

Pre- and Post-Disaster Investments in Housing and Community Development Under the CRA

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After World War II, banking systems fed into a cycle of disinvestment in low-income urban areas across the country. These federally-insured banks collected deposits from neighborhoods where they were chartered to do business but made credit available only sparingly. This disinvestment was accelerated by “redlining”—essentially denying creditworthy loan applications based on erroneous assumptions of the creditworthiness of borrowers defined by their neighborhood and notably, in part, its racial demographic characteristics. The federal government’s response was the Community Reinvestment Act (CRA) of 1977. Since its passage, the CRA has become a catalytic tool for encouraging banks and nonprofit lenders to pioneer strategies to increase private investment in underserved communities and to make low- and moderate-income (LMI) communities whole in the face of disinvestment, economic downturn, and lack of access to opportunity.

LMI communities are also exposed to an additional, potentially devastating, risk: natural disasters and climate change. From hurricanes to fires, from East Coast to West, LMI communities are disproportionately the first to suffer from extreme weather and the last to recover from its devastation. Additionally, LMI communities are particularly vulnerable to extreme weather and other natural disasters because they are more likely to be sited in floodplains and fire zones and in areas that have not benefitted from investment in hazard mitigation. Because the members of these communities typically have relatively fewer resources, they are also the slowest to recover. It is only appropriate that the CRA recognize that investments made in these communities can simultaneously serve to advance community resilience and the adaptive capacity of a broad set of community stakeholders and institutions.

Housing and Vulnerability

In most of the natural disasters that have occurred over the last 20 years, damage to housing and housing displacement are the most critical needs. These conditions have represented a significant challenge to first responder agencies like the U.S. Federal Emergency Management Agency (FEMA) seeking to triage communities in crisis. Both providing immediate and temporary housing to reduce homelessness and rebuilding long-term affordable housing are among the leading challenges for most reconstruction efforts. Investing in the engineering resilience functionality of post-disaster housing adds more time and costs to an already burdened system. When affordable housing is lost to an event, there is a risk that the

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housing stock will not be replaced. In Galveston, TX, nearly half of the area's public housing units were destroyed after Hurricane Ike and as of 2018 less than half had been rebuilt.² Research increasingly shows that affordable housing has a major impact on the quality of life of residents. Affordable housing controls housing costs, leaving more money for necessities such as health care, and increasing accessibility to better jobs and education.

Unfortunately, after a disaster, owners of affordable housing must balance myriad demands from regulators, investors, and residents. Affordable housing owners are often constrained by both lending and program requirements. For instance, lenders may require covenants that ensure timely payments, establish reserves, and meet program requirements. But for multi-family mortgage-holders and servicers, federal housing programs cap the amount of income tenants can pay. Having low-cost funding that owners can access after a disaster event to bring their units back online is a key way to mitigate a long-term community downturn and further degradation of affordable housing assets.

With some smart adjustments, CRA investments can strengthen and protect LMI communities, particularly their affordable housing stock, helping them prepare for and recover from new risks from natural hazards and climate change. This article details how a range of investments in resilience and adaptation could both fulfill the goals of CRA and save lives and money, as well as how small adjustments to the CRA examination process can lift up the most climate-vulnerable communities through both pre-disaster and post-disaster investments.

The Need for Pre-Disaster Investment

The direct costs of natural hazards to communities around the nation are staggering. In 2017, there were over 16 declared natural hazard events across the country with total costs of approximately \$306 billion in direct impacts.³ This figure does not include the secondary and tertiary effects, such as impact to community public health and the loss of social service continuity within impacted communities. Communities from Puerto Rico to Texas to northern California have lost housing, utilities, business, and institutional resources that may never be fully recovered, to the detriment of future generations.

It has become increasingly clear that investments in resilience and hazard mitigation are highly cost-effective. Depending on the study, each dollar spent in preparation can save up to \$11.⁴ While no two disasters are alike, and natural hazard events know no race, class, or demographic boundary, communities face risk and recovery in a disproportionate

2 Walters, E. "'It's our form of apartheid': How Galveston stalled public housing reconstruction in the 10 years after Ike," *Texas Tribune* (April 16, 2018), available at <https://www.texastribune.org/2018/04/16/galveston-public-affordable-housing-hurricane-ike/>.

