Essay 7

ECONOMIC INNOVATION: FINANCE AND LENDING INITIATIVES BRING PROSPERITY TO UNDERSERVED COMMUNITIES

KEITH B. CORBETT

We are living through one of the most economically challenging moments in history. Record levels of foreclosure and historic rates of unemployment are eroding the financial futures of low-to-moderate income communities. While our nation is starting to recover from the "Great Recession" it is important that we extend recovery efforts to all. We cannot afford to leave any community behind. Thus, one approach for an inclusive recovery is to provide whole community restoration and development in low-to-moderate income neighborhoods. →

Public subsidized financing and lending initiatives leveraged with private capital have emerged as newly favored approaches toward servicing low-to-moderate income communities. This model of pairing private market-driven investing with the public interest should be both fostered and expanded. From Community Benefits Agreements (CBAs), to New Markets Tax Credits (NMTCs), the idea of leveraging is a proven catalyst for private investment.

HUD'S NEIGHBORHOOD STABILIZATION PROGRAM

Since communities of color and low-to-moderate income families were disproportionately targeted by abusive subprime lending practices, these very same communities are experiencing the highest proportion of foreclosure and, thus, need to be stabilized.

According to research by the Center for Responsible Lending (CRL), to date 2.5 million foreclosures have been completed and analysts say we will have between 10 and 13 million foreclosures before the crisis is over.[1] Nearly 8 percent of African-American and Latino homeowners have lost their homes to foreclosure, compared to only 4.5 percent of whites.[2] Not only has the current foreclosure crisis lowered homeownership rates, but also it is set to deplete more than $370 billion of wealth from communities of color.[3]

In the broader American community, the spillover cost of foreclosure is depressing the value of nearby homes owned by families who are paying their mortgages on time. In just one year, 2009, about 70 million occupied homes located near foreclosures lost an average of $7,200 in value per home, adding up to $502 billion in lost property value nationwide. At the end of the third quarter in 2010, 13.5 percent of all mortgages were either in foreclosure or past due. Additionally, nearly one in five homeowners with a mortgage is underwater, owing more money than their home is now worth.[4]

With more foreclosure filings continuing in 2011 and few job opportunities for unemployed homeowners, an important federal response through the U.S. Department of Housing and Urban Development (HUD) is helping states that are suffering severe economic challenges. Beginning with the Housing and Economic Recovery Act of 2008 and subsequent funding rounds with the American Recovery and Reinvestment Act of 2009, in September 2010 another one billion dollars in funding was awarded to states along with counties and local communities struggling to reverse the effects of the foreclosure crisis. These three funding rounds represent the revenues dedicated to HUD's Neighborhood Stabilization Program (NSP).[5]

According to HUD Secretary Shaun Donovan, "We want to make certain that we target these funds to those places with especially high foreclosure activity so we can help turn the tide in our battle against abandonment and blight."[6]

Yet whenever new programs are announced, one important question for many community residents is, "What does it all mean where I live?"

In Phoenix, residents are beginning to see what NSP means. Where blighted and abandoned residential properties reduced the quality of life as well as much-needed property tax revenues, Phoenix is rising from foreclosure ashes to recapture its quality of life while also expanding affordable housing—both rental and owner-occupied.

From the $115.5 million in HUD NSP funds that the city received, $39.5 million was earmarked for the acquisition and rehabilitation of foreclosed multi-family apartments as affordable rental units. After repairing foreclosed properties to meet code standards, they are becoming newly renovated rental homes for prospective residents that meet established income eligibility guidelines at or below 50 percent of area median income.

For Phoenicians desiring to make the transition from renter to homeowner, loans up to $15,000 per household are available for down payment and closing cost assistance for the purchase of a previously foreclosed home. Eligible home purchases include single family homes, town houses and condominiums. No monthly installment loan repayment applies. Instead, the loan is paid back to the city when the homebuyer either sells or refinances the property.

This gateway to homeownership is available to income-eligible residents whose household earnings are 120 percent or less of the area median income. For a single person, the maximum income is $55,950. For a family of six, the total income could be as much as $92,700.[7]

Neighborhood Stabilization Program (NSP) in Action

As one of six founding sponsors of the National Community Stabilization Trust, the National Urban League works in collaboration with Enterprise Community Partners, the Housing Partnership Network, the Local Initiatives Support Corporation (LISC), National Council of LaRaza (NCLR) and NeighborWorksAmerica to revitalize neighborhoods affected by the foreclosure crisis. Each of the Stabilization Trust's founding sponsors is a nonprofit organization with a national reputation for innovation in community-based housing and economic development. Each sponsor has also been directly involved in their communities to address foreclosure prevention, loss mitigation—negotiations to identify alternatives to foreclosure and avoid or reduce losses associated with foreclosure—and other issues driving the foreclosure crisis.

