payday Lending in California

Payday lending is widespread in California. In 2006, approximately 1 million Californians were issued payday loans (at an average of 10 loans per borrower).⁷ The Department of Corporations estimated that there were approximately 2,500 payday lending stores by the end of 2006.⁸ Consumer advocates acknowledge that payday loans offer certain advantages; they are easy to obtain and can help some borrowers avoid the damage to their credit scores that, say, a delinquent payment to a credit card company can cause.⁹ However, payday loans, as they are currently structured and permitted in California, too often create difficulties for families and certain fragile communities in ways that outweigh their benefits.

First, payday loans are exceedingly expensive. According to a 2008 issue brief by the Center for Responsible Lending, the typical payday loan borrower ultimately has to pay \$800 for a \$300 loan.¹⁰ It is estimated that payday lending costs Californians over \$450 million annually in finance charges.¹¹

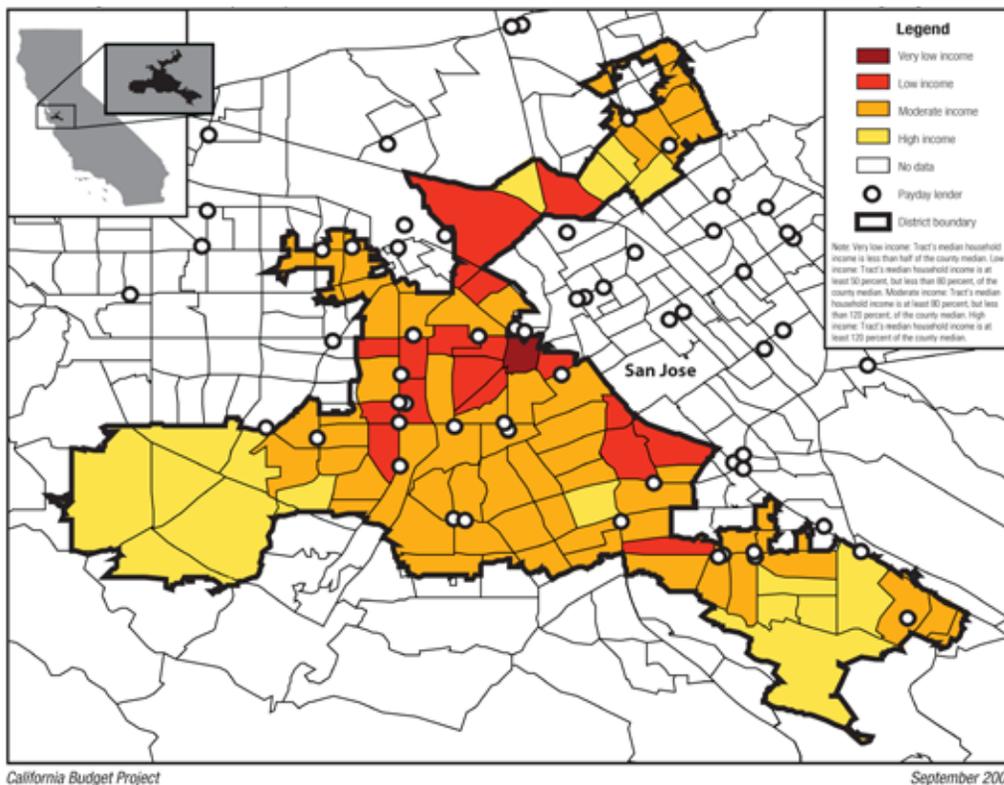
Moreover, payday loans encourage those who are already struggling to make ends meet to further compromise their financial health. As the California Budget Project has stated, “Payday loans encourage chronic borrowing.”¹² Payday loans carry a very short repayment term, usually only until the next payday—or about two

weeks—at which point the full amount of the loan and the finance charge must be paid at once.¹³ Since most borrowers take out payday loans to cover a chronic shortage of income over expenses, rather than to cover emergency cash needs,¹⁴ many borrowers experience another shortfall after their first loan. That shortfall is compounded by the finance charge.

Researchers have recently shown that payday borrowers are twice as likely to file for bankruptcy in the first two years after getting a payday loan, in comparison to would-be borrowers whose loan applications are rejected.¹⁵ These findings are consistent with the interpretation that payday loans might be sufficient to tip a population that is already severely financially stressed into bankruptcy.¹⁶ Other researchers have found that the use of payday loans increases the incidence of involuntary closure of bank accounts.¹⁷ Still others have determined that consumers who use payday loans encounter more financial hardship and have trouble paying other bills, getting health care, and staying in their home or apartment.¹⁸

While these negative consequences are harmful to all sectors of society, they are even more troubling because they disproportionately affect already vulnerable and disadvantaged families and communities. In a report issued in March 2009, the Center for American Progress found that payday borrowers tend to be low-income.¹⁹ Analyzing data from the Federal Reserve Board, the report finds

Figure 1 Concentration of Payday lenders in San Jose, Assembly District 24



that payday borrowers tend to have less income, lower wealth, fewer assets, and less debt than families who have not taken out payday loans.²⁰

The California Budget Project recently produced maps of payday lender locations for each of California's legislative districts (See Figures 1 and 2). The maps present a vivid portrait of California's two-tier finance system by clearly demonstrating that payday lenders tend to be concentrated in low-income communities. In addition to income, studies have shown that race plays a strong role in the location of payday lending outlets. A 2009 analysis by the Center for Responsible Lending finds that California's payday lenders are overwhelmingly located in African American and Latino neighborhoods, even after controlling for factors such as household income.²¹ Their analysis shows that the racial and ethnic composition of a particular neighborhood is actually the primary predictor of payday lending locations.²² Unsurprisingly, then, African Americans and Latinos make up a disproportionate share of payday loan borrowers in California.²³

Policy Efforts to Reform Payday Lending

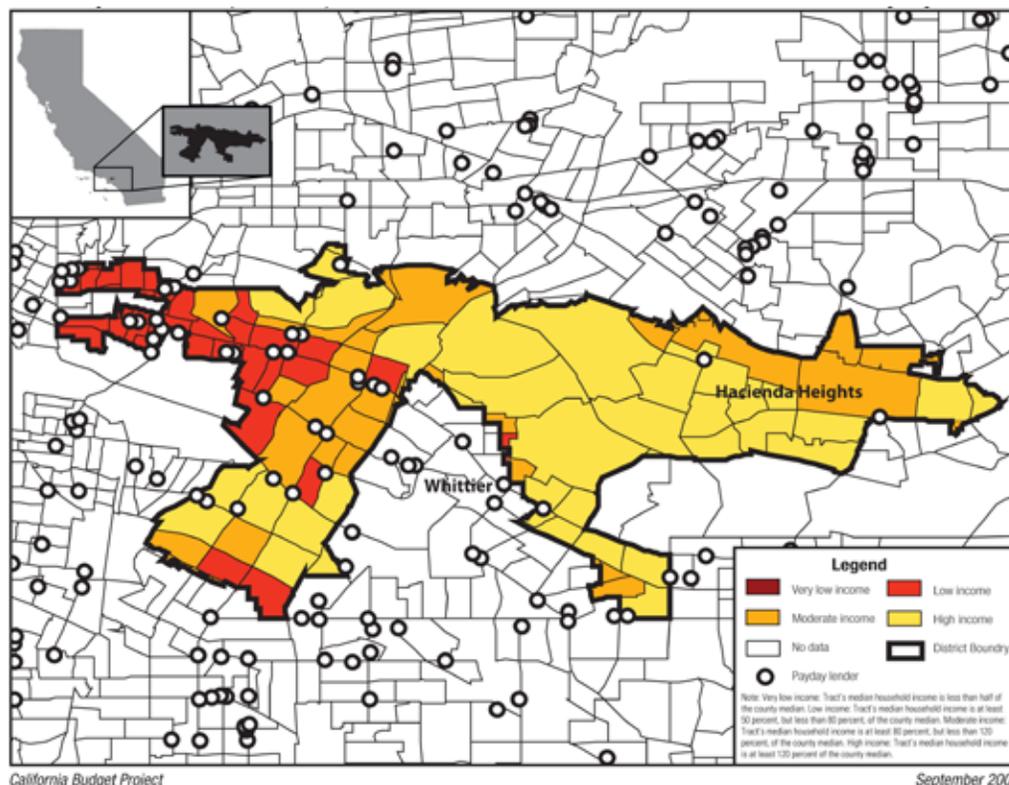
A number of state and local governments have introduced policies to limit the negative effects of payday lending. As of March 2009, fifteen states and the District of Columbia required payday lenders to comply with an annual percentage rate (APR) cap of 36 percent.²⁴ Arizona

will become the sixteenth state to impose a 36 percent rate cap when a provision that currently exempts payday lenders from the cap expires in July 2010. In comparison, California law allows a 460 percent APR on two week payday loans.²⁵

Research has suggested that capping the interest rate at 36 percent for small loans is the most effective means by which states can protect consumers from usurious payday loans.²⁶ In contrast, in states that attempted reforms but did not impose a cap, 90 percent of payday loans still went to consumers who were taking out five or more loans per year.²⁷ In addition to the rate cap, states may consider other effective measures, such as:

- Caps on the number of loans a borrower can receive annually to ensure that payday loans are only used occasionally in the short-term;
- Bans on the practice of holding a check or bank access as collateral or security for a loan to prevent the payday loan from taking precedence over all other debts and the borrower's ability to pay for his or her basic needs;
- Increased incentives to lenders and microfinance programs to make small loans more accessible to consumers; and
- Policies to encourage savings among low- and moderate-income families.²⁸

Figure 2 Concentration of Payday lenders in Los Angeles, Assembly District 58



Local governments also have the power to restrict payday lending through zoning ordinances. Local ordinances designed to reduce or restrict the presence of predatory payday lending within a city's borders include:

- **Moratorium during Study Period.** Such a temporary moratorium could be enacted to prevent new payday lenders from setting up shop while the local government evaluates other, more permanent options.
- **Permanent Moratorium.** Cities may enact a permanent moratorium. They can choose to grandfather in existing stores or make a plan for phasing those stores out.
- **Limits on Density and/or Distance.** Cities may limit the number of payday lending outlets in a geographic area based on either distance or population density.
- **Special Zoning.** Cities can limit payday lending outlets to special zoning districts or a limited number of existing zoning districts.
- **Special Permits.** Cities may require payday lenders to obtain conditional use permits, or other special permits. Cities should ensure that such permits are subject to public notice and comment.²⁹

The Role of Banking Access in Limiting Payday Lending

In addition to regulations and/or ordinances that directly affect payday lenders, another approach has been to increase the market presence and products of mainstream banks in low-income communities.³⁰ Mainstream lending institutions can compete with payday lenders by, in addition to offering traditional finance products, providing products that better meet the needs of potential borrowers. Options include a range of alternative financial products that specifically target the needs of lower-income households:

- **Small consumer loans (a.k.a. small dollar loans).**³¹ These loans are around \$1,000 or less, with interest rates capped at 36 percent or lower, without prepayment penalties. Some of these loan products also have an automatic savings component, limited maintenance fees and an extended repayment period of up to 36 months.
- **Credit union installment loans.**³² Many credit unions offer unsecured installment loans with 18 percent APR or less. These loans are generally structured so that the principal and interest are repaid in equal installments at fixed intervals (usually once a month).
- **Low-cost check-cashing (a.k.a. "ethical" check-cashing).**³³ Some financial institutions provide low-cost check cashing fees, even if the customer does not have an account at that bank.

- **No-minimum-balance debit accounts that do not allow overdrafts.**³⁴

Another critical piece is helping lower-income households build their credit and providing them with tools that can help them navigate the mainstream financial system. Some of the innovative approaches being tried include:

- **Lending circles.**³⁵ These lending arrangements solve the problem of unmet banking needs in low-income communities through the informal economy. Participants contribute a certain amount of money to the "pool" and then each contributor can borrow from it when necessary; over time, each person repays the amount that they borrowed.
- **Alternative credit reporting.**³⁶ Community organizations have developed ways to incorporate non-traditional credit references and scoring for borrowers with little or no credit history into credit reports in order to enable creditors to more accurately assess a person's credit history.
- **"Starter" Bank Accounts.** These accounts, often provided through mainstream banks, are designed to help account-holders build personal savings and establish a credit history in order to be prepared to access more affordable credit sources later.³⁷
- **Pre-paid debit cards.** With these cards, the cardholder determines the quantity of money to add or reload onto the card, which can be equipped with direct deposit, automatic bill pay and automatic savings features, in order to enable the cardholder to easily manage his or her finances. These types of cards have very few restrictions.³⁸

Researchers have noted the importance of assuring that efforts to bring LMI communities into the mainstream financial system, such as starter bank accounts, are coupled with efforts to limit potential risks for consumers.³⁹ For instance, individuals that open their first checking account would now be eligible to take out a payday loan. It is essential to combine efforts to bank the unbanked with solid financial education and training.