3 National Oceanographic and Atmospheric Administration. "Billion-Dollar Weather and Climate Disasters: Table of Events" (2018), available at <https://www.ncdc.noaa.gov/billions/events>.

4 Porter, K. et al. "Natural Hazard Mitigation Saves 2017 Interim Report," National Institute of Building Sciences Multihazard Mitigation Council (2017), available at http://www.wbdg.org/files/pdfs/MS2_2017Interim%20Report.pdf.

way. For an LMI community affected by a disaster, how rebuilding proceeds, including if it does at all, can determine whether it recovers or declines. The level of need experienced by a community before an event is directly correlated to the recovery time after an event.

CRA, Hazard Mitigation, and Community Resilience

Those communities whose ambitions are not only to recover but to make investments in pre-disaster hazard mitigation and engineering and community resilience need a mix of funding from private and public stakeholders, as well as programmatic technical assistance. Because the necessary investments will be substantial, a well-balanced blend of public funds, foundation support, and bank credit will make it possible to avoid overburdening communities, particularly LMI communities.

Working to ensure the right combination of public and private sources, at the right time, is critical. If a bank acts too slowly, for example, communities may not have the opportunity to align bank funding with incoming federal resources. Because banks are ultimately looking to maximize their ability to leverage CRA credit for their investment, considerations for a potential CRA investment in hazard mitigation and pre-disaster investments should include a variety of factors. The first consideration relates to high-impact locations. For instance, is there a high probability for bank to get credit through a full-scope examination for an investment in this area even if the area is not in a traditional assessment zone? Unfortunately, the outcome of this consideration often disproportionately benefits urban areas with more affluent customer bases.

An additional consideration relates to whether investments will produce a range of co-benefits that can address multiple community needs, including increasing the supply of affordable housing in high-cost cities; addressing homelessness; improving health; advancing local small business economic activity; and even increasing recreational opportunities that can create more connectedness among residents. In many cases, these investments with clear co-benefits may be able to sync up with larger more substantial infrastructure projects. In New Orleans, for example, the Lakeview storm water drainage project, led by the local public utility, will reduce flooding in a downtown area that is prone to flooding from storm water. This project will also generate several notable co-benefits, including improved street access and traffic relief; renovation of the public alleys that many of the area residents use to access their homes; and resurfacing of badly degraded streets.

Investment should help incentivize action in communities with plans to mitigate natural hazards or with a reconstruction plan that includes attention to hazard mitigation, resilience, and adaptation. Investment activity will have greater impact if it is consistent with an existing plan. Los Angeles and New York City have such plans designed by their respective mayoral offices of resilience. These plans have already created regulatory and policy incentives and mandates for agencies and private and civic stakeholders to improve their resilience and hazard mitigation efforts.

While the CRA offers plenty of opportunities for investments in both pre-disaster and post-disaster projects, the CRA process could be expanded to ensure that communities vulnerable to natural hazards and climate change have a better shot at investment. Some of the adjustments might consider providing technical and planning support to banks to respond to community needs in high-risk areas to ensure recovery investments are strategic, responsive, and able to be leveraged up. If banks want to maximize their CRA credit to advance community resilience, they need to focus on the types of development that will have the biggest impact. As such, an additional potential modification may include creating credit incentives for banks to work outside of chartered areas. Incentivizing banks to invest in non-urban communities beyond their traditional assessment areas will help not only these communities but also the regions that these communities sit within.

Bank regulators and examiners should seek to increase the ability of private investors to invest in communities directly by enabling those investors to work with agencies such as FEMA and community development organizations focused on lifting up LMI communities. The goal would be to create a programmatic investment framework that leads to investment in climate-vulnerable, LMI communities, with an emphasis on affordable housing investment. Developing this framework should include federal agencies that fund recovery and reconstruction in order to ascertain when and how public funding comes into communities and where to align funding rules to reduce administrative burden on investors and jurisdictions looking to tee up and administer this funding both before and after disasters.