By building strong public-private collaborations, the Stabilization Trust leverages federal NSP funding to facilitate the transfer of foreclosed and abandoned properties from financial institutions nationwide to local housing organizations and provide access to financing in order to promote productive property reuse and neighborhood stability in low-and-moderate-income communities.

In September 2010, HUD Secretary Shaun Donovan announced the national First Look Program, an unprecedented public-private partnership agreement between HUD and the Stabilization Trust. In collaboration with national servicers, Fannie Mae and Freddie Mac, the First Look program is intended to give communities participating in HUD's NSP a brief exclusive opportunity to purchase bank-owned properties in certain neighborhoods so these homes can either be rehabilitated, rented, resold, or demolished. The Stabilization Trust pioneered the "First Look" model to create a transparent and streamlined process to facilitate the transfer of foreclosed and abandoned properties from key financial institutions to local government housing providers.

In North Carolina, Self-Help, CRL's parent organization, is administering NSP funds from the North Carolina Department of

Commerce and from the cities of Charlotte and Durham. Consistent with the NSP goal of providing stability to distressed areas in the state, Self-Help is utilizing its NSP funding for acquisition, rehab, construction and permanent mortgage loans for single-family and multi-family redevelopment projects. Self-Help also is leveraging NSP2 funds (revenues authorized by the 2009 Recovery Act) to provide finance to support multi-family and lease-purchase single family housing in targeted California communities in the Northern Central Valley and Bay areas as well as in New Haven, Atlanta and Chicago metropolitan areas. Besides support from HUD and state and local government, Self-Help has also received significant investments from the MacArthur Foundation, Bank of America and Fannie Mae to support foreclosure recovery financing.

COMMUNITY BENEFITS AGREEMENTS

Even though a strong federal commitment to expanding affordable housing is valued and needed, much of urban America still needs sustainable and comprehensive economic revitalization. Government officials across the country are often challenged by the need to bring in major economic investments that create new jobs and tax revenues. Land acquisitions, zoning variances and infrastructure improvements that make large-scale projects viable often displace local community residents and the modest dwellings they call home.

Yet another innovative trend is finding ways to bring developers and community residents together early in the development process. Community Benefits Agreements (CBAs) offer the opportunity for residents to play a direct role in planning the future of their own communities. Moreover, CBAs are legally enforceable agreements that detail benefits which developers agree to provide to residents, institutions and businesses located close to their proposed project areas.

By identifying exactly how communities will benefit from employment training and training programs, contributions to neighborhood schools, affordable housing and more, communities gain a stake in the project and a seat at the table when key decisions are reached. For local governments the age-old development tug-of-war is transformed into new and productive partnerships.

This realignment of how communities develop was spurred by the early involvement of one of the nation's largest philanthropic organizations, the Ford Foundation. Reflecting on that pivotal dialogue, Carl Anthony, former Acting Director of Ford's Community and Resource Development Unit said, "The table is unbalanced on large-scale projects. When it comes to major developments, the powerful and wealthy weigh in but poor people have no avenue to become engaged. Community Benefits Agreements create a voice to gain measurable benefits."

When asked why the Ford Foundation chose to support CBAs, Anthony replied, "Community Benefits Agreements create a context in which economic development has a potential to measurably reduce poverty. These are complicated deals that require huge insights to understand. If there is a public subsidy, the economic development process should be beneficial and transparent."[8]

Since Ford convened its Community Benefits Roundtable several years ago, many communities have now begun to ask its citizens, businesses and institutions a basic question, "How can we significantly improve our quality of life?"

CBAs have now generated successful revitalization in a growing number of communities and cities. When and where successful CBAs occur, a genuine commitment to inclusion and economic equity has been the development cornerstone.

For example, the Shaw District CBA in Washington, DC gained support and success when One DC, a local community development corporation, fought for and won equitable and accountable redevelopment. Moreover, DC's U Street Corridor has become a new center of revitalization in commerce and in housing.