Both mainstream banks and community groups have already begun to implement some of these strategies. "Bank on San Francisco," as well as the related "Bank on" programs that have been introduced across the country, have pooled the efforts of local government agencies, key non-profits, banks and credit unions to connect new, lower-income customers with banks and mainstream financial products.

Local community groups have also sought creative ways to build credit in low-income and minority neighborhoods. For example, the Mission Asset Fund, located in San Francisco, connects low-income neighborhood

residents with alternative financial products and provides financial education in order to help build wealth and personal assets. Currently, Mission Asset Fund is partnering with One California Bank to formalize the “lending circle” model in order to allow participants to establish and develop their credit history.

Conclusion

Payday lenders have capitalized on low-income communities’ demand for small-dollar credit products. Recent years have seen a marked increase in the amount of information available about payday lending patterns, as well as the ways in which the payday lending industry strips wealth from families and communities by creating a cycle of escalating debt.

Although information about the effectiveness of various strategies to combat predatory payday lending practices is

less plentiful, a multi-faceted approach seems warranted. Policy efforts should continue at the federal, state, and local level to impose rate caps or other controls to protect consumers. However, given the challenges of strong and well-funded industry opposition, these policies should be complimented by on-the-ground efforts to create more affordable credit products that meet the same needs that payday loans address to some degree. Since the need for readily available small dollar loans is not likely to abate, creating and sustaining non-predatory alternatives to payday lending—whether from mainstream banks and community development financial institutions or from less “traditional” sources like lending circles—is imperative. Further, education and organizing efforts can help empower members of low-income and minority communities to make informed financial decisions, to build wealth in their neighborhoods, and to participate in policymaking. **ci**

Payday Plus SF

The better small dollar loan™

In December 2009, San Francisco Mayor Gavin Newsom and Treasurer José Cisneros launched Payday Plus SF, an alternative payday loan product offered by five San Francisco credit unions that will provide responsible small dollar loans of up to \$500, with low interest rates, financial counseling, and an extended repayment term. The program is designed to help San Franciscans avoid high-interest rate payday loans that often trap borrowers in a cycle of debt.

Some of the key elements of the payday loans offered through Payday Plus SF include:

- **A non-predatory rate:** A short-term loan of up to \$500 with a maximum APR of 18%.
- **Building credit:** Borrowers will be able to build credit as the loan is repaid over a period of up to 12 months.
- **Reducing debt:** The product helps borrowers escape the debt trap by paying off payday loans and consolidating other debts.
- **Access to healthy financial partners:** Credit unions are non-profits with a wide array of healthy financial products and a commitment to working closely with their members.
- **Responsibility:** The program limits borrowers to 3 loans per year and the loan must be paid in full before another advance. The program will also include financial education.

For more information on Payday Plus SF,
please contact Marco Chavarin at marco.chavarin@sfgov.org

RESEARCH BRIEFS

The Effects of Financial Education in the Workplace

The basics of personal financial management are simple—budget, save, and pay bills on time—yet many Americans continue to struggle with unmanageable debt and inadequate savings, particularly for retirement. Financial education is often suggested as a solution for improving financial decision making and programs have been created to target a variety of populations, including workplace programs for employees. But what are the benefits of workplace financial education and how effective are these programs?

Based on the results of a three year workplace financial education pilot program that began in 2006, Kelly Edmiston, Mary Gillet-Fisher and Molly McGrath find evidence of positive changes in personal financial behaviors. The program included both group education and one-on-one counseling components and the findings include evidence of increases in the usage of budgeting and paying off credit card balances every month and reductions in late bill payment. In addition, the researchers find that workplace-related financial outcomes also improved, such as decreased requests for 401(k) loans and pay advances, increased use of flexible spending accounts, and increased 401(k) participation and contributions. Employers provided anecdotal evidence that program participants exhibited better attitudes, higher levels of engagement, and less absenteeism, and all of the companies that participated in the pilot continue to offer the program today.

