RESEARCH BRIEFS

Gentrification and Equity Gains

Photo credit: Dana Files

Within the community development field, one of the big questions is how to ensure neighborhood revitalization without inducing gentrification. Between 1994 and 2004, significant new sources of capital flowed to formerly distressed minority communities, and many inner cities experienced an urban renaissance. The question is, did this gentrification help minority homeowners in the community gain wealth, as they too saw the equity in their homes rise? Or did it merely displace existing residents as new "yuppies" moved in?

Using the American Housing Survey's Metropolitan Sample, Jonathan Glick explores the effects of gentrification on home equity among Black and Latino homeowners in 26 major U.S. metropolitan statistical areas between 1994 and 2004. The data reveal common patