MARKETWISE

Fall/Winter 2009

COMMUNITY ECONOMIC DEVELOPMENT PUBLICATION

FEDERAL RESERVE BANK OF RICHMOND

COMMUNITY RESPONSES:

Building Momentum in the New Economic Landscape

MARKETWISE

FALL/WINTER 2009

The mission of *MARKETWISE* is to provide both progressive and practical information about community economic development that supports economic growth in the Fifth District. The Fifth District consists of Maryland, North Carolina, South Carolina, Virginia, most of West Virginia and the District of Columbia.

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President's Message

To paraphrase Tip O'Neill, "All economies are local." At the Federal Reserve, we analyze national data to gauge the general health of the economy.

But we also understand that local conditions often differ from national averages. Although the national economy continues to improve, many communities in the Fifth District will continue to face challenging situations. Each year, I participate in several regional tours around the District to assess local conditions first hand. This year, I visited three different regions in Virginia, North Carolina and South Carolina. I gained a deeper understanding of the multi-faceted problems facing industries and communities, such as in eastern North Carolina where the timber industry has shed over 10,000 jobs, and of the rise in unemployment driving home foreclosures in Danville, Virginia.

This type of community-level information adds value to the numerous policy discussions in which I participate as well as to the Richmond Fed's strategic planning. It helps us decide where best to focus our attention and resources. The Richmond Fed has, for example, sponsored six foreclosure prevention workshops so far this year, reaching over 3,000 homeowners in financial distress.

We are committed to investigating not only the impact of unemployment and foreclosures on the communities within our District but also the potential of private and public interventions. The articles in this issue of Marketwise highlight some of our findings.

JEFFREY M. LACKER, President
Federal Reserve Bank of Richmond

Local governments and community development organizations realize that weathering the recession requires ingenuity and resourcefulness in uncovering new economic opportunity.

Photo: Getty Images\Brand X Pictures\Maciej Frolow

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COMMUNITY PERSPECTIVES: Implementing the Neighborhood Stabilization Program

Since 2006, more than 5 million homes in the country have been lost to foreclosure. It is estimated that 8.1 million homes will go into foreclosure during 2008-2012.[1] Many communities worry that these properties will destabilize their neighborhoods because they are often concentrated and fall into disrepair. Such neighborhood blight is linked to increases in crime and declining property values. The following pages compare the strategies and challenges of two community organizations—one in Virginia and the other in South Carolina—that are trying to tackle the negative impacts of foreclosure through the federal Neighborhood Stabilization Program (NSP).

Congress initially allocated nearly $4 billion to the U.S. Department of Housing and Urban Development (HUD) for a new Neighborhood Stabilization Program (NSP) under the Housing and Economic Recovery Act (HERA) of 2008. The NSP was intended to deliver "emergency assistance" directly and rapidly to low- and moderate-income communities experiencing high foreclosure rates. Some communities received direct NSP grants according to a complex funding formula established by HUD.[2] HUD divided the remaining NSP funds across states for allocation to communities that did not qualify for direct funding but that faced significant foreclosure problems.

While state NSP programs are bound by the parameters and policies established by HUD, they also have been given some liberty to tailor their programs to best meet local conditions. The Community Affairs Offices of the Richmond and Cleveland Federal Reserve Banks, in partnership with the National Vacant Properties Campaign (NVPC),[3] recently completed an analysis of NSP implementation in four states (Ohio, Pennsylvania, Virginia and South Carolina), using four NSP recipients as case studies.[4] Two NSP recipients were profiled to understand the impact of the program at the local level. In Virginia, the profiled recipient is a regional government agency that is collaborating with three nonprofits. In South Carolina, it is a smaller, nonprofit organization that acts as the lead for ten local housing and development agencies.

The degree to which an NSP accomplishes its stated objectives clearly depends upon the capacity of the local organizations that implement the neighborhood stabilization initiatives. Findings from the two case studies suggest that variations in state NSP requirements create different opportunities and constraints for local organizations and therefore, most likely, different outcomes.

NSP Guidelines at the State Level

HUD required state governments to submit "action plans" by December 1, 2008, describing how they intended to use their funds. States were required to obligate all of their grant funds within 18 months of signing their contract with HUD and to spend all of the funds within four years. HUD utilizes the Community

Development Block Grant (CDBG) program's basic infrastructure to deliver NSP funds, although the program's requirements are supplemented by NSP guidelines. HUD continues to make program changes specific to NSP.[5]

State NSP administering agencies are required by HUD to target funding to areas identified as having "the greatest need," as defined by (1) percentage of foreclosures (2) percentage of homes financed by subprime mortgage related loans and (3) likelihood of increased rates of home foreclosures. HUD also limits eligible neighborhood stabilization activities to the following five: (1) establish financing mechanisms for the purchase and redevelopment of foreclosed properties (2) purchase and rehabilitate properties that have been abandoned or foreclosed upon (3) establish and operate land banks for homes and residential properties that have been foreclosed upon (4) demolish blighted structures and (5) redevelop demolished or vacant properties.[6]

Virginia

The Commonwealth of Virginia, excluding the direct-recipient communities, received $38.7 million in NSP1 funding, which is being administered by the Virginia Department of Housing and Community Development (DHCD).[7] The DHCD created four programs for disbursing its initial NSP allocation: an open submission program ($20 million), planning grants ($0.25 million), a competitive proposal program ($10 million) and a performance-based pool ($4.9 million). The DHCD's intent was to provide funding immediately to organizations that were ready to act while also reserving some funds for applicants who needed more time to prepare and plan.

To meet HUD's targeting requirements, the DHCD identified 83 communities (counties and cities) eligible for funding based on the number and the rate of foreclosures; each community had at least 200 foreclosed properties or a foreclosure rate of at least 4 percent. As justified in the DHCD's NSP Action Plan, "Targeting through this means provides an opportunity for those larger, metropolitan localities that have high numbers of foreclosures, along with smaller, central city and rural localities that have significant foreclosure rates, to access funds."[8] Within the targeted communities, applicants were further expected to focus their efforts on neighborhoods in which at least 10 percent of housing units, properties or structures were either abandoned or foreclosed.

The DHCD sought to maintain the pre-foreclosure-crisis character of neighborhoods. As emphasized in its Action Plan, "It is the intent of the Virginia NSP to ensure that projects will not significantly change the preexisting nature, characteristic, or stability of the neighborhood."[9] While there are five eligible NSP stabilization activities, two were given highest priority in Virginia: (1) establishing financing mechanisms to help homeowners purchase and redevelop foreclosed homes and residential properties and (2) purchasing, rehabilitating and selling homes that have been abandoned and foreclosed upon. The DHCD also placed a high priority on projects that provided homeownership opportunities and reviewed those that included rental components on a "case-by-case basis." Proposals that included land banks were actively discouraged.[10]

With the NSP, the DHCD has adopted an investment perspective that emphasizes measurable outcomes and includes a "pay for performance" requirement. Local recipient administrative costs are capped at approximately 5 percent of their total NSP award. After recipients have spent their initial allocation, they are entitled to 8 percent of the NSP award to cover administrative costs if they utilize their program income to continue project implementation.

NSP1

Under NSP1, the U.S. Department of Housing and Urban Development allocated $3.92 billion based on formula criteria to 309 grantees, including 55 states and territories and 254 selected local governments.

South Carolina NSP1 Allocations

Recipient	NSP Allocation
SOUTH CAROLINA STATE PROGRAM	$44,673,692
GREENVILLE COUNTY	$2,262,856
RICHLAND COUNTY	$2,221,859

Virginia NSP1 Allocations

Recipient	NSP Allocation
VIRGINIA STATE PROGRAM	$38,749,931
FAIRFAX COUNTY	$2,807,300
PRINCE WILLIAM COUNTY	$4,134,612

Source: U.S. Department of Housing and Urban Development, www.hud.gov/offices/cpd/community development/programs/neighborhoodspg/nsp1.cfm

South Carolina NSP1 Awards

Catawba Regional Council of Government
$4,283,000
(Lancaster and York Counties)

Community Assistance Provider
$1,500,000
(Lexington County)

Santee-Lynches Affordable Housing CDC
$1,293,612
(Orangeburg County)

City of Columbia
$3,900,000

TN Development Corporation
$1,038,350
(Richland County)

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Photography: Courtney Mailey

This is one of the first homes originally identified for rehabilitation using NSP funds in Front Royal, Virginia. Front Royal is one of the localities participating in the regional Neighborhood Stabilization Program in the northern Shenandoah Valley region.

However, the administrative fees are only paid to recipients after certain pre-established outcomes or milestones are achieved.[11] Also, all NSP program income earned by the local recipients, such as revenue from the resale of a property, initially must be returned to the DHCD. If a recipient demonstrates sufficient need and the ability to continue implementing NSP initiatives, the returned funds will be earmarked and given back to the recipient; otherwise the program income will be retained by the DHCD and added to its performance-based pool.

Eligible applicants included local governments, nonprofit organizations, planning district commissions (described later), and housing authorities. Individual towns were expected to apply through their county, while projects serving multiple communities could submit regional proposals. Applicants were encouraged to identify partners that could offer resources to homebuyers, such as housing counseling. The DHCD requires every NSP-assisted homebuyer to complete counseling from a HUD-approved housing counseling agency. The DHCD also expects recipients to create a project management team, comprised of internal and external stakeholders, to oversee the project.

South Carolina

The state of South Carolina, excluding the direct-recipient communities, received $44.7 million in NSP1 funding, which is being administered by the South Carolina State Housing Finance and Development Authority (SHFDA).

Utilizing HUD foreclosure data and definitions of "greatest need" (outlined above), the SHFDA identified 20 counties in the state as the focus for their NSP funding.[12] They also developed a tiered system for allocating the funds across different neighborhood stabilization initiatives. Through a competitive proposal process, the SHFDA allocated $29.4 million for Tier I initiatives, which included all five eligible NSP activities for populations at or below 120 percent of area median income, and an additional $11.2 million for Tier II initiatives, which specifically addressed low-income rental housing for populations at or below 50 percent of area median income. In addition to the allocation for rental housing, the SHFDA contracts also state that any NSP properties intended for homeownership automatically convert into rental units if they do not sell within six months of completion.

Local recipient administrative costs are capped at 4 percent of the total NSP award, which the SHFDA reviews and pays out after the expenditures have been incurred. In addition to administrative fees, recipients are eligible to receive "project delivery" income, which includes fees from developers. All NSP program income can be retained by the local recipient, although it must be spent on NSP-eligible projects, and the SHFDA requires it to be depleted before any additional NSP funds will be administered.[13]

Eligible recipients included local governments, nonprofit organizations, public housing authorities and for-profit organizations. In addition, the SHFDA actively encouraged proposals that included what it considers "essential partnerships for successful implementation."[14] These partnerships comprise affordable housing providers, lending institutions, and homebuyer counseling agencies.

Overall, the SHFDA's Action Plan includes fewer additional restrictions to the Federal NSP than the DHCD's in Virginia. Also, the SHFDA's set-asides and policies that support rental properties stand in marked contrast to Virginia's NSP program, which actively discourages rental property activities. Another important distinction is that while the DHCD in Virginia allows for higher administrative expenses overall, it also has stricter requirements for handling program income. Finally, the SHFDA, unlike the DHCD, created incentives for applicants to build broad-based public-private partnerships by awarding higher scores to proposals with such partnerships. It is interesting to note that in Virginia, over half of the NSP1 recipients were local governments whereas the majority of recipients in South Carolina were nonprofits. [See side bar starting on page 3.]

A Tale of Two NSP Recipients

The two NSP recipients studied in Virginia and South Carolina highlight the range of local organizations that are implementing, and thus ultimately affecting, the outcomes of NSP. They also demonstrate differences in relationships with local partners needed to implement neighborhood stabilization programs. In the case of Virginia, the recipient profiled is a regional agent of several local governments that pulled together a group of three high-capacity housing nonprofits as partners. In South Carolina, the recipient profiled is a local nonprofit organization that acts as lead finance entity for a coalition of ten local organizations and agencies who share common housing goals within the same target market.

Virginia

In Virginia, the NSP recipient studied is the Northern Shenandoah Valley Regional Commission (NSVRC), which is one of 21 Planning District Commissions (PDCs) in the state.[15] For its NSP coalition, the NSVRC works with five of the fifteen local governments it represents as well as three local, nonprofit housing organizations: Community Housing Partners, People Incorporated and Habitat for Humanity of Winchester-Frederick County. The NSVRC chose the nonprofit partners based on their previous experience with affordable housing development and homebuyer preparation. The NSVRC and the three local partners have strong established reputations, but only the NSVRC and Habitat had worked together previously.