In the Twin Cities, the "Wireless Minneapolis" CBA began with discussions on how the technological gaps that left behind communities of color could be bridged. At the time, only one public access computer was available for every 690 potential users. With the CBA, the community gained numerous benefits including two dedicated revenue streams, subsidized technology services, free Internet accounts for nonprofit agencies citywide and half a million dollars up front for a new digital inclusion fund. [9]

Other CBAs now benefitting communities include projects in Atlanta, Boston, Denver, Milwaukee, Los Angeles, New York, San Francisco, Seattle and Syracuse.

NEW MARKETS TAX CREDITS

One way government helps to create a climate conducive to economic investment is by encouraging public-private partnerships that make progress possible which neither could accomplish alone.

According to U.S. Senator Jay Rockefeller on August 5, 1999, "America's most depressed economic areas desperately need private investment. They get very little not only because they are unattractive; but also because of misperceptions and market failures...By investing in the community through local businesses private investors can explore new markets and improve the quality of life for the people in the area."[10]

Those words from Senator Rockefeller were a part of his remarks on the Senate floor to introduce his colleagues to the legislation entitled the New Markets Tax Credit Act of 1999. Through the bipartisan efforts of House Speaker Dennis Hastert and President Bill Clinton, the legislation was enacted as a part of the Community Renewal Tax Relief Act of 2000.

Managed by the Community Development Financial Institutions Fund (CDFI) at the US Treasury, the program uses market forces to invest in some of the poorest areas in the country by providing federal tax credits to investors who fund economic development projects in low-income areas. Intermediary organizations that have a primary mission to serve low-income communities receive allocations of tax credit authority. These intermediaries recruit investors with a 39 percent tax credit and then use the funds secured to support businesses and commercial development in low-income communities.[11]

This below-market subsidy is intended to make marginal projects feasible and to ripen the field for investment in some of the areas that most need it.

Over the past decade, for every dollar of cost to the government, the NMTC leveraged $8.00 in private investment, generating nearly $50 billion in financing to businesses located in low-income areas. Additionally, over 61 percent of investments were made in communities with unemployment rates exceeding 1.5 times that of the national average. Of these communities, 57 percent have 30 percent or higher poverty rates. Perhaps even more important, NMTC-financed projects have either created or retained nearly 500,000 jobs.[12]

New Markets Tax Credits in Action

Self-Help, has received a total of $220 million in NMTC allocations. These funds have supported educational and commercial developments in low-income areas across the country, including Arkansas, California, Colorado, Florida, Georgia, Illinois, Massachusetts, New York, North Carolina, Ohio, Texas and the District of Columbia. The types of community investments have ranged from charter schools serving low-income and minority children to historic preservation and adaptive re-use.

The National Urban League's Empowerment Fund is a strategic community alliance between the National Urban League and Stonehenge Capital. Created with two NMTC allocations totaling $202.5 million, the Fund targets 100 percent of its investments in businesses located in areas of greater distress, defined as places with high unemployment and high rates of poverty. These investments have focused on minority-owned businesses and owner-occupied real estate. To date, the Empowerment Fund has funded nearly 30 projects, creating almost 6,000 jobs. By investing in small businesses and nonprofit community services that have a significant impact on minority clients, the Fund stimulates business growth, encourages greater use of minority businesses, and creates jobs for area residents.

These are just two examples of how the program has made a difference in underserved communities; but the reality is that this program alone is not nearly enough. Senator Rockefeller's observances are as true today as they were a decade ago. Despite the considerable success achieved by the program, comprehensive and equitable revitalization has yet to be achieved in most of urban America. Since 2003, NMTCs requested more than seven times the amount of credit available.[13]

CONCLUSION

In this year's State of the Union address, President Obama reminded us that "the future is ours to win".[14] In order to win the future, we must ensure that all communities are included in our nation's economic recovery efforts. We can no longer afford economic deserts that lock families out of the path that leads to prosperity.

Instead, we must foster innovative investment solutions that lift up entire communities for growth and development. First we must stabilize housing losses that are the result of massive foreclosures. Next, we need public-private partnerships that leverage resources which on their own would be insufficient.

Once these efforts are expanded, low-to-moderate income communities will be on paths to financial viability that enable sustainable economic success.

Many thanks to Charlene Crowell and Nikitra Bailey for their contributions.

NOTES

[1] Center for Responsible Lending, "Foreclosures By Race and Ethnicity: the Demographics of a Crisis," (Washington, D.C.: CRL, June 18, 2010), *http://www.responsiblelending.org/mortgage-lending/research-analysis/foreclosures-by-race-and-ethnicity.html.*

[2] Ibid.