These findings demonstrate the effectiveness of a carefully designed workplace financial education program, suggesting that such efforts can be an effective means for influencing financial behaviors. In particular, the authors stress the importance of the one-on-one component of the financial education, saying it “is integral to [the program’s] success.”

Edmiston, Kelly, Mary Gillet-Fisher, and Molly McGrath. (2009). Weighing the Effects of Financial Education in the Workplace. Federal Reserve Bank of Kansas City Research Working Papers, RWP 09-01.

Payday Lending and Neighborhood Crime

It’s widely recognized that “fringe” or alternative financial services, such as pawn shops, check cashers, and payday lenders, are concentrated in lower-income, urban neighborhoods. This pattern of geographic targeting is cause for concern as users of fringe financial services pay high fees and often fall into the “debt trap” of taking out a new loan in order to pay down an existing one. Thus, the lure of quick cash can often saddle the most financially vulnerable households with unmanageable debt. We know predatory lending imposes a cost at the individual level, but can it also have an effect at the neighborhood level?

Charis Kubrin, Gregory D. Squires, and Steven M. Graves find that a concentration of payday lending leads to higher crime rates, even after controlling for a range of factors traditionally associated with neighborhood crime, such as poverty, unemployment, race and educational attainment, as well as the crime rate from prior years. The researchers observe the number of licensed payday lenders and crime rates at the census tract level for the city of Seattle, WA. Using a variety of research models, they find that a concentration of payday lending appears to have a significant effect on the incidence of violent crime in a neighborhood.

These findings suggest that payday lending inflicts broader community costs on all neighborhood residents, whether or not they take out payday loans. The authors argue for greater access to responsible small dollar loan products and policy efforts, such as rate caps at 36 percent, to curb the practices of payday lenders.

Kubrin, Charis, Gregory D. Squires and Steven M. Graves. (2009). Does Fringe Banking Exacerbate Neighborhood Crime Rates? Social Disorganization and the Ecology of Payday Lending. Working Paper.

Loan Modifications and Redefault Risk

As the foreclosure crisis continues to impact communities across the country, various efforts have been made to provide direct aid to homeowners. Many borrowers have been seeking loan modifications in efforts to remain in their homes. However, an alarming proportion of modified loans fall back into delinquency. Why are some loan modifications successful, while others result in redefault?

Roberto Quercia, Lei Ding, and Janneke Ratcliffe examine a large sample of recently modified nonprime loans and find that the type of modification matters when trying to prevent redefault. Specifically, the study finds that the most important factor for making a loan modification more sustainable in the short run is that mortgage payments are reduced enough to become affordable by the borrower. These reductions typically occur through an extension of the loan term, reduction in the interest rate or principal forgiveness. However, most loan modifications add the delinquent payment to the unpaid principal, increasing the amount of debt and often resulting in higher monthly payments, which can lead to redefault. The authors suggest that among the different types of modifications, the principal forgiveness modification has the lowest redefault rate. They also find that the timing of the loan modification matters—early intervention works best as it is associated with lower redefault risks.

These findings suggest that loan modifications can vary dramatically in practice and lead to very different outcomes for borrowers. Efforts to promote sustainable and affordable modifications should take these structural differences into account and focus on increasing mortgage affordability.

Quercia, Roberto, Lei Ding, and Janneke Ratcliffe. (2009). *Loan Modifications and Redefault Risk: An Examination of Short-term Impacts*. Working Paper, Center for Community Capital.

Tax Education and the EITC

The earned income tax credit (EITC) is a cash transfer program designed to increase labor supply and earnings among low-income working households. While many have heard about the EITC, few eligible filers understand the marginal incentive structure (EITC amounts increase, plateau, and then phase out as earnings increase). As a result, filers may not understand how additional work activities affect their credit amount. But could basic tax education and guidance have an effect on eligible filers' labor supply decisions?