Virginia's PDCs are regional political subdivisions created by local governments that had state support in 1968. They are governed by elected officials and citizens appointed by local governments, and are funded by local and state governments. PDCs play a critical role in convening public officials, business leaders, private citizens and nonprofits around a variety of regional growth and development issues.[16] The NSVRC leads regional land use, environmental and transportation planning efforts along with a multitude of other technical assistance programs. However, the NSVRC is still in the early stages of developing its regional housing strategy.

With a staff of eight full-time professionals, the NSVRC serves the entire population of the rural five-county, northern Shenandoah Valley region (Clarke, Frederick, Page, Shenandoah and Warren counties and Winchester). Not all of the jurisdictions chose to participate in the NSVRC's NSP proposal. Winchester, the most populated jurisdiction in the region, chose to opt out even though it faces the highest number of foreclosures in the region. Clark and Page counties were not included in the proposal because they did not meet the DHCD's concentrated foreclosure requirements.

South Carolina

In South Carolina, the NSP recipient studied is Lowcountry Housing Trust (LHT),

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City of Anderson
$2,173,087

City of Greenville
$5,000,000

Pickens County Habitat for Humanity
$225,000

Companion Associates
$700,000
(Pickens County)

City of Spartanburg
$2,000,000

SC Association of Community Development Corporations
$1,000,000
(Greenwood and Laurens Counties)

Beaufort Housing Authority
$2,943,000
(Beaufort County)

Lowcountry Housing Trust
$7,409,679
(Charleston, Berkeley and Dorchester Counties)

Housing Authority of Myrtle Beach
$2,500,000

Sumter Housing Authority
$1,700,000
(Sumter County)

City of Florence
$1,000,000

Community Development & Improvement Corporation
$1,000,000
(Aiken and Darlington Counties)

Source: South Carolina State Housing Finance & Development Authority, March 25, 2009.
www.sha.state.sc.us/Press_Releases/id/354

Virginia NSP1 Awards

Catholics for Housing
$1,500,000
(Prince William County)

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which acts as lead financing entity and represents a consortium of ten affordable housing organizations, including two community development corporations (CDCs), two nonprofit organizations, three local governments, and three for-profit development companies.[17] Established in 2004 as the Charleston Housing Trust, and then renamed with a broader mission in 2005, LHT is a small, nonprofit community development financial institution (CDFI) with a relatively narrow mission of financing affordable housing production in the greater Charleston area.[18] It is also important to note that LHT has a longstanding, close working relationship with SHFDA, which administers the state NSP program. This relationship is akin to a partnership—SHFDA maintains a weekly dialogue with LHT during the implementation of NSP.

Currently, LHT has only three permanent, full-time staff. The mission of LHT is to be a regional advocate and local source of funding for affordable housing initiatives. Specifically, it assists nonprofit and for-profit developers in constructing a full spectrum of lower-priced housing. To accomplish this mission, LHT raises and pools funds from public and private sources and awards them to developers who produce and rehabilitate affordable housing in recognized community areas. Since its inception, LHT has provided over $3.2 million in community development financing in Charleston, Dorchester and Berkley counties and has helped finance the development of more than 500 affordable housing units.[19]

Both of the NSP recipients highlighted in this article work with many partners to achieve their missions. However, LHT has worked closely with all of the organizations that it partners with on NSP assistance, while the NSVRC has not. Furthermore, while the NSVRC is a more established organization, it has a much broader mission than LHT. This means that the NSVRC has less experience with housing programs, especially in terms of purchasing, rehabilitation and resale.

Neighborhood Plans

Both NSP recipients target specific neighborhoods, as prescribed by federal and state NSP guidelines. In Virginia, the NSVRC received $2.5 million in funding from the DHCD to purchase, repair and sell 12 foreclosed properties to qualified homebuyers in neighborhoods in Frederick, Shenandoah and Warren counties. At least four of the properties will be available for sale to low-to-moderate income homebuyers. Initially, the NSVRC expected to use program income to purchase an additional 15 properties. However, the condition that all program income has to be returned to the DHCD, as well as higher-than-anticipated purchase and rehabilitation costs, has compelled the NSVRC to remain focused on meeting its original goal of 12 properties. It should be noted, though, that the NSVRC will be eligible to utilize the program income it generates if it meets its initial objectives and there is a demonstrated need to continue the program.

Frederick, Shenandoah and Warren counties all met the "areas of greatest need" as defined by the DHCD. Using similar criteria and input from HUD, the NSVRC identified five target neighborhoods: Senseny Road Corridor and Stephens City in Frederick County; Strasburg in Shenandoah County; and two neighborhoods in the town of Front Royal in Warren County.

In contrast, the much smaller LHT in South Carolina received $7.4 million to purchase, repair and sell or rent 71 properties in seven targeted corridors in Charleston, Dorchester, and Berkley counties. LHT identified the seven areas as having the greatest need for neighborhood stabilization based on concentration of foreclosed properties and short sales.

The goal of LHT's plan is to put renovated, formerly foreclosed properties back on the market, as either rental properties or single-family homes, at affordable prices. As the lead financing entity, LHT will use NSP funding to provide its partners with loans to purchase the targeted properties. It anticipates creating a revolving fund from the sale of properties, with the goal of purchasing an additional 50 units over the next four years. All partners in LHT's consortium are required to return any program income generated from NSP funds, including from rental properties, to LHT.

The Best Laid Plans

While implementing NSP, both LHT and the NSVRC have already encountered similar challenges, including the following four: complex and dynamic program requirements, challenging local housing markets, access to capital, and partnership tensions. Each organization and its partners have responded somewhat differently to these factors, in part because of distinctions in their state NSP programs as well as disparities in their experience with housing programs and the resources of their partners.

Complex and Dynamic Program Requirements

The layers of NSP requirements create expenditure bottlenecks and frustration for the local recipients as they work to meet their objectives within the short 18-month timeframe. HUD dispenses the money to the state, which then dispenses the funds to the NSP recipient. So, the recipient has to navigate two layers of procurement—reporting and auditing processes—which may not be clearly articulated by either HUD or the state NSP administrator. As noted above, HUD continues to add new rules and makes changes to the CDBG program that are NSP-specific. For those organizations familiar with CDBG requirements, navigating the new rules around NSP can be challenging.

One of the consequences of the NSP's bureaucratic procedures is delayed property closings. For example, LHT requested a $2.2 million drawdown on its funds from the state of South Carolina, which required the state to approve each set of properties LHT identified. Failure to get state approval and the appropriate state documents delayed their closing on some properties. Failure to close can mean a loss of property to another investor and delays in meeting program deadlines because a new property has to be identified. This sentiment was echoed by one of our case study participants in Virginia: "many properties are already under contract before we can compile the sufficient documentation needed to submit to the DHCD for approval before submitting an offer."

To better meet the needs of communities, HUD and some state administrators have changed certain program requirements during the implementation phase. As we heard from one participant in South Carolina, "the local organizations are faced with monthly and even weekly changes in NSP requirements." As a result, the local organizations are compelled to learn new program requirements and implement their programs at a much faster rate than they are generally accustomed to.

In Virginia, the DHCD implemented what they called an NSP "fast track boot camp" for all recipients after they were notified that they had received an NSP grant. In these meetings, the DHCD relayed changes to the NSP requirements and offered training on how best to adapt their NSP plans to the new guidelines. For the NSVRC, the changes required alterations in its original NSP plan, causing one partner to back out of its commitment, while stalling another until the NSVRC can find a resolution with the DHCD.

Challenging Local Housing Markets

Identifying and purchasing foreclosed and abandoned properties often can be difficult and time consuming for local housing organizations. It is not always clear which properties have been abandoned or are for sale after foreclosures. As one participant in the South Carolina study noted, "There isn't a visible impact in newer communities because it's kept hush-hush; there is no big sign saying 'foreclosed.' It is really hard for community developers to find these properties." LHT has worked with its local realtor's association to help identify foreclosed properties through the MLS site.

In the northern Shenandoah Valley, some manufacturing-dependent communities have experienced high unemployment, while the greater D.C. metropolitan area continues to create service jobs about an hour east of the Shenandoah region. "These mixed market trends have made it difficult for us and our partners to time their purchases of NSP eligible properties in our target neighborhoods," said Martha Shickle, the NSVRC community development program manager coordinating the NSP effort. The NSVRC finds that it is challenging to identify neighborhoods that meet the DHCD's 10 percent foreclosure rule because the foreclosures are not concentrated in single neighborhoods.

Once suitable properties have been located, housing organizations often face difficulties in trying to establish the owner of the property. The homeowner's original mortgage provider is rarely the servicer that forecloses on the property. As one of the participants in South Carolina informed us, most of the properties they had identified had been listed by local realtors. However, investors are also searching these listings and quickly purchasing the best deals.

Access to Capital

For local NSP recipients, access to sufficient capital can prevent them from purchasing and holding the properties targeted for stabilization. The state administrators only reimburse expenses after what has been described by the case study participants as a time consuming and arduous reimbursement process. This leaves the NSP recipients, often nonprofits with limited resources, to cover holding costs that prevent them from moving forward on new deals until they recoup capital from either the state NSP administrator or property sales. Delays in NSP funding in South Carolina required the local partners to seek lines of credit in order to start purchasing properties immediately. Unfortunately, many of the organizations did not have sufficient capital to allow them to seek such temporary financial assistance, and financial institutions were unwilling to underwrite the deals. Therefore, LHT offered its NSP partners a 3 percent bridge loan to ensure timely closings while they wait for reimbursement.

The NSP recipients in both case studies found it challenging to obtain bridge loans from banks. In South Carolina, the participants said that banks were not interested in providing gap financing to NSP recipients because they did not have confidence in the process and did not want to deal with the government's "red tape." As one participant in South Carolina said, "They don't know the lingo of the program. They don't understand all of its intricacies." In addition, the NSP recipients have found that banks prefer to sell foreclosed properties in bulk to investor groups instead of one or two at a time. Others said that banks are focusing more on short sales rather than foreclosures, and NSP funds do not cover short sales.

Furthermore, the timing and cost of traditional financing does not always coincide with planned NSP implementation. In the northern Shenandoah Valley one of the partners recalls, "Our nonprofit was willing to front all of the money for acquisition and rehabilitation using our bank lines of credit to act on the market quickly. But when would we get paid back? How would we cover market rate carrying costs while we waited for the government to pay us back?" The DHCD has stated, however, that funding will be made available to all recipients on a just-in-time basis for acquisition, and recipients are not required to carry those costs.

In South Carolina, community development groups have reported missing out on purchasing foreclosed homes because lenders refused to expedite the process. Another participant shared his frustration, noting, "A lot of groups have had to pick new properties because they lost the original ones they had their eye on."

Partnership Tensions

Another challenge facing NSP recipients is that it often requires the development of new partnerships for implementation. In many state NSP programs, applicants had to complete their proposals quickly, which may have prevented fully defining all activities and objectives, leaving room for disagreements among partners during the implementation phase.

In northern Shenandoah Valley, the NSVRC and the three nonprofits had never worked together before. The NSVRC managed to align all these interests for the first time during the application phase of the project. However, this new consortium has not yet worked through their varying levels of commitment to the NSP proposal.

At the same time, as LHT's experience suggests, a consortium of partners that has a history of working together may be advantageous in these circumstances. The partners come together with a better understanding of their roles as well as the benefits gained from working with each other. This understanding is essential for successful and rapid execution of NSP plans.

Results to Date

Within the first six months of announcing its NSP allocation, LHT had expended $2.6 million, which is 35 percent of its total award, for the acquisition of 27 single family homes. LHT's strong relationship with the state NSP administrator and its local partners, coupled with its move to obtain bridge loans, has clearly allowed for a relatively swift execution. LHT's success can also be attributed to the executive director's willingness to devote the time necessary to understand all of the NSP requirements and provide oversight to ensure that all partners submit the correct forms with complete information. According to the SHFDA, this consistency in reporting helps expedite the NSP reimbursement process.

In contrast, as of October 2009, the NSVRC had not yet expended any of its NSP1 allocation because the commission and its partners have not been able to overcome the four barriers outlined above. However, it hopes to implement part of its entire NSP plan before the deadline for expending the funds passes. According to the DHCD, this case does not represent the situation for all NSP recipients in the state. Many recipients are on target and are successfully implementing their programs.