[3] "Foreclosures By Race and Ethnicity."

[4] First American CoreLogic, "Q4 2009 Negative Equity Data" (Santa Ana, CA: FACL, February 23, 2010), *http://www.loanperformance.com/infocenter/library/Q4_2009_Negative_Equity_Final.pdf.*

[5] U.S. Department of Housing and Urban Development, "Obama Administration Awards Additional $1 Billion to Stabilize Neighborhoods Hard-Hit by Foreclosure," (Washington, D.C.: HUD, September 8, 2010), *http://portal.hud.gov/hudportal/HUD?src=/press/press_releases_media_advisories/2010/HUDNo.10-189.*

[6] Ibid.

[7] City of Phoenix Neighborhood Stabilization Program, "Am I Eligible?" (Phoenix, AZ: City of Phoenix, 2011), *http://phoenix.gov/residents/stabilization/nsp/eligible/index.html.*

[8] Funders Network for Smart Growth and Livable Communities, *Signs of Promise: Philanthropic Leadership that Advances Equity* (Coral Gables, FL: FNSGLC, 2005), *http://www.fundersnetwork.org/learn/resource-details/philanthropic_leadership_that_advances_equity.*

[9] Catherine Settani, Digital Access Project, "From Conflict to Collaboration, the Wireless Minneapolis Community Benefits Agreement" (Minneapolis MN DAP, December 14, 2007), *http://www.digitalaccess.org/pdf/Conflict_to_Collaboration.pdf.*

[10] New Markets Tax Credit Coalition, "New Markets Tax Credit 10th Anniversary Report" (Washington, D.C.: NMTCC, December 2010), *http://nmtccoalition.org/wp-content/uploads/2010/12/NMTC-10th-Anniversary-Report-Final.pdf.*

[11] Ibid.

[12] "New Markets Tax Credit."

[13] "New Markets Tax Credit."

[14] President Barak Obama, "Remarks by the President in State of Union Address" (Washington, D.C.: White House, January 25, 2011), *http://www.whitehouse.gov/the-press-office/2011/01/25/remarks-president-state-union-address.*

BIBLIOGRAPHY

Center for Responsible Lending, "Foreclosures By Race and Ethnicity: the Demographics of a Crisis." Washington, D.C.: CRL, June 18, 2010. *http://www.responsiblelending.org/mortgage-lending/research-analysis/foreclosures-by-race-and-ethnicity.html.*

City of Phoenix Neighborhood Stabilization Program. "Am I Eligible?" Phoenix, AZ: City of Phoenix, 2011. http://phoenix.gov/residents/stabilization/nsp/eligible/index.html.

First American CoreLogic, "Q4 2009 Negative Equity Data Report." Santa Ana, CA: FACL, February 23, 2010. *http://www.loanperformance.com/infocenter/library/Q4_2009_Negative_Equity_Final.pdf.*

Funders Network for Smart Growth and Livable Communities. *Signs of Promise: Philanthropic Leadership that Advances Equity.* Coral Gables, FL: FNSGLC, 2005. *http://www.fundersnetwork.org/learn/resourcedetails/philanthropic_leadership_that_advances_equity.*

New Markets Tax Credit Coalition. "New Markets Tax Credit 10th Anniversary Report." Washington, D.C.: NMTCC, December 2010. *http://nmtccoalition.org/wp-content/uploads/2010/12/NMTC-10th-Anniversary-Report-Final.pdf.*

Obama, Barack. "Remarks by the President in State of Union Address." Washington, D.C.: White House, January 25, 2011. *http://www.whitehouse.gov/the-press-office/2011/01/25/remarks-president-state-union-address.*

Settani, Catherine. Digital Access Project. "From Conflict to Collaboration, the Wireless Minneapolis Community Benefits Agreement." Minneapolis MN DAP, December 14, 2007. *http://www.digitalaccess.org/pdf/Conflict_to_Collaboration.pdf.*

U.S. Department of Housing and Urban Development. "Obama Administration Awards Additional $1 Billion to Stabilize Neighborhoods Hard-Hit by Foreclosure." Washington, D.C.: HUD, September 8, 2010. *http://portal.hud.gov/hudportal/HUD?src=/press/press_releases_media_advisories/2010/HUDNo.10-189.*