To answer this question, Raj Chetty and Emmanuel Saez worked with H&R Block offices to provide simple information about the EITC to eligible tax filers. Half of the clients were randomly selected to receive a brief explanation from their tax professional on how the EITC works, including tailored advice on the implications of working more, given the individual's location on the EITC earnings schedule. The researchers found that tax professionals gave different types of guidance, resulting in different levels of client earnings. Tax professionals that tended to have clients with relatively higher incomes induced eligible filers to select an earnings level closer to the peak of the EITC schedule—they increased their EITC amounts and were less likely to have very low incomes. In contrast, the other group of tax professionals gave advice that did not lead to significant changes in EITC amounts—the authors speculate that this group encouraged clients to aim for a higher income level rather than maximizing EITC amounts.

This study suggests that information provision can lead to real labor supply responses and that the impacts of tax policies depend on the way in which individuals are taught about the tax system.

Chetty, Raj and Emmanuel Saez. (2009). *Teaching the Tax Code: Earnings Responses to an Experiment with EITC Recipients*. NBER Working Paper Series, Working Paper 14836.

DOCTOR CRA

by John Olson



Dear Dr. CRA:

I can't believe I missed the National Interagency Community Reinvestment Conference in New Orleans! The agenda looked like it had lots of important information for CRA officers like me. Can you share some of the highlights and lessons learned from the conference?

Sincerely,
Missed Important Affair

Dear MIA,

We're sorry you missed it, too! The event went very well, with over 700 attendees enjoying four days of information, discussion, learning, and networking. As you saw, the conference was divided into four tracks: the CRA compliance track, which covered everything from preparing for an exam to CRA program management best practices (more on that later); the community development track, which covered a potpourri of hot topics from the role of behavioral economics in financial education to building an inclusive green economy; the investment track, which offered information on specific investment instruments as well as tips on managing an investment portfolio; and the National Community Development Lending School, which included hands-on classes for underwriting community development loans.

CRA officers, in particular, will benefit from looking through the material from the CRA track. The sessions that focused on the regulations featured expert panelists from all four regulatory agencies who provided an overview of the CRA examination process, including how to prepare yourself for your exam and detailed overviews of the exam procedures for large, intermediate small, and small institutions. One of the highlights of the track was the session on "Excellence in CRA Program Management." The panelists were Katie Garlington from Central State Bank, Lela Wingard Hughes from JP Morgan Chase, and Lisa DeClark from the Federal Reserve Bank of Minneapolis. Katie offered the perspec-

tive of a small community bank, and included samples of her data tracking and board reporting tools. Lela offered the large institution perspective, and in particular highlighted ten rules for managing an excellent CRA program, which serve as good reminders for every CRA officer:

1. Understand the rules of the game
2. Conduct competitive reviews
3. Remember the importance of the qualitative factors
4. Ascertain community credit needs
5. Establish a performance context
6. Establish CRA targets and performance benchmarks
7. Regularly assess performance relative to local market conditions
8. Consider and document CRA impact of business decisions
9. Communicate regularly
10. Build your program on sustainable business practices

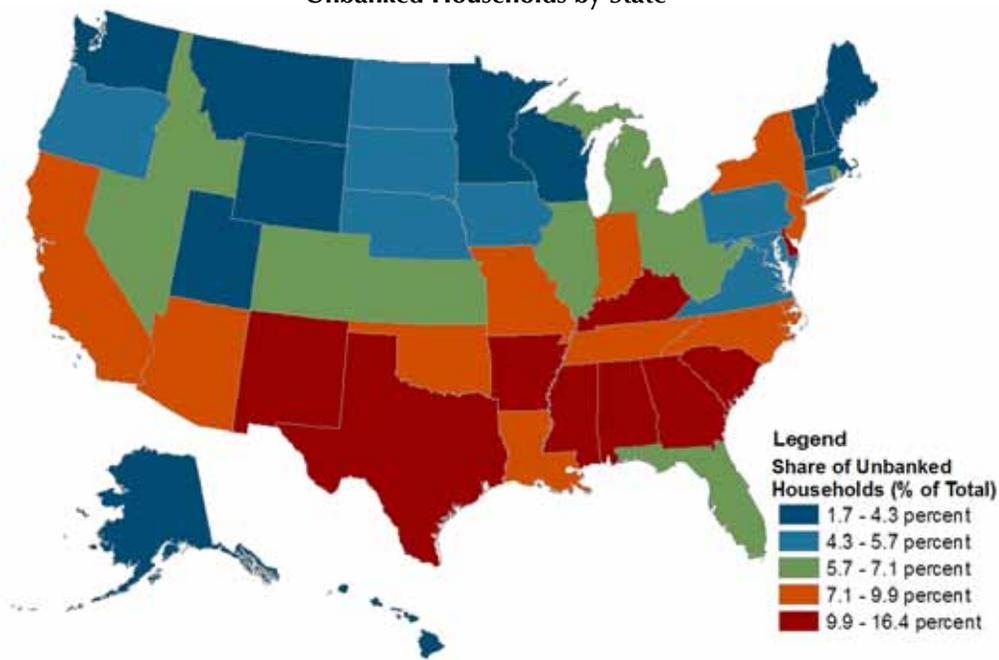
You can learn more about these "ten rules" and access all conference materials from our website, <http://www.frbsf.org/community/conference2010.html>. We hope to see you in 2012!