The Implications for Neighborhood Stabilization in the Fifth District

The Fifth District has received over $220 million in NSP1 funds.[20] It is clearly too

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City of Chesapeake
$1,500,000

Chesterfield County
$500,000

Town of Culpeper
$1,200,000

Fauquier County
$1,500,000

City of Franklin
$400,000

Lynchburg Neighborhood Development Foundation
$1,000,000
(City of Lynchburg)

Pathways
$600,000
(Petersburg)

Virginia Beach Community Development Corporation
$1,200,000
(City of Virginia Beach)

City of Alexandria
$936,955

Fairfax County
$1,000,000

City of Hampton
$2,000,000

City of Newport News
$700,000

City of Norfolk
$1,794,375

PEOPLE Incorporated in partnership with the City of Bristol
$859,330

PEOPLE Incorporated in partnership with Russell County
$1,162,670

City of Portsmouth
$2,000,000

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premature to meaningfully assess the impact of this round of NSP funding on neighborhood stabilization. However, our two case studies offer some early insights into the potential impact and recommendations for new partnership opportunities.

In the communities studied here, the NSP is creating new opportunities and incentives for diverse stakeholders, including local governments, nonprofit community organizations and for-profit developers, to work together to solve community issues. If continued long-term, these relationships will help build sustainable community investments.

With their vast experience of bringing together coalitions of diverse stakeholders, community development organizations are natural leaders for NSP initiatives. Public-private partnerships are generally considered an important ingredient for successful community development initiatives, but they may be critical for effective NSP implementation. As justified by the capital issues discussed above, banks represent one critical set of partners that needs to be explicitly included in the NSP process.

Community development financial institutions (CDFIs) could also help to bring essential capital to the table to help ease nonprofit liquidity concerns during NSP implementation. CDFIs have experience with government programs and financing a variety of projects in low- to moderate-income communities. Local NSP recipients may be able to leverage a partnership with a CDFI that finances affordable housing to address the capital constraints on implementation discussed earlier.

Given the ongoing foreclosure crisis, Congress passed the American Recovery and Reinvestment Act on February 20, 2009, which allocated an additional $2 billion for the second round of NSP (NSP2) as well as some amendments to NSP1. The second round of NSP funding will be distributed based on a competitive process. State and local governments, and nonprofits and for-profits (as partners) are eligible to apply directly to HUD. LHT plans on applying for NSP 2, but the NSVRC does not.

Conclusion

As both local NSP recipients noted, participating in the NSP is not for the faint of heart. If their organizations fail to meet the complex and strict reporting and spending guidelines, they may not recover their NSP expenditures, and possibly their administrative overhead, which could cause serious liquidity constraints for the organizations. With small, nonprofit organizations such as LHT, this could threaten their viability.

This significant downside risk, coupled with high participation costs and uncertain (and in some cases state-limited) revenue, might explain why some community organizations are not willing to participate in NSP. This self-selection bias among community organizations may be compromising the reach and effectiveness of the program. Spatial analysis of NSP targeted communities and recipients might uncover interesting trends in participation. It would also be instructive to learn more about the barriers to implementation as well as lessons from local organizations that have successfully met their NSP objectives. As the two case studies in Virginia and South Carolina illustrate, trying to stabilize neighborhoods in the midst of continued foreclosures is a daunting task. The effectiveness of the federal NSP will ultimately depend upon the ability of local organizations to prevail.

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City of Richmond
$2,000,000

City of Suffolk
$971,444

Loudon County
$2,000,000

Northern Shenandoah Regional Commission
$2,500,000

Spotsylvania and Caroline County in Partnership with the Central Virginia Housing Coalition (CVHC)
$2,500,000

Stafford County and the City of Fredericksburg in partnership with the Central Virginia Housing Coalition (CVHC)
$2,500,000

Source: Virginia State Governor's Office, **www.governor.virginia.gov/**

Note: A special thanks to Tammie Hoy, Martha Shickle, the Virginia Department of Housing and Community Development and the South Carolina Housing Finance and Development Authority for their comments.

ENDNOTES

[1] Mortgage Bankers Association data 2006:Q1-2009:Q2, and Credit Suisse. "Foreclosure Update: Over 8 Million Foreclosures Expected." December 4, 2008.

[2] Information on the HUD methodology for allocation and the list of NSP1 recipients including 250 local governments is available at **www.hud.gov/offices/cpd/communitydevelopment/programs/neighborhoodspg/nsp1.cfm**.

[3] National Vacant Properties Campaign provides government agencies, developers, advocates and nonprofit groups with information resources and technical assistance to support vacant property revitalization efforts. **www.vacantproperties.org**

[4] Each of the four communities chosen as a case study received NSP1 funds, which were distributed in early 2009, and represented small towns, suburban neighborhoods, and rural counties: Cuyahoga County, Ohio; Fayette County, Pa.; Dorchester Terrace neighborhood in Charleston, S.C.; and the Northern Shenandoah Valley Region (Frederick, Warren and Shenandoah Counties) in Va. The case studies relied on primary and secondary sources of information.

[5] HUD's Community Development Block Grant (CDBG) program was created in 1974 through the Housing and Community Development Act to provide annual grants to cities and counties on a formula basis to help expand economic opportunities through revitalization projects for low- and moderate- income families. **www.hud.gov/offices/cpd/communitydevelopment/programs/**

[6] Housing and Economic Recovery Act of 2008. pp.L. 110-289. Section 2301(c)(3)(A)-(E).

[7] Federal Register. Vol. 73, No. 194. Monday, October 6, 2008. **www.hud.gov/offices/cpd/communitydevelopment/programs/neighborhoodspg/nspnotice.pdf**

[8] Virginia Department of Housing and Community Development. NSP Action Plan. P. 13. **www.dhcd.virginia.gov/CommunityDevelopmentRevitalization/PDFs/VA_NSP_Plan.pdf**

[9] Ibid. P. 17.

[10] Ibid. P. 12.

[11] For additional information on the threshold requirements, refer to the DHCD's NSP Action Plan, **www.dhcd.virginia.gov/CommunityDevelopmentRevitalization/Neighborhood_Stabilization_Program.htm**.

[12] State of South Carolina NSP 2008 Annual Action Plan. **www.sha.state.sc.us/library/NSP/NSP%20Action%20Plan%20Draft.pdf**

[13] Ibid.

[14] South Carolina Housing Finance and Development Authority. NSP Draft Substantial Amendment to the Consolidated Plan 2008 Annual Action Plan, P. 4.

[15] For more information on the NSVRC, visit **www.lfpdc7.state.va.us/501.html**.

[16] As established in the Code of Virginia (sec 15.2-4207), the purpose of PDCs is "to encourage and facilitate local government cooperation and state-local cooperation in addressing on a regional basis problems of greater than local significance."

[17] The partners in the NSP application included the Charleston Area CDC, the Charleston Renovation Group, the City of Charleston, Companion Associates, Crisis Ministries, Helping Hands, Jessco Homes, Metanoia CDC, and the towns of James Island and Mount Pleasant. LHT is also partnering with the Berkeley-Charleston-Dorchester Council of Governments and individual county governments to implement its NSP plans.

[18] **www.lowcountryhousingtrust.org**

[19] Ibid.

[20] This number is based on HUD allocations in five states including Va., W.Va., Md., S.C. and N.C. plus Washington, D.C.

CAR OWNERSHIP AND WORKING FAMILIES:
Barriers and Opportunities

By Tanika Davis

> "[Buy here, pay here] is one of the fastest growing areas of subprime lending."

To commute to work and school, Baltimore resident Sheila Horsey needed a car. But with poor credit and a modest salary, Horsey could not finance a used car with conventional credit. Instead, she negotiated with a small "buy here, pay here" used car dealer to purchase a nine-year-old car with a $3,000 down payment. For several years, the $400 monthly payment was a budget buster. "I tried to pay it," Horsey says, "I actually did it for about a year, but eventually the car wound up breaking down. And the car lot actually closed down. Everybody was telling me that they were getting one over on me, but I really needed a car." Without a car, Horsey's everyday commute required transferring between four city buses in order to take her daughter to school and to go to work.

Horsey's story demonstrates the importance of cars to the everyday needs of working families. Across the country, households with income levels below $25,000 are nine times more likely to be without a car than those earning more.[1] For workers such as Horsey, affordability is often the most significant hurdle to car ownership. The difficulty of obtaining credit because of a poor credit score is also a barrier to purchasing and maintaining a car. Even obtaining a driver's license can be an obstacle for some people. But without a car, job opportunities may be limited by the job's location with respect to where the person lives. The fringes of metropolitan areas are often poorly served, or not served at all, by public transportation. The limited hours of public transportation, particularly for shift and weekend jobs, create additional transportation challenges for workers like Horsey.

Car Ownership and Employment Opportunities

According to The Mobility Agenda, a research network that studies the relationship of transportation to employment opportunity, "low-wage workers with access to a reliable car are more likely to work, earn more, and work more hours."[2] Access to a car promotes employment stability and helps low-wage workers be less susceptible to the tardiness, absences, and inflexible schedules that plague transit-dependent workers.

For low-to-moderate income workers who are single heads-of-households, the importance of a car is even greater. When only one person in the family is responsible for meeting all household needs, navigating a car-oriented community without a car is difficult and time-consuming. For individuals who are dependent on public transit to complete household errands, "it's tremendously difficult to accomplish tasks that most of us do without a second thought, such as picking up a sick child from school, buying groceries, or staying late at work," says Carolyn Hayden, president of Opportunity Cars, a network of more than 150 organizations dedicated to increasing private automobile ownership for low-wage, working families.

Predatory Lending

According to Carolyn Hayden of Opportunity Cars and Sheela Cooper of One World Consulting, "current regulation of the automobile finance industry is woefully inadequate for protecting consumers from unethical lending practices by automotive dealers and finance companies." [3] This gap in oversight has allowed predatory practices to take place in traditional as well as subprime dealerships.

Among the most common practices employed by traditional car dealerships are finance charge markups, or "kickbacks," whereby a dealer works with a lender to offer prospective buyers an interest rate that is several points higher than what the buyer could qualify for from a regulated financial institution. Lenders and dealers benefit from "kickbacks" by splitting the additional revenue. According to *Car Trouble*, a recent report by the Center for Responsible Lending, dealer kickbacks in 2007 amounted to more than $2.1 billion.[4]

Lenders may add fees to the purchase price of a car without clearly informing the buyer. Such fees can be attributed to document preparation, rust-proofing, insurance services, or other dealer services. Dealers also employ "yo-yo sales," which entice a buyer into paying a high interest rate on a car loan. Initially, the dealer verbally agrees upon a financing deal. After the buyer takes the car off the lot, the buyer is told that he/she cannot qualify for the agreed-upon terms and is offered a deal at a higher interest rate.

Many low- and moderate-income car buyers who do not qualify for traditional automobile financing because of a poor credit score, spotty credit, or no credit at all resort to used car dealers who advertise a "buy here, pay here" (BHPH) option or other potentially predatory car financing options. BHPH is one of the fastest growing areas of subprime lending.[5] Some experts estimate that the millions of subprime consumers in the "buy here, pay here" market could represent a minimum of $5 billion annually.[6]

Many BHPH dealers almost exclusively serve subprime borrowers who have limited options for purchasing a car. Dealers often profit from high mark-ups on used cars and high financing fees. For example, a dealer could purchase a used car for $500 and invest an equal amount in repairing the car. The dealer could then sell the car to a buyer for $3,000, ask for a $1,000 down payment, and service a loan for the dealer's profit, $2,000. The high financing or maintenance costs of a used car often cause buyers to miss payments. When the dealer repossesses the car and then quickly re-sells it to another subprime buyer, this business practice is called "churning." The National Consumer Law Center has found that minority car buyers pay significantly higher mark-ups than other car buyers with the same credit scores.[7] Non-English-speaking buyers are also susceptible to such scams.

"Buy here, pay here" dealers tend to use "churning" and "self-help repossession" aggressively. "There's only one place in the economy that the creditor is allowed self-help and that's in cars," says Bill Myers, senior fellow at the Aspen Institute's Economic Opportunities program. "If you want to foreclose on a house, there are steps and legal proceedings, and it takes a year. With cars, there's no judge involved, no third party. [Used car dealers are] allowed to pretty much universally take the car away." In addition, "With 'buy here, pay here,' they've paid for the car in the beginning, usually with the down payment. So if they can get it back and sell it again, it's pure profit," says Myers.[8]

Bank Helps With Car Ownership Program

By Sarah Eckstein

Photography: Courtney Mailey

During a breakout session, partners share best practices for providing better access to cars for working families.

In early September, the Federal Reserve Bank of Richmond teamed up with the Annie E. Casey Foundation, the Aspen Institute and the National Consumer Law Center to sponsor, "Cars and Working Families: Expanding Opportunities in a Changing Economic Environment," to explore the economic issues of car ownership. The event addressed a broad range of issues relating to car ownership, car finance and consumer protection.