A component of these efforts should advance research and showcase demonstration projects that could serve as a model for what a resilient community recovery project looks like. This research could foster and diffuse more investment and more innovation on the ground. Standing up and disseminating projects that can demonstrate the incorporation of recovery, hazard mitigation, and community resilience that have received CRA credit will give communities, banks, investors, and CRA examiners examples and templates on which they can model future efforts. By extension, future effort could also include the provision of dedicated technical assistance that helps communities use CRA money before and after a disaster in a manner consistent with local hazard, housing, economic development, resilience, and climate adaptation planning. Areas that are vulnerable to natural disasters and climate change, particularly those that have suffered repeated losses, should have access to technical assistance for developing high-impact plans for an event, which they can use to prepare for natural disasters or advance long-term adaptation goals.

Finally, as part of the CRA process, banks should receive additional credit for pre-disaster resilience and adaptation investments. For example, they could fund mitigation in affordable housing communities, such as elevating boilers above ground level or investing in other improvements that limit flooding damages.

Urban Case Studies

Los Angeles has more than 13,000 affordable homes in soft-story buildings that may need seismic strengthening. To help affordable housing owners finance seismic mitigation, Enterprise Community Partners (Enterprise), a national Community Development Financial Institution (CDFI), is working with a consortium of partners—including the California Earthquake Authority, the Mayor’s Office of Resilience, the Federal Reserve Bank of San Francisco, and the Los Angeles Housing + Community Investment Department—to identify financial and technical support for the retrofitting of these buildings, including funding, technical assistance, and policy change. The initiative seeks to ensure affordable housing can weather a major disaster. In addition, it aims to preserve affordable housing in a high-cost city where homelessness and displacement of LMI community members is the leading community development challenge. Not only will that retrofitting reduce disruption and displacement, it will also encourage the social, historical, and business continuity of communities, which may exceed the direct value of housing preservation alone.

Flood Help New York City (Flood Help) is a technical assistance program, developed by the New York State Governor’s Office of Storm Recovery with Community Development Block Grant Disaster Recovery (CDBG-DR) funding after Superstorm Sandy. Flood Help was created to provide housing owners, with an emphasis on affordable housing and LMI tenants, technical guidance to identify mitigation strategies that support climate-safe properties. Under this program, which Enterprise developed in collaboration with the NYC Center for Neighborhoods, resilience capital needs assessments were created to help owners understand their vulnerability to a variety of climate risks common in the Northeast and provide recommendations for resilience improvements. The program helps to establish pathways for affordable housing owners to map out capital planning work that will protect their buildings from climate risks. A program like this can be helpful to housing owners and communities before an event, and potentially after an event when there is support coming into communities for reconstruction. CRA investment could potentially pay for improvements and help owners stabilize their sites and increase the efficiency of their buildings.

Flooding from hurricanes, storm surge, and rain storm events are a great risk to the city of New Orleans. In 2016, the city was awarded more than \$141 million through HUD’s National Disaster Resilience Initiative to build the nation’s first sanctioned “Resilience District” in the Gentilly neighborhood. The project uses various approaches to water and land management that have been successfully piloted throughout New Orleans and, when implemented together, are intended to create even greater neighborhood benefit, such as improved health, economic opportunity, environmental education, and recreation. The Gentilly Resilience District is a combination of efforts across that community to reduce flood risk, slow land subsidence, improve energy reliability, and encourage neighborhood revitalization. Enterprise is supporting the identification of storm water management approaches and providing technical assistance to community stakeholders. The Gentilly Resilience District

will be a model for how other neighborhoods in New Orleans, across the region, and across the country, can adapt to a changing environment. Regulators should consider the value that this program would bring to fortifying New Orleans' critical housing stock and how it fits within the scope of CRA.

Conclusions

The CRA has been a highly effective tool for ameliorating historical disinvestment in LMI communities. These same communities face grave and growing dangers from the increased probability and greater severity of natural hazard events attributable, at least in part, to climate change. CRA should encourage investment in hazard mitigation, resilience, and adaptation. These investments can start by supporting programs that will protect affordable housing and its residents before disaster strikes. Moreover, pre-disaster investments offer the opportunity to yield benefits for many generations to come. They also can advance community resilience and the stability and prosperity of local and regional economies.

The CRA can be a powerful tool for advancing the resilience and adaptive capacity necessary to address future climate risks. The list of communities around the nation that are reeling from disaster is rapidly growing. Investments that improve present-need housing conditions in these communities is recognized as a critical element of CRA; ensuring that this funding is also invested in prudent, strategic plans will position communities to be stronger, more resilient, and adaptive in the future as well.

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