DATA SNAPSHOT

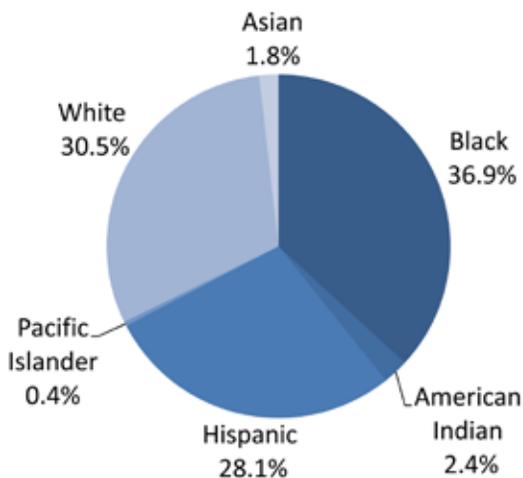
The Unbanked and Underbanked

The FDIC recently released the *National Survey of Unbanked and Underbanked Households*. An estimated 7.7 percent of U.S. households are unbanked (do not have a checking or savings account) while an additional 17.9 percent are underbanked (have a checking or savings account but rely on alternative financial services). The full report is available online at www.economicinclusion.gov

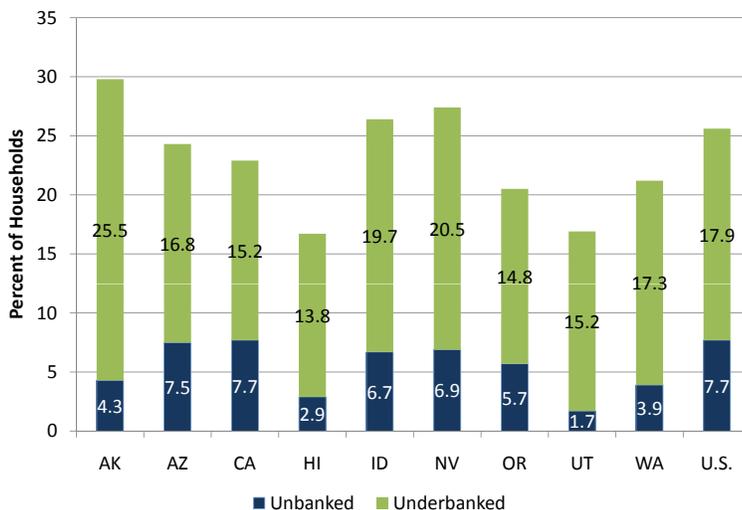
Unbanked Households by State



Unbanked Households



Unbanked and Underbanked Households in the 12th District



Endnotes

Community Change Initiatives from 1990-2010

- 1 The full publication will be available in summer 2010. For more information, see www.aspenroundtable.org or contact akubisch@aspenroundtable.org