For many families, car ownership is a key to securing employment and being self-sufficient. Yet, consistent access to affordable and reliable cars is often difficult for low-income families. Participants of the conference worked together to identify the most common barriers to car ownership, pinpoint successful models for overcoming these hurdles, and new strategies to promote car ownership. The conference focused on the wide range of barriers to car ownership, including access to credit, auto insurance pricing and availability, maintenance costs, driver's license requirements and basic financial literacy.

"Many of the higher-paying jobs requiring low skills are located on the outer fringes of metropolitan areas, making reliable auto transportation necessary for employment. These jobs also tend to require night and alternative shifts which exacerbate the difficulties of relying on public transportation," said Ellen Janes, community development regional manager. "We wanted to begin developing a network of partners who share trends and best practices about car financing in particular, and car ownership in general, for low-income workers."

Bob Carpenter, a financial economist at the Richmond Fed, helped paint the picture of a changing economic landscape for credit availability and unemployment that can be a barrier to auto-financing opportunities. Carpenter pointed to auto loan delinquency trends and sales forecasts to help participants see the context for the future of the auto financing industry.

Participants were able to move closer to developing action steps to address priorities for improving access to cars for low-income consumers. The group intends to study the effectiveness of various car ownership programs and policies, compile best practices on car financing, thoroughly research and analyze relevant data, and build a multi-disciplinary network to develop a national policy agenda.

For conference materials and information on the event, visit **www.richmondfed.org/conferences_and_events/community_development/2009/cars_working_families_20090903.cfm**.

Regulatory Prospects

The practice of automobile lending is generally not covered by state and federal consumer protection. In the Fifth District, West Virginia has attempted to regulate BHPH dealers, but Charli Fulton, the state's senior assistant attorney general says, "We can hit a few individual ones here and there, but just the sheer number of them is a little overwhelming."

As a result, many advocates believe federal legislation is necessary to protect consumers. "There's no overarching legislation that governs the terms and conditions under which these loans can be made," says Carolyn Hayden of Opportunity Cars. In *Disclosure and Transparency in the Automobile Finance Industry: A Call for Action*, Carolyn Hayden and Sheela Cooper co-authored a call for federal legislation that would have a similar purpose as the Home Mortgage Disclosure Act, but would serve to improve automobile lending practices.[9]

Researchers have predicted that "simple changes in laws and regulations could dramatically help [low- and moderate-income] consumers in the car arena. *Car Financing for Low and Moderate Income Consumers*, produced by The Aspen Institute and the Consumer Task Force for Automotive Issues, recommends data-gathering mandates, such as requiring credit reporting agencies to collect payment records from "buy here, pay here," rent-to-own and other nontraditional payment arrangements.[10]

Charli Fulton also suggests that "buy here, pay here" businesses should be separately regulated. But Bill Myers of The Aspen Institute recommends a three-pronged approach that includes legislation and regulations, consumer education and more competition in the financing marketplace.

Consumer lending, including automobile microloans, to low-and moderate-income people or communities is not routinely reviewed for Community Reinvestment Act (CRA) credit by banks under the CRA, unless consumer lending constitutes a substantial majority of a bank's business. Nonetheless, a bank may provide examiners any information it deems relevant about its lending, investments, or services for consideration regarding its performance, including data from microloan programs. It is important to note that small, intermediate and large banks are subject to different evaluation standards and processes under the CRA. Larger banks are evaluated on their lending and community development investments and services, while small banks are often evaluated primarily on their lending activity.

Boosting Car Ownership

Across the United States, community-based organizations are providing low-wage workers with affordable, reliable cars. Nationwide, approximately 130 nonprofit organizations are associated with local social service or employment and training providers who assist low-wage working families in obtaining an affordable and reliable car, obtaining a low-cost car loan, or saving for an automobile down payment.

Ways to Work, a nonprofit organization in Winston-Salem, North Carolina helped Loretta Ridgill with purchasing a car. Ridgill, a single mother of three, was having trouble commuting to and from work. A loan from Ways to Work helped Ridgill purchase a used Buick Sentry with a $90 monthly payment plan. The vehicle and the affordable loan catalyzed a series of improvements in Ridgill's life—she was able to secure a better job with more reasonable daytime hours and no longer needed public assistance. Last year, Ridgill bought her first home. Today, Ridgill is working on getting her GED. "I can get to school now without having somebody taking me," says Ridgill, "I don't need to depend on [anyone] else. This showed me that I can do it myself."

Nonprofit car ownership programs such as Ways to Work serve an estimated one-third of one percent of consumers such as Ridgill who are likely to experience difficulty when purchasing a car with conventional or predatory financing.[11]

Community-Based Lending

Steer Clear of Predatory Car Loans, a report by the National Credit Union Foundation, examined ways to help credit unions recognize how to take on the added risk of community-based lending to subprime borrowers.[12] "We're finding that non-prime borrowers are much [more] likely to repay than those with a high credit rating," says Lois Kitsch, national program manager of the National Credit Union Foundation's REAL Solutions program, "and it's because they really need access to that transportation. So we're finding that they really are good candidates to get loans at traditional institutions." At one Latino Community Credit Union, the default rate on automobiles and other loans "is minimal," says Nancy Wilberg Ricks, policy analyst for the National Council of La Raza. Fulton, of West Virginia, says old-fashioned banking models that rely on a lender's knowledge of a borrower's personal circumstances would benefit low-income car buyers in the long-term. "One thing that might help is if there were a way for consumers with low income to get small personal loans, individually through their banks. Sort of mini-lending," Fulton says. "Without that kind of activity, these people have to go to these (predatory) places, because there's no one else that will lend to them."

Bill Myers of The Aspen Institute hopes lending institutions envision the nation's pool of borrowers along a continuum, with people at the top having the best credit and people at the bottom having the worst credit or none at all. "There's a stretch point in the middle that the banks haven't figured out how to get to and the nonprofits can't get to," Myers says, "and that middle ground right now is populated by predators."

To reach out to borrowers, Myers suggests the use of alternative credit scoring in order to determine a potential borrower's stability, particularly if he or she has little or no credit. For a borrower who has no credit history, Myers suggests examining school databases to determine the number of years that a borrower's child has been enrolled in the same school. This proof of stability may indicate that a borrower would be a good candidate for a car loan, albeit at a higher rate than a borrower with established credit.

Conclusion

Since June 2006, advocates from car ownership programs and experts in the fields of car finance, policy, and consumer protection have met by conference calls and in four national symposia sponsored by the Annie E. Casey Foundation to create a nationwide network that can stem predatory car lending practices and eliminate barriers to car ownership. The network includes nearly 100 organizations and public agencies. The group's most recent gathering was held in September of 2009 at the Federal Reserve Bank of Richmond's branch in Baltimore. The forum, entitled "Cars and Working Families: Expanding Opportunities in a Changing Economic Environment," was hosted by the Federal Reserve Bank of Richmond with the Annie E. Casey Foundation. Over 70 participants attended the forum, which was facilitated by Opportunity Cars, The Aspen Institute and the National Consumer Law Center.

"We've got ownership programs [involved in the movement for change]; we've got people interested in bringing credit unions and other lending institutions to the table involved; we've got people interested in policy change at the table," says John Van Alst, an attorney with the National Consumer Law Center. "All of us realize that there is something wrong with the way things are going right now. We've now realized that we all have to work together to help low-income families get and keep reliable cars that they can afford."

Tanika Davis is a senior associate at The Hatcher Group, a public affairs firm in Washington, D.C., that works with foundations and nonprofit organizations to advance social change. The Hatcher Group deals with a wide range of issues including domestic and global poverty, tax and budget issues affecting low-income families, youth-at-risk, education, the environment and human rights.

Note: A special thanks to Beadsie Woo, Carolyn Hayden and John Van Alst for their editing assistance.

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LOAN MODIFICATIONS: "Making Home Affordable" Work

By Angelyque Campbell

While the national economy is moving toward recovery and there are signs of life coming back to the housing market, measures to help the millions of homeowners at risk of foreclosure seems to have had only a modest impact. The persistent increase in unemployment will continue to drive foreclosures upward.[1]

The Obama Administration aims to keep 7 to 9 million families in their homes through a broad set of loan modification strategies under its Making Home Affordable (MHA) program. To respond to the widespread default rates among mortgage borrowers, the Department of Treasury, tasked with executing MHA, has created a framework to handle modifications at scale.

With concerns mounting over servicers' efficiency and responsiveness to borrowers, MHA and its principle loan modification program, HAMP (Home Affordable Modification Program), are under pressure to perform. This article provides a brief chronology of federal efforts that led to MHA with particular attention to adjustments made to HAMP to improve mortgage affordability. Several policy changes that are likely to impact the success of MHA will also be examined.

Overview of Loan Modification Programs

One early federal response to the sharp increases in foreclosures came with the creation of HOPE NOW, an alliance between the government, mortgage industry and housing counselors. This collaboration was intended to develop a variety of strategies to help distressed borrowers, including solutions to ease temporary financial hardships such as forbearance and repayment plans. Shortly afterward, the Department of Housing and Urban Development (HUD) launched an enhanced version of its refinance program called FHASecure, aimed at providing relief from rate resets to creditworthy borrowers. These efforts failed to address the significant debt of distressed homeowners and the negative equity position they faced because of falling home prices.

One year later, the Hope for Homeowners program was included in the Housing and Economic Recovery Act (HERA) of 2008. This new program, administered through HUD's Federal Housing Administration (FHA), set eligibility criteria for refinancing from high-cost loans to 30-year, fixed-rate mortgages. This program was intended to serve the victims of predatory lending as well as homeowners financially "underwater" in their homes.[2] In exchange for significant, low-cost refinancing, the program allotted a share of the home's future appreciation to FHA. This program resulted in only 34 refinancings[3] despite growing numbers of households facing foreclosure. As HUD officials later acknowledged in congressional testimony, the program was thwarted by several obstacles to participation, including steep borrower fees and an inflexible and complex program design.[4]

In February 2009, the number of foreclosures completed grew 67 percent over the prior month, hitting a new monthly high.[5] During this time, President Barack Obama announced his first housing initiative, Making Home Affordable. The program intended to give mortgage servicers both a simple framework and financial inducements to help families avoid foreclosure by restructuring or refinancing their mortgages. As of September 2009, 63 servicers, which represent approximately 85 percent of the mortgage market, had signed participation agreements indicating their willingness to modify loans under the program's terms.[6] Less than a month later, the U.S. Department of Treasury launched, as part of MHA, the Home Affordable Modification Program (HAMP), which spelled out basic loan modification criteria. HAMP required that monthly payments on first-lien mortgages be reduced to no more than 31 percent of a homeowner's monthly gross income.

This affordability requirement had been developed by the Federal Deposit Insurance Corporation (FDIC) and first applied in August 2008 to distressed loans held by failed lender, IndyMac. The FDIC, which had taken over IndyMac, developed a modification package that limited a borrower's debt-to-income ratio to no more than 38 percent. This package was intended to achieve affordable, sustainable loan modifications that could be reproduced on a large scale and serve as an industry model.

Similar to the IndyMac loan modification program, a key feature of HAMP is a trial period that tests a borrower's ability to make a modified loan payment. Servicers offer this trial modification to help distinguish between borrowers who can and cannot afford to maintain their homes. Under HAMP, the borrower must stay current on a modified mortgage payment over a three-month period before the modification plan is finalized. The Treasury Department's first HAMP performance report, issued in July 2009, showed 235,247 trial modifications had been initiated.[7] The most recent report (September 2009) shows approximately 487,081 trial loan modifications in progress.[8]

Since the creation of HAMP, Treasury has announced four additional HAMP subprograms:

Home Price Decline Protection (HPDP) encourages loan modifications in markets hit hardest by falling home prices. Investors in mortgage-backed securities receive incentive payments for HAMP loan modifications on properties where home prices have declined or significant sale price declines are likely. The incentive payment is "linked to the rate of recent home price decline in a local housing market, as well as the unpaid principal balance and mark-to-market, loan-to-value ratio of the mortgage loan."[9] Mortgage loans owned or guaranteed by Fannie Mae or Freddie Mac are eligible for HPDP incentive payments.

The ***Second Lien Modification Program (2MP)*** is designed to work in tandem with HAMP to provide greater mortgage affordability. Under 2MP, when a borrower's first lien is modified under HAMP and the servicer of the second lien is a 2MP participant, the second-lien servicer must offer to either modify the borrower's second lien under program guidelines or extinguish the entire second lien in exchange for a lump-sum payment from Treasury.[10]

Additional terms/features of the 2MP program include the following:

- No additional verification of the financial information provided by the borrower used in the determination for the first HAMP modification;
- Required trial periods; and
- Use of a technology program to match first and second liens across participating HAMP servicers, and if a match is found, a requirement to offer the borrower a second-lien modification.

Data Collection and Reporting Requirements Guidance includes periodic reporting of servicers' HAMP loan level data to Fannie Mae, the HAMP program administrator. Data variables include loan identifiers and borrower characteristics such as race, ethnicity and gender.[11]

FIGURE 1

Home Affordable Modification Program (HAMP)

Snapshot through August 2009

Number of Trial Modifications Started (Cumulative)	360,165
Number of Trial Period Plan Offers Extended to Borrowers (Cumulative)	571,354
Number of Requests for Financial Information Sent to Borrowers (Cumulative)	1,883,108

Source: Making Home Affordable Program Servicer Performance Report through August 2009. Survey data provided by servicers. The trial modifications start when the first trial payment is received.

The ***Streamlined Borrower Evaluation Process*** addresses the inconsistent processing and slow response times of servicers. The Treasury now provides servicers with a standardized form to collect borrower income and expense information, and it permits more simplified income documentation and verification requirements, such as verbal financial information obtained from the borrower to assess eligibility for a trial modification plan.[12]

The ***FHA-HAMP*** assists FHA mortgagors in default. When initially introduced, MHA did not include FHA loans. This program now gives FHA authority to combine a loan modification with a partial claim for its foreclosure-related costs (e.g., legal fees) and principal reductions up to 30 percent of the unpaid principal balance as of the date of default. The FHA borrower is also subject to MHA's trial modification period and front-end debt-to-income ratio of 31 percent to determine eligibility for a permanent loan modification.

The ***Foreclosures Alternative Program*** offers investors additional cash incentives to accept a short sale or deed-in-lieu of foreclosure from borrowers who are unlikely to afford a modified mortgage.

Hope for Homeowners Refinancing strengthened Hope for Homeowners with additional incentive payments for servicers and lenders who provide sustainable refinance loans under Hope for Homeowners program criteria. Servicers can receive a $2,500 up-front incentive payment for each successful Hope for Homeowners refinancing. Lenders who originate Hope for Homeowners refinances also are eligible for incentive payments of up to $1,000 per year (for up to three years) for each refinanced loan as long as the loan remains current.

Barriers to Success

The issues of affordability, scale and pace remain central to policy discussions on the effectiveness of loan modification programs. The Senate Committee on Banking, Housing and Urban Affairs held a hearing on July 16, 2009, to examine the impact of federal measures to stem the foreclosure tide and explore ways to make these initiatives more effective. This hearing revealed both an array of obstacles to the success of federal intervention efforts and potential strategies to strengthen federal foreclosure prevention programs.

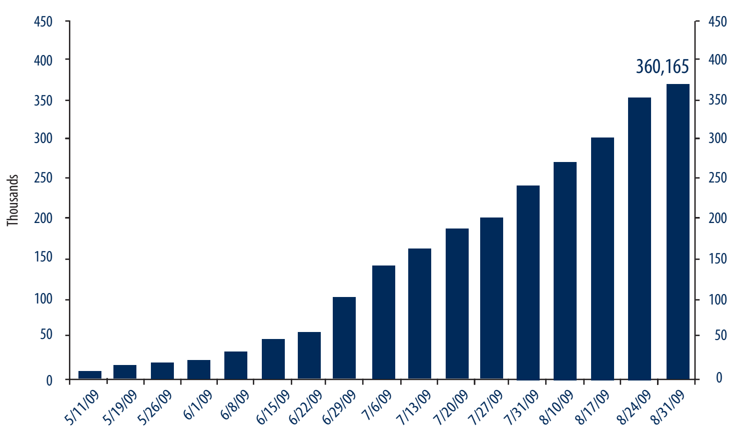
At the time of the hearing, participants acknowledged that HAMP was a new program but also identified the following weaknesses:

- Housing counseling groups asserted that many loan work-outs require principal reductions to make monthly mortgage payments sustainable.
- Housing counselors argued that encumbrances on a homeowner's ability to build equity diminish the wealth-building opportunities of homeownership and can be a disincentive for homeowners to sustain a modified loan.
- Even if principal reductions are mandated, neither program eliminates negative

FIGURE 2

Home Affordable Modifications Started (Cumulative)

Snapshot through August 2009



Source: Making Home Affordable Program Servicer Performance Report through August 2009.

equity, a problem Paul Willen, senior economist and policy advisor at the Federal Reserve Bank of Boston, contends that along with job loss " will persist even after the economy recovers."[13]

- Servicers argued that net present value calculations on first liens did not fairly compensate holders of second liens.
- Servicers expressed doubt that the Administration's goal of helping 7 to 9 million homeowners could be reached because HAMP excludes loans guaranteed through the Veterans Administration or FHA and also excludes borrowers approved for refinancing.
- Consumer advocates claimed loan servicers were noncompliant with HAMP guidelines. They cited refusals to offer HAMP modifications when they are indicated, inadequate staffing levels, slow response times and lack of transparency in documentation and reporting. (Servicers responded that program restrictions and multiple versions of program guidelines impede their compliance.)

The Treasury's Responses

It may still be too soon to assess the effectiveness of MHA—servicer guidance was issued on April 6, 2009, and only two Treasury performance reports have followed. Treasury's recent issuance of additional guidance, mentioned above, is an attempt to address program shortcomings. Lowering the debt-to-income ratio to 31 percent to make monthly mortgage payments more affordable was a significant step forward, particularly at a time of double-digit unemployment rates that result in a decrease or loss of income for many homeowners. HAMP's "pay-for-success" structure, which better aligns with the interests of servicers, investors and borrowers, increases the likelihood of more sustainable, affordable, cost-effective loan modifications.

Standardized guidelines are expected to encourage efficient processing and may yield greater numbers of modifications. The inclusion of Hope for Homeowners and FHA into the HAMP framework will also help to achieve a more consistent and uniform approach among servicers' modifications. The creation of a second-lien program should remove existing barriers to modifying first-lien loans encumbered by a second mortgage that stood to lose any chance of recovery after modification of the first mortgage.

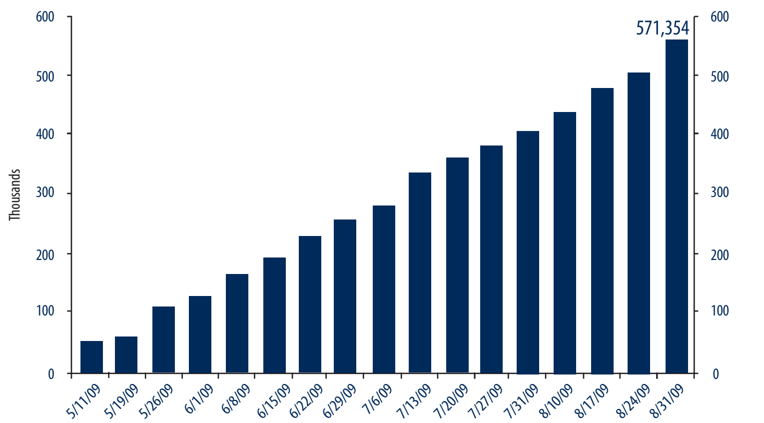
Factors Critical to Success

A July 2009 Government Accountability Office report also stressed the need for mechanisms promoting transparency, accountability, enforcement and compliance of HAMP.[14] Regular public progress reports by servicers toward meeting stated loan modification goals can bring accountability to a process still largely dependent on voluntary private sector participation. Second reviews by Freddie Mac of servicers' underwriting decisions on some loans serve as additional monitoring. Reporting reasons for denied loan modification will also provide needed scrutiny to ensure that evaluation processes comply with HAMP guidelines and fair lending laws.

One measure suggested to promote rapid responses from lenders and servicers to borrowers is the creation or retooling of automated platforms. As pointed out at the Senate Banking Hearing by Joan Carty of the Housing Development Fund, such a system would advance the preferred action of borrowers proactively contacting their servicer when facing risk of default rather than refusing assistance until default happens, thus subjecting the borrower to

FIGURE 3

Home Affordable Modification Plans Extended to Borrowers (Cumulative)



Source: Making Home Affordable Program Servicer Performance Report through August 2009.

adverse credit reporting.[15] Enhanced automation tools would also reduce the risk of lost files and paperwork, a common complaint raised by housing counselors and borrowers as the reason for lengthy processing times.

The other critical factor to HAMP's success is the conversion of borrowers from trial modification status to permanent status. The increasing number of borrowers participating in trial plans demonstrates, in part, that the right incentives and program structure can help to avert, even if temporarily, the loss of homes. Going forward, keeping borrowers in their homes at affordable mortgage loans brings needed stability to neighborhoods and other business sectors dependent on a healthy housing market. Local governments also benefit from an increase in revenue stream from affordable mortgage loans.

Adaptability is Key

As housing and employment conditions change, it is imperative that the Treasury continue to closely monitor, reevaluate, and be ready to re-tool HAMP. Some consider the Administration's goal to save nearly 10 million families from foreclosure unachievable. However, collaborative efforts closely tuned to market conditions and in keeping with proven strategies will give the Make Home Affordable initiative its best possible chance of meeting or exceeding its goal.

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Note: It should be noted that program guidelines reflects data from July–October, 2009. For recent program updates to HAMP, please visit Treasury's HAMP website for servicers at **www.hmpadmin.com**.

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PAYMENT INNOVATION:
Helping the Underserved

By Sarah Eckstein

Search online for iPhone gadgets and chances are you'll find thousands of applications, or "apps," ranging from maps of hiking trails to a carpenter's level. Most recently, United Services Automobile Association (USAA) became the first financial institution to launch an iPhone application that allows customers to deposit checks into their accounts by capturing a digital image with their phones. The process of scanning and sending a digital image of a check to a bank for deposit, which is called Remote Deposit Capture (RDC), is not new. Although it has been around since 2003, it is likely that new groups of customers will benefit from accessing banking innovation through iPhone applications. This article summarizes new opportunities for reaching regions and markets underserved by the current banking system and the challenges to adopting this new technology.

What is RDC?

Remote Deposit Capture (RDC) is a transaction service that enables a financial institution to receive electronically transmitted deposits from its customers through scanners, and most recently, cellular phones. The image-based technology allows businesses and customers to deposit checks without visiting a bank branch or ATM. In the case of iPhone users, they would use the phone's camera to take photographs of both sides of the check and send the images to their bank. Digital images are transmitted through encrypted Internet connections, which help to prevent fraud. Once the customer's bank receives the image, the bank clears or posts the check to the designated account.[1]

In October 2003, Congress passed the Check Clearing for the 21st Century Act, known as Check 21, which allows banks to clear checks from digital images of original checks instead of having to transport the original check back to the paying bank for clearing.[2] This law is intended to foster innovation in the payment system and to improve the efficiency of check transactions. As a result of the new regulations and other consumer trends, such as the use of debit cards and credit cards, the use of paper checks has declined significantly over the last two decades.[3] In 2003, the number of retail electronic payments in the United States exceeded check payments for the first time.[4]

The use of mobile and Internet banking technology has accelerated among customers. Mobile banking connects consumers to financial institutions through their mobile device (e.g., cell phones) to perform self-service banking functions, including monitoring account balances, making payments and transferring funds between accounts.[5] According to Towergroup consulting firm in an article in *ATM & Debit News*, the number of active U.S. mobile-banking customers will reach 53.1 million in 2013, up from 4.9 million in 2008.[6] As customers become more technologically savvy with respect to banking services, it is predicted that they will continue to embrace nontraditional banking services that are more convenient and less costly.[7] Increased growth of subscribers and technological functions in the smartphone industry is also expected to drive expansion of mobile banking. While the Apple iPhone continues to dominate the smartphone industry, Research in Motion's BlackBerry© product has 28.5 million subscribers, and other telecommunication companies are in the process of launching similar technology.[8]

The Role of Payment Innovations in Serving the Unbanked

For community development practitioners, providing financial services to underserved markets has been an ongoing challenge. Geography, employment, technology and transportation are all challenges that make access to financial services more difficult in some areas. One of the most valuable features of RDC technology is its ability to allow people to deposit checks anywhere. Consumers in rural areas who own a small business or serve in the military often do not have regular access to a branch or an ATM. For these groups, RDC could be particularly beneficial.