Understanding the Different Types of Low-Income Neighborhoods

- 1 Elwood M. Hopkins is Managing Director of Emerging Markets, Inc. and President of the Center for Place-Based Initiatives. Juan Aquino, Rudolph Espinoza, and Daniel Tellalian also contributed to this article.
- 2 *Managing Neighborhood Change, A Framework for Sustainable and Equitable Revitalization* (2006), Alan Mallach proposes a six-type classification system based on the condition of the local housing stock, homebuyer characteristics, and housing prices. For each type, he specifies strategies for improving housing as well as the implications of these strategies on local residents. In a 2005 study entitled, "Housing in the Nation's Capital," Margery Austin Turner, G. Thomas Kingsley, Kathryn L.S. Pettit, Jessica Cigna, and Michael Eiseman propose a new neighborhood typology for Washington, DC neighborhoods based on housing characteristics.
- 3 The Center for Housing Policy uses a composite of data on subprime lending, foreclosures, and mortgage delinquencies to categorize neighborhoods according to foreclosure risk. Similarly, in *Using Data to Characterize Foreclosure Markets*, Phyllis Betts at the University of Memphis segmented five different types of home loan borrowers (in terms of their level of financial precariousness and ability to absorb a mortgage) and characterized neighborhoods according to which type of borrower predominates. She then factors in the type of housing stock and general housing market trends, discovering four distinct neighborhood types: Classic Distressed; Transitional-Declining; Stable Neighborhoods of Choice; and Transitional-Upgrading.
- 4 In *Contributions of Accessibility and Visibility Characteristics to Neighborhood Typologies and their Predictions of Physical Activity and Health*, a team from the University of Michigan and Detroit Health Department proposed nine neighborhood types in terms of health impact. For each, the team correlated physical characteristics (housing density, sidewalk coverage, street configurations, pedestrian pathways) to physical activity of residents and the prevalence of heart disease, diabetes, dietary cancers, and obesity.
- 5 In 2005, the USC School of Policy, Planning, and Development compared twenty residential neighborhood types in terms of the mobility patterns of residents. They separated neighborhoods by their location in the inner city, inner suburbs, outer suburbs, or exurban areas. The types are grouped according to clusters of traits that influence transportation decisions: street configurations, access to freeways or public transit, local land uses, topographies versus level ground and so on.
- 6 In *How Does Family Well-Being Vary across Different Types of Neighborhoods?*, Margery Austin Turner and Deborah Kaye use data from the National Survey of America's Families to classify neighborhoods as family environments. The authors of *Neighborhood Poverty: Policy Implications in Studying Neighborhoods*, tackle a similar task. In "Explorations in Neighborhood Differentiation" in *The Sociological Quarterly*, Donald Warren compares service utilization across neighborhoods.
- 7 In *Sharing America's neighborhoods: The Process for Stable Racial Integration*, Ingrid Gould Ellen examines six types of neighborhoods in various stages of racial and ethnic transition. For each, she identifies a typical bundle of quantifiable factors (ethnic breakdown, tenure, and demographic shifts under way) and qualitative factors like overall social stability. In *Paths of Neighborhood Change*, Richard Taub, D. Garth Taylor, and John Dunham identify eight neighborhood types at different stages of evolution from decline to gentrification to stability.

Five Simple Rules for Evaluating Complex Community Initiatives

- 1 CCIs here are defined broadly and include community change initiatives, complex community initiatives, comprehensive community initiatives, and even comprehensive place-based initiatives.
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Understanding How Place Matters for Kids

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THE ECONOMY

CRISIS & RESPONSE



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New Community Development Working Paper

The Effects of the Real Estate Bust on Renter Perceptions of Homeownership

By J. Michael Collins and Laura Choi

This study analyzes the impact of the housing downturn on renters' intent to purchase a home, their perceptions of the risks and benefits of homeownership, and their interest in information and advice concerning homeownership. Based on a survey of 400 low- and moderate-income renters in the San Francisco Bay Area, the study finds that most renters continue to aspire to homeownership, especially renters who are younger, who have higher incomes, and who speak English at home. In addition, lower-income and minority renters, as well as renters who reside in zip codes with greater exposure to foreclosures, have more negative perceptions of homeownership. Together, these findings indicate

the housing downturn produced shifts in renters' aspirations to own a home and the expected risks and benefits of owning a home that vary by residential location and demographic characteristics.



This paper is available online at
<http://www.frbsf.org/publications/community/wpapers>

The Community Development Investment Review

Community Development and Health

In this issue of the Review, we explore the intersection of community development and health. Specifically, authors offer varying perspectives on how to “bend the health cost curve” using innovative community development strategies and how to positively affect social determinants of health to generate better health outcomes for low-income people.

The Review is available online at
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April 28-29, 2011