Remote access could reduce transportation expenses by eliminating the need to travel to bank branches or ATMs to deposit a check. Customers in rural areas often have to travel a longer distance to a bank branch than their urban counterparts. Driving 20–30 minutes to a bank branch to deposit a check often places additional cost burdens on residents who have to spend more money on gas as well as time away from their jobs or businesses. In addition, banks often offer fewer banking options to less populated communities. As a result, mobile banking increases competition among financial institutions and could drive down service costs for rural customers.

For West Virginia, reaching customers in rural areas continues to be a challenge. West Virginia Credit Union is one of the first in the Fifth District to offer iDeposit, the RDC application for the iPhone. This two-branch credit union has used the technology to reach its members who live outside the Charleston area. The application helps connect individuals in the most remote areas to new financial management opportunities. With just under 14,000 members, only 10 members are currently using the deposit application, but expectations are that the number will increase quickly. Currently, the application will only function for credit union members, but records show the application is being downloaded by nonmembers interested in understanding how the application works.[9]

USAA, the privately owned bank and insurance company that launched the iPhone RDC application, serves many individuals in the military and their families. According to the Department of Defense, military personnel receive orders to relocate to a new assignment on average of once every two to three years.[10] Since many military personnel travel, finding a bank branch or an ATM with national and international coverage can be challenging. USAA reports that military service people typically have to close one bank account and open another account at their new post. Having a longstanding history of responsibly managing a banking account can help consumers receive more favorable loan and credit options. The deposit service would eliminate the need to close and reopen accounts every time a new assignment is given, helping families avoid uninterrupted access to bank accounts and damage to their credit score at a time when access is most critical.

According to the *American Banker*, most large and mid-tier banks offer RDC to their corporate customers but have yet to aggressively pursue small business or individual customers.[11] Complex logistics and installation and maintenance costs have deterred banks from supplying RDC services to small businesses. As demand for remote services continues to grow, banks are finding new partnership opportunities among the small business community, especially as infrastructure costs for items, such as scanners and software, decrease.

“Consumers in rural areas who own a small business or serve in the military often do not have regular access to a branch or an ATM. For these groups, RDC could be particularly beneficial.”

For businesses with multiple locations or franchises, having the ability to bank via phone reduces costs. Managing business bank accounts can be difficult with limited bank branch hours. The iPhone check deposit application would allow customers to deposit any time of day from any place. Remote deposit services also accelerate check-clearing. Businesses that capture deposits in their office or processing center offer quicker access to deposited funds and an overall reduction in the time it takes to process checks. Many banks also offer later deposit hours for bank deposits, allowing small business owners the advantage of flexible deposit times.[12]

Other added benefits include the ability of businesses to create a platform for automating all check/receivable processing operations.[13] In a June 2007 survey of 325 small businesses across a variety of markets, Celent, a research and advisory firm, found checks represent more than 70 percent of receivables among two-thirds of businesses. Remote account receivable services allow for faster fund availability and for fewer personnel needs for handling the manual process, and eliminate added receivable processing fees and courier costs.[14] Checks scanned through the RDC system gain efficiency by reducing account balance errors and the risk of check fraud.

Another advantage for both businesses and banks using RDC is the stronger fraud prevention features that come along with operations. Reports show that banks are experiencing fewer incidences of fraud involving remote-deposit customers.[15] Most financial institutions require customers to go through additional scrutiny before being accepted as an RDC customer. Both banks and businesses mitigate the risk of check fraud through further due diligence of a customer's payment history, assets and credit as if they were underwriting a loan.[16] To further ensure against fraud, technology companies have developed systems and procedures that identify check inconsistencies.

Barriers to Adoption

While the number of smartphone users continues to grow, smartphone costs could limit the number of subscribers. Compared to traditional cell phone subscription plans, smartphone plans can cost significantly more. The smartphones themselves run between $150 and $500 depending on whether a contract is activated with the purchase of the phone. Since smartphones act as mini personal computers, they require an additional data service for Internet access. These plans can be upwards of $100 a month for basic services. The low- and moderate income families that live in rural areas and would benefit from access to RDC have less disposable income to spend on smartphone technology, especially in the current economy.

Unreliable service also presents a challenge for RDC technology reach. According to the USDA, rural land blankets 75 percent of the United States, leaving significant gaps in cell phone reception coverage. Many smartphones operate on a third generation, or 3G, network which allows the transfer of larger amounts of data. In most urban areas, wireless carriers lay third generation (3G) technology on top of existing systems.[17] However, less populated regions still operate on second generation, or 2G, technology which can limit the speed and reliability of the network connection.

New banking innovations are creating opportunities for reaching new and underserved customers. While some technological challenges do exist, such as unreliable cell phone service in rural areas and high subscription plan costs, significant growth in mobile banking is expected to alter the retail banking industry and spark further financial innovation.

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DISTRICT HIGHLIGHTS

DISTRICT HIGHLIGHTS COMPILED BY Leona Chan, Ellen Janes, Courtney Mailey and Carl Neely

Virginia Kicks Off Poverty Reduction Initiative

Virginia Governor Tim Kaine opened his May 2009 summit, "Re-Thinking Poverty," with a challenge to policy leaders throughout the state—support the efforts of an ongoing poverty reduction task force by contributing ideas and setting out ambitious goals to fight poverty in Virginia. Virginia Secretary of Health and Human Resources Marilyn Tavenner said that the Re-Thinking Poverty summit "really helped frame – and reframe – ideas about the causes of poverty in Virginia and how to solve them." Tavenner co-chairs the task force with Robert Grey, managing partner of the Hunton and Williams law firm, to help shape new strategies to reduce poverty and to enhance economic opportunity for all Virginians.

The task force is divided into three primary areas of focus: asset development, enhancing individual and community resilience, and workforce training and education. Committees for each area must develop strategic recommendations for reducing poverty that can be implemented at the state and local levels. These recommendations are based on current poverty research, best practices in other states, and input from several citizen engagement events that took place on July 18 called Act on Poverty. Working with Virginia's Community College System, the Act on Poverty forums simultaneously connected citizens and task force members in 26 different locations across Virginia in an open discussion about poverty and economic opportunity. "Governor Kaine asked the task force for specific recommendations, so it's been really important for us to hear from community leaders and the general public about the programs and services that are working, and which need more attention," Grey said.

Questions that the task force will consider when developing recommendations include: Does national research mirror what's happening in Virginia? Do our solutions for ameliorating poverty capitalize not only on national best practices but also on Virginia-specific solutions? The task force's draft recommendations and priorities are being presented to the Governor's Office in fall 2009.

Virginia first lady Anne Holton also has worked on a number of issues related to reducing poverty in Virginia. Mike Evans, of Holton's office, indicated that, "We see the recommendations from the task force being implemented in two ways. First, the governor will include some of them in his 2010 budget proposal to the General Assembly. Second, we hope that legislators will use some of these ideas to respond to the struggles they are hearing their constituents facing during the recession."

According to Tavenner, "What's also interesting is that people from very divergent backgrounds and regions of the state agree that education, affordable health care and child care are critically important."

"We've heard opinions about the commonwealth's tax credits and structure, too. All of this feedback is an important barometer for the task force," she said.

More information about the ongoing work of the Virginia Poverty Reduction Task Force, is available at **www.poverty.virginia.gov**.

D.C. Begins Streetcar Project

Transportation officials began the first phase of the D.C. Streetcar Project in September 2009. The project serves as an internal circulator within the city and provides city riders with another public transportation option.

According to the Urban Land Institute's report, *Beltway Burden*, of the proportion of District residents who commute to work, 38.5 percent of the residents take public transportation and 14.6 percent walk or bike to work. The option of a streetcar system, which will be available for the cost of a bus fare, will serve as an environmentally friendly alternative to driving.

Officials also believe the streetcars will be particularly beneficial to local neighborhoods and communities in the District. The ease of access has been proven to revive historic neighborhoods with new investment and activities. The District Department of Transportation (DDOT) looked to Portland, Oregon, as an example. In Portland, the development-to-transit ratio is 18:1, which means every $1 spent on the streetcar has resulted in $18 of development in the immediate area (DDOT, 2009). District officials hope the economic development will benefit historic neighborhoods, such as the waterfront corridors of Anacostia and the Northeast. Coupled with the District's job and housing opportunities, as well as cultural and historic amenities, the streetcar system is positioned to serve as a catalyst for new community and economic development.

The D.C. Streetcar Project intends to circulate only within the District and will operate in mixed traffic at moderate speeds. For the first phase of the project, tracks will be installed from the South Capitol on Fifth Sterling Drive to the Anacostia Metro station (DDOT, 2009). In later phases, the District Department of Transportation plans to incorporate H Street, NE/Benning Road, and the Northeast D.C. streetscape into the streetcar system. The projected cost for building the D.C. Streetcar Project is $55 million, which is relatively inexpensive compared to the $8.8 billion Metrorail system as reported by the Federal Transit Administration. The project is estimated to be completed within three to five years, with the Anacostia line in full service by 2012.

Re-establishing a Districtwide streetcar system will require a committed and collaborative effort from transit officials, government officials and city residents. If executed successfully, this project has the potential to create a stronger and more sustainable communities for the District of Columbia. More information on the D.C. Streetcar Project is available at **www.ddot.dc.gov**.

New Green Housing Supports Inner City School Teachers

Miller's Court, a redevelopment effort in Baltimore, opened its new mixed-use warehouse conversion project this summer. The project transformed an 80,000-square-foot warehouse into 54 one- and two-bedroom apartments and 36,000 square feet of office space. The residential spaces were designed and marketed to recent college graduates arriving in Baltimore to teach in the city's public schools. Teachers were offered a discount of between $300 and $600 per unit.

To complement the project's focus on public education, commercial space was marketed to nonprofit organizations that support inner-city schools. Less than two months after opening, the building was already fully leased by young teachers and nonprofits who serve the city's youth, and it has a waiting list for the apartments.

Developers have a second, similar project under way. The Seawall Development Company, which was founded by the father-son team of Donald and Thibault Manekin, undertook a $20 million project, transforming a long-vacant building into a vibrant asset both to its immediate neighbors and to the city at large. Miller's Court sits on the boundary between the popular Charles Village neighborhood, home of Johns Hopkins University, and the Remington neighborhood, which has struggled to attract homeowners and other new investors. The scale and location of this project, located on a major thoroughfare near Johns Hopkins and the Baltimore Museum of Art, will help make it a catalyst for other improvements in the city.

The reason Miller's Court is so unique is that many of the building's innovative concepts came directly from prospective tenants. The developers and architects asked young teachers to imagine their ideal living space, and they responded with ideas such as a copy center, fitness room, café, and indoor and outdoor gathering spaces.

Miller's Court has been awarded a gold LEED certification. The development team recycled many of the building's materials and fixtures into new elements, including furniture and artwork that adorn the building in unexpected and artistic ways. For example, a 10-foot dragon fabricated from the building's scrap metal hangs above the front entrance, and recycled wood and steel have become the beams and furniture of an outdoor courtyard.

The developers tapped an array of public and private financial resources, including millions in federal Historic and New Markets tax credits. SunTrust Bank provided the primary financing and invested in New Market Tax Credits (NMTC) with the help of U.S. Bank. Enterprise Community Investment, Inc. received the NMTC allocation, while Baltimore City provided support through its new Inclusionary Housing initiative. The Maryland Department of Housing and Community Development also provided subordinate debt through its Neighborhood Business Program.

According to Donald Manekin, the project was meant to "roll out a red carpet to new teachers arriving in Baltimore" and to create a strong community that will contribute as much to the building's sustainability as its green construction.

For more information, visit **www.millerscourt.com**.

North Carolina Launches Initiative to Provide Services to Unbanked

The North Carolina State Treasury, the North Carolina Commission of Banks and United Way have launched Bank On North Carolina, a program that connects qualified individuals who have no relationship with financial institutions to basic banking services. The program, which was started in the fall of 2009, helps to connect financial institutions to underserved markets.

With the help of savings incentives and financial literacy campaigns, Bank On North Carolina hopes to reach its goal of encouraging 2,400 Durham residents to open checking accounts within the first six months of the program. "This effort will decrease the number of unbanked households in targeted areas by 10 percent and save nearly $4 million in fees for moderate- and lower-income consumers within the first two years of the program," said Derwin Debose, Bank On North Carolina's program director.

North Carolina ranks fourth in the United States for the number of unregulated check-cashing operations per capita. On average, North Carolina residents pay approximately 5 percent of their income toward fees and interest associated with these alternative financial services. To support the use of checking and savings accounts, the program brings together both public and private partners to facilitate financial education sessions in Durham and throughout the state. Fifty training sessions are planned for 2009-2010.

To set the groundwork for the program, various community partners convened to create an advisory committee. The committee developed a strategic plan to help achieve its goals. First, Bank On North Carolina partners worked with the Pew Charitable trust to assess the unbanked situation and to create a feasibility study. Researchers from Matt Fellowes and Mia Mabanta of the Pew Safe Banking Opportunities Project (2008) and the North Carolina General Statues found that in North Carolina, there are approximately 472,100 unbanked households, with approximately 24,100 in the Durham metropolitan area alone.

The committee then began discussions with banks and credit unions to establish low-to-no-cost accounts. To bring awareness of the program and to educate families about how banking institutions work, the advisory committee has developed an extensive marketing strategy aimed at residents. Plans to create a policy agenda are also in development.

A statewide launch of Bank On North Carolina is expected in early 2010. Durham will be one of the first Southern cities to offer the program. In various locations across the country, additional "Bank On" initiatives have been implemented.

To access the Bank On North Carolina Advisory Committee presentation, visit **www.authorstream.com/Presentation/derwinldubose-230100-bank-north-carolina-advisory- committe-committee -business-finance-ppt-powerpoint/**.

Note: Estimates from the Pew Charitable Trust's Safe Banking Opportunities Project is based on data from the U.S. Census Bureau, the Federal Reserve's 2004 Survey of Consumer Finances, and the North Carolina Commissioner of Banks.

WV Welfare Reform Coalition Changes Its Mission

Recently, the West Virginia Welfare Reform Coalition became the WV Alliance for Sustainable Families, or WVASF. The name change reflects a change in the organization's direction. "We found that we made significant progress in making families aware of the services available to support them in the short-term, but there was still a great deal to be done about changing their circumstances in the long-term," says Calah Young, executive director of WVASF. Founded in 1996, the original purpose of the organization was to initiate action in the areas of research, education, advocacy, and coalition building to ensure that West Virginia successfully implemented welfare reform. In addition to voicing issues impacting low-income families receiving public benefits, WVASF has now expanded its focus to cover asset development, financial literacy and long-term economic sustainability for working families.

Providing financial education and asset accumulation incentives, like individual development accounts, is one way to increase long-term financial planning among low-income families. "We made significant strides with Earned Income Tax Credit (EITC) outreach, creating volunteer income tax assistance (VITA) sites all over the state," says Young, "But for us, the conversation always came back to 'how do we influence the recipients' use of their refund?' Most families have already decided how they will spend that money before they even got to the VITA site. We just couldn't seem to get their attention at that moment." After reflecting on this finding, the WVASF decided that the best way to influence long-term financial planning among low-income families was to take a more comprehensive, long-term approach to providing education about financial planning alternatives.

WVASF just completed a research study and a series of forums to help understand the landscape for asset development services and partners in West Virginia. Starting with more than 100 existing partner organizations, WVASF conducted a survey to identify and assess which organizations were providing asset-building services. Initial analysis of the results shows that partner organizations had could well-articulate the needs of their customers and providing services to immediately meet those needs. However, few organizations offer supportive programming, such as financial education, to help customers make informed decisions about their long-term financial future. During the follow-up forum series, WVASF sought to delve more deeply into why so few organizations offer this linkage between immediate services and long-term support. According to Young, "What I heard more often than not is that everyone acknowledges that financial education is beneficial. But trying to get people to save in the face of urgent and basic needs, like food, heat, or gasoline – it just doesn't work."

While some partner organizations stated that having a tangible goal, like a house, has been somewhat more effective, it remains unclear whether homeownership is the best path for WVASF's target market. "We recognize that we can't solve everything," says Young. "People that fit the Earned Income Tax Credit demographic are our main customer. We still haven't decided what kinds of incentives will be most effective and meaningful to these families." WVASF continues to seek viable policy and advocacy positions that will stabilize low-income families and prevent them from losing what they do have over the long-term. For more information about WVASF visit, **www.wvasf.org**.

South Carolina University Launches Data Clearinghouse

Economic and community development professionals in South Carolina will have a new comprehensive research and data resource in the fall of 2009 when the University of South Carolina launches a prototype for the South Carolina Data Clearinghouse. Partners include the South Carolina Department of Commerce, the South Carolina Office of Research and Statistics, and the South Carolina Employment Security Commission. The Clearinghouse will keep records of metadata or metainformation, which will assist users in developing more extensive research.

The purpose of the Clearinghouse is to make information more accessible to community development practitioners and government and business leaders as they shape public programs and policy. Community development practitioners can use the Clearinghouse to complete their grant applications as well as to determine changes or progress in their local service areas and communities. This is the only tool that allows users to search for data by congressional districts. "This effort will leverage existing data with related providers and users," says Dr. Hildy Teegen, dean of the Darla Moore School of Business at the University of South Carolina.

The data will be categorized by metropolitan statistical areas (MSAs), as well as by substantive search categories, such as housing vacancy rates, housing sales, transportation, infrastructure, energy, taxes, labor and health. The data will also be available in a common and informative format so that users can better understand the data collection and analysis process.

The Clearinghouse is unique from other traditional data sources because users will be able to receive more expansive services. While other data sources are mostly repackaged data from the census, the Clearinghouse allows users to conduct more efficient keyword searches.

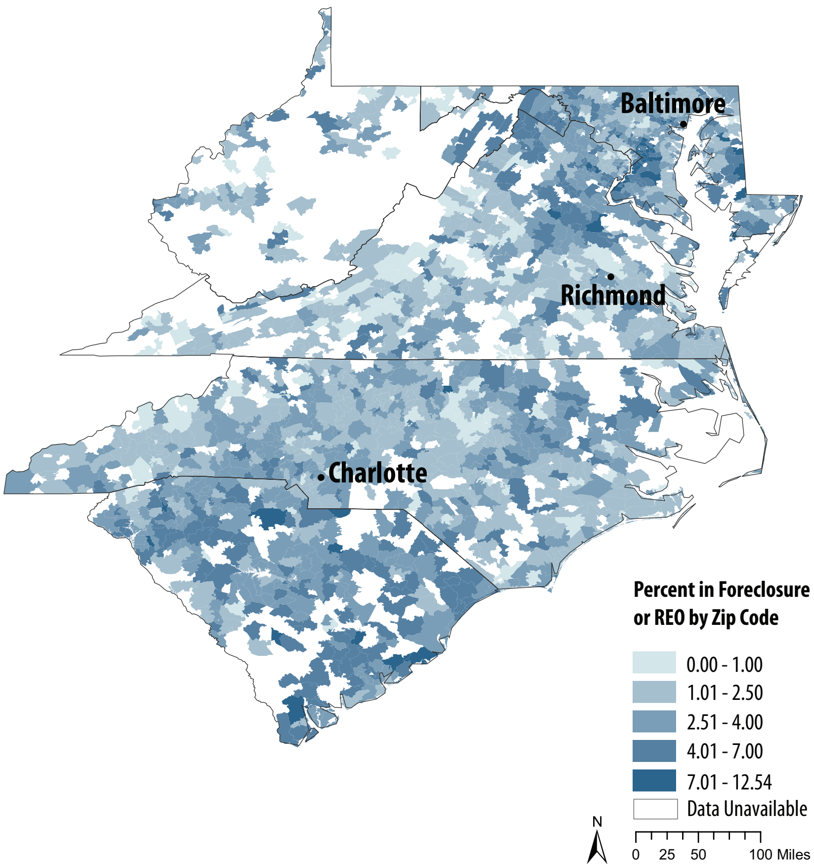
The data clearinghouse also helps identify gaps in data availability. "Currently, there is no one-stop-shop for data relating to economic development in South Carolina," Teegen says. Feedback from constituents and practitioners in South Carolina points to data-search inefficiencies that often cause policy decisions to be delayed for a lack of information.

Establishing an efficient data clearinghouse requires a collaborative effort. Industry leaders convened in September to work on the project design. Leaders in South Carolina are excited about this opportunity to leverage existing data and to connect with originators of proprietary data. Collaborators expect to have the complete database released in spring 2010.

For more information on the Clearinghouse, contact the Darla Moore School of Business at the University of South Carolina at **scdataclearinghouse@moore.sc.edu**.

FIGURE 4

Fifth District: Percentage of Owner-Occupied Homes with Mortgages in Foreclosure or REO*



Geographic Area	Number of First-Lien Primary Owner Loans	Percent of First-Lien, Primary Owner Loans with Payments 90+ Days Past Due (%)	Percent of First-Lien, Primary Owner Loans in Foreclosure or REO (%)
DC	111,848	3.53	2.66
MD	1,253,219	5.29	3.96
NC	1,656,504	4.75	2.17
SC	778,740	4.66	3.47
VA	1,663,200	4.00	2.56
WV	157,326	4.66	3.07
5th District	5,620,836	4.61	2.93
United States	52,613,242	5.42	4.54

Source: Mortgage data estimates are from the Federal Reserve Bank of Richmond and are based on August 2009 data. Data is provided by McDash Analytics, LLC, a wholly owned subsidiary of Lender Processing Services, Inc., and Q2 2009 Mortgage Banker's Association data. (These numbers are adjusted to compensate for the datasets' estimated coverage of the market.) *REO is defined as real estate owned by the lender (after the foreclosure but before the house is sold). NOTE: Zip codes and counties with fewer than 100 raw loans are excluded. Zip codes with less than 50 raw subprime loans recieve an N/A for subprime performance.

Richmond Fed Hosts HOPE NOW Event to Help Homeowners

The Federal Reserve Bank of Richmond joined HOPE NOW, Making Home Affordable, the Maryland Department of Housing and Community Development and NeighborWorks America to sponsor events for borrowers in the Washington, D.C., area that are facing foreclosure. The events in Prince William County, Va., and Prince George's County, Md., drew more than 1,800 homeowners who wanted to take advantage of the opportunity for a one-on-one meeting with their mortgage servicers. Many homeowners were able to secure loan modifications and find counseling.

Weaknesses within the housing market and rising unemployment rates have left families uncertain about the viability of homeownership. Areas once unaffected by foreclosure are now experiencing spillover effects from adjacent communities. The Richmond Fed has identified the Washington, D.C., region – including Maryland, Virginia and West Virginia suburbs – as an area with increasing mortgage delinquency and foreclosure challenges. According to June 2009 LPS Applied Analytics data, 8.57 percent of the loans in Prince George's County, Md., and 5.72 percent of loans in Prince William County, Va., were more than 90 days delinquent.

Data from the Bureau of Labor Statistics revealed that the unadjusted rate of unemployed persons for the Washington area in June 2009 reached 6.8 percent.

Visit the Richmond Fed's Foreclosure Resource Center for foreclosure prevention resources at **www.richmondfed.org/foreclosure_resource_center**.

Photography: Sarah Eckstein

Richmond Fed's Foreclosure Report Shows Mixed Conditions in West Virginia

A report by the Federal Reserve Bank of Richmond shows that, on the whole, housing and labor market conditions in West Virginia have remained stronger than those in the rest of the nation. However, in communities where housing markets are strongly connected to markets in the District of Columbia, Maryland, and northern Virginia, house prices have fallen and subprime foreclosures have risen on par with prices and foreclosures in those neighboring areas. But limited data coverage and the prevalence of manufactured housing in the Mountain State make it difficult to fully understand housing conditions.

House prices in West Virginia did not appreciate as much as in other areas of the nation, nor did they fall as steeply. In fact, during this latest economic episode, house prices did not decline on a year-over-year basis until the first quarter of 2009, and the decline was small (0.2 percent). This was the first drop in house prices in nine years. "Although West Virginia permitting activity expanded and home sales grew in the beginning of the decade," said Sonya Waddell, associate regional economist and one of several report authors, "most areas of West Virginia did not see the sharp expansion in demand for housing as in other areas of the country; subsequently, the housing contraction has been less severe."

However, there has been considerable variation in house price movement within the state. The Winchester and Hagerstown-Martinsburg MSAs saw the steepest growth and, subsequently, the sharpest declines in house prices. "Housing conditions in the parts of West Virginia that are most closely linked with the District of Columbia, Maryland, and northern Virginia have softened along with those major metropolitan areas," noted Waddell.

As for the composition of mortgages in West Virginia, the overall distribution of mortgage types is similar to that in the United States. The state also closely tracks the nation in terms of mortgage performance. While subprime loans make up a relatively small fraction of outstanding mortgages, they account for a much larger share of the loans in foreclosure. In West Virginia, subprime mortgages accounted for almost 34 percent of all foreclosures. (Subprime mortgage loans are those made to people with credit scores of 620 or below.)

The full report provides information on the composition and performance of prime and subprime mortgage loans at the MSA level and for selected counties in West Virginia.
The entire report can be accessed at **www.richmondfed.org/community_development/foreclosure_resource_center/mortgage_performance_summaries/**.

"While community development finance is a small part of our overall capital and credit markets, the Federal Reserve recognizes that these financial flows are critically important for many low- and moderate-income communities. In fact, the Board of Governors has been working with several of the Federal Reserve Banks to promote research on how best to promote CDFIs' effectiveness and financial stability.

The current crisis points to the importance of a strong network of healthy community-based organizations and lenders. As many communities struggle with rising unemployment, high rates of foreclosures, and vacant homes and stores, these organizations lead efforts to stabilize their neighborhoods. Rather than pulling back, CDFIs are introducing new products and programs to help communities respond to the crisis. For instance, a number of groups are purchasing homes, which might otherwise sit vacant, from loan servicers who take possession of foreclosed properties . . .

Healthy and vibrant neighborhoods are a source of economic growth and social stability. CDFIs and other community groups are already responding to the evident needs, but they will require many willing partners to ensure success in the long run. Strong community organizations can accomplish a great deal, but their capacity will be severely limited without the willing partnership of many other institutions."

– Ben S. Bernanke, Chairman,
Federal Reserve Board of Governors

Global Financial Literacy Summit,
Washington, D.C., June 17, 2009

The entire speech can be accessed at **http://federalreserve.gov/newsevents/speech/bernanke20090617a.htm**.

The Uncharted, Uncertain Future of HOPE VI Redevelopments

HOPE VI supports demolishing large, dilapidated public housing and replacing it with smaller-scale, more appealing properties. What makes this feasible (mixed financing; private-sector entities; and mixed-income, mixed-tenure complexes) also creates conditions that challenge and can undermine long-term sustainability. Sustainability has not yet been assessed, and whether it should or can be assessed has been questioned. With input from housing practitioners and insight from a trial exploration of two HOPE VI redevelopments, this report demonstrates the need for, and feasibility of, conducting an assessment that can assist both private owners and public agencies in sustaining this valuable resource.

— Excerpt from the report.

www.urban.org/publications/411935.html

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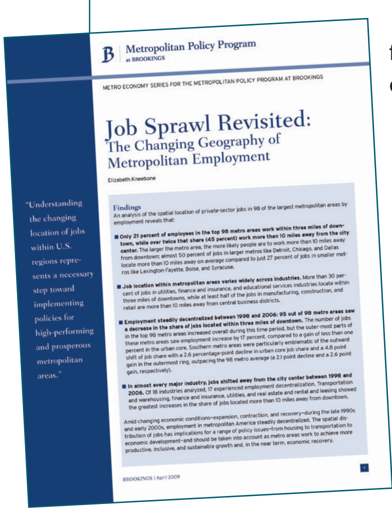
Job Sprawl Revisited: The Changing Geography of Metropolitan Employment

The movement of people and jobs away from city centers into increasingly distant suburbs represents a longstanding trend in metropolitan America. The ongoing decentralization of population and employment has implications for the overall health and productivity of metro areas across the country. This paper explores recent trends in the spatial distribution of employment in 98 of the nation's largest metropolitan areas and how those trends differ across major industries.

ORGANIZATION

THE BROOKINGS INSTITUTION



Jobs may be decentralized within a metro area for a variety of reasons, and can signal very different development patterns. When decentralization occurs, the changing location of employment is inextricably linked to a range of policy issues critical to a metro area's success. From transportation to workforce development to regional innovation and the provision of social services, the spatial distribution of a metro area's jobs can ultimately influence its economic productivity, environmental sustainability, and social inclusion and equity.

— Excerpt from the report.

www.brookings.edu/reports/2009/0406_job_sprawl_kneebone.aspx

Why Don't Lenders Renegotiate More Home Mortgages? Redefaults, Self-Cures, and Securitization

Many commentators have attributed the severity of the 2007–2009 foreclosure crisis in the United States to the unwillingness of lenders to renegotiate mortgages. Every major policy action to date has involved encouraging lenders, in one way or another, to renegotiate loan terms in order to reduce borrower debt loads.

The key to the appeal of renegotiation is the belief that it can benefit the lender, the borrower, and possibly society. According to proponents, renegotiation of home mortgages is a type of public policy "holy grail," in that it helps both borrowers and lenders at little or no cost to the government.

— Excerpt from the report.

www.bos.frb.org/economic/ppdp/2009/ppdp0904.pdf

ORGANIZATION

THE FEDERAL RESERVE BANK OF BOSTON

Washington-Area Nonprofit Operating Reserves

Operating reserves are an important indicator of an organization's financial health. They provide organizations with a cushion to either maintain their services or enable a relatively smooth reduction in staffing and services if faced with unexpected funding delays or revenue shortfalls. This study, the first of its kind, provides a snapshot of the financial well-being of Greater Washington's locally focused charities during a time of economic stability. The study also looks at operating reserve trends for the subset

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of public charities that filed an IRS form 990 in 2000, 2003, and 2006 to assess the use of operating reserves during the economic slowdown after September 11, 2001.

Because many public charities in the Greater Washington area currently face a predicament of maintaining an optimal level of operating reserves, the study's data suggests some conclusions about the vulnerability of these organizations in the current economic downturn.
— *Excerpt from the report.*
www.meyerfoundation.org/downloads/ChartingCivilSociety.pdf
www.urban.org/uploadedpdf/411913_dc_nonprofit_reserves.pdf

Beltway Burden: The Combined Cost of Housing and Transportation in the Greater Washington, D.C., Metropolitan Area

Working families in the Washington, D.C., metro area face many challenges. By national standards, the median household income of $78,000 is high, but so too are the costs of owning or renting a home. To find affordable homes, many in the workforce have followed the popular advice to "drive till you qualify" by moving to remote suburbs. However, efforts to save on housing expenses often lead to higher transportation costs, resulting in an even larger portion of household budgets consumed by the combined burden of housing and transportation costs. This report provides a comprehensive examination of the "cost of place" in the Washington, D.C., region and presents a jurisdiction-by-jurisdiction look at the combined housing and transportation cost burdens for households in the metropolitan area.
— *Excerpt from the report.*
http://commerce.uli.org/misc/BeltwayBurden.pdf

ORGANIZATION

URBAN LAND INSTITUTE

Community Development Financial Institutions and the Segmentation of Underserved Markets

This research is a preliminary examination of whether certain attributes of Community Development Financial Institutions (CDFIs) are correlated with greater success in serving racial and ethnic minority populations. The first question is whether minority-owned CDFIs are achieving higher levels of service among minority communities. The second issue is whether two factors are affecting CDFIs that have been successful in serving those communities. The factors are: (1) whether the CDFI specifically targets its services to members of the community; and (2) whether understanding the cultural norms of the community contributes to the success.
— *Excerpt from the report.*
www.cdfifund.gov/impact_we_make/research/rural-and-underserved-markets/reports/Community%20Development%20Financial%20Institutions%20and%20the%20Segmentation%20of%20Underserved%20Markets.pdf

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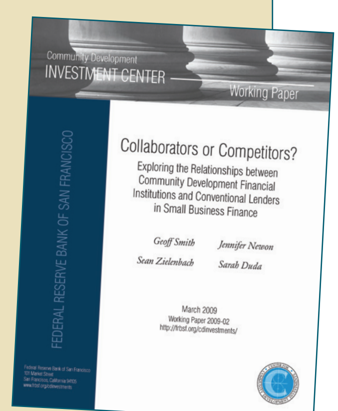
Collaborators or Competitors? Exploring the Relationships between Community Development Financial Institutions and Conventional Lenders in Small Business Finance

ORGANIZATION

THE FEDERAL RESERVE BANK OF SAN FRANCISCO

This study examines the nature of the interaction of banks and community development financial institutions (CDFIs) in small business lending. Six different CDFIs are examined to explore how they both collaborate and compete with regulated lenders, and how changes in local and national market dynamics affect their activities. The case studies offer insights into the factors that shape CDFIs' interactions with and responses to more mainstream institutions. The findings are descriptive, with suggestions for CDFI practice and future research.



The study also considers the current credit tightening and economic downturn. It examines both the opportunities for CDFIs as banks restrict small business lending, and the potential impact of the economic downturn on CDFI underwriting policies.
— *Excerpt from the report.*
www.frbsf.org/publications/community/wpapers/2009/wp2009-02.pdf

Core Competencies for Community Development Professionals

By Courtney Mailey

In the spring and summer of 2009, a small focus group of community development leaders from Virginia came together at the Federal Reserve Bank of Richmond to discuss key elements of strategic workforce planning for the community development industry. To begin developing a deeper pool of managers and leaders, the group first considered their business plans along with the types of people and positions they needed within three to five years to accomplish their missions. They identified three key staff roles present in every type of community development organization today: leaders, project managers and support staff. While the group agreed that each role has competencies for being most effective in that role, it also agreed that every type of staff member throughout the organization should demonstrate five core competencies for community development organizations and for the industry as a whole to be successful.

Using the Lominger competency development model as a springboard, the group identified five core competencies by consensus: **Community Focus, Integrity and Trust, Perseverance, Problem-Solving and Strategic Agility**.[1] These fundamental core competencies, otherwise known as behaviors, attitudes and soft skills, must be displayed by community development organization staff, volunteers and board members at all levels.

Core competencies ultimately describe consistent behavioral choices. Establishing core competencies helps articulate expectations of individual performance, develop goals and support the organization in harnessing the outputs of its people to drive critical outcomes.

Because community development is a multi-faceted profession, the focus group tailored existing Lominger categories to be more reflective of community development work. For example, the group took "Organizational Agility" and "Political Savvy" and combined them to create "Strategic Agility." This new competency reflects the importance of knowing how various relationships and organizations are connected and being able to maneuver within that network, while being aware of potential pitfalls and fallout from unexpected events or crises.

Another competency, "Community Focus," was created from many different behaviors and traits and reflects a unique competency specific to this industry. Among other things, a person highly skilled in community focus can maintain a broad perspective about how different stakeholders are affected by his or her own decisions as well as those of institutions and groups. Community focus also means interacting with people in every kind of circumstance, rich or poor, with ease while maintaining a focus on the ultimate purpose of community development work—creating better places for people to live.

Identifying core competencies acts as a building block for workforce development because it helps clarify the types of careers community development offers to candidates recruited into the industry. Core competencies also help senior managers articulate what behaviors represent the ideal for staff development and performance. As Keri Ellison, a talent and organizational development consultant in Human Resources at the Federal Reserve Bank of Richmond, says, "Just because someone completes a performance goal doesn't mean organizational objectives were met if the person does it in the wrong way. We fall short when we don't pay attention to competencies about how someone does something versus what gets done."

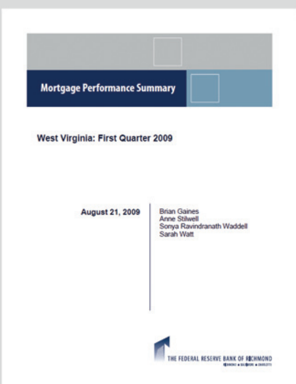
Endnote

[1] Michael M. Lombardo and Robert W. Eichinger, *FYI For Your Improvement*, Lominger, Inc.: Minneapolis, MN, 2002.

BEWARE OF MORTGAGE FRAUD

*Many homeowners throughout the Fifth District are losing their homes due to mortgage fraud. To help homeowners take action, mortgage foreclosure fraud cards are available through the Community Affairs Office. The fraud cards contain contact information for Fifth District states about speaking with a local HUD-certified housing counselor and reporting local fraud scams to state authorities. Visit **www.richmondfed.org/community_development/foreclosure_resource_center/consumer_info/index.cfm**.*

Also available in Spanish


Mortgage Performance Summary

West Virginia: First Quarter 2009

August 21, 2009

Brian Gaines
Anne Stilwell
Sonya Ravindranath Waddell
Sarah Watt

THE FEDERAL RESERVE BANK OF RICHMOND

MORTGAGE PERFORMANCE SUMMARIES

The Federal Reserve Bank of Richmond's Research Department provides quarterly reports on the housing markets, and the composition and performance of mortgage markets, in the Fifth District.

*For quarterly updates of state-level analyses, maps and data, visit **www.richmondfed.org/community_development/ foreclosure_resource_center/research_and_pubs/**.*

READ ABOUT THE LATEST SUPERVISION AND REGULATION NEWS AND EVENTS

The Federal Reserve Bank of Richmond's Supervision, Regulation and Credit department publishes a quarterly electronic newsletter, S&R Perspectives, *about important financial market trends and emerging issues in the Fifth District. To view the latest edition, visit **http://richmondfed.org/banking/supervision_and_regulation/newsletter/**.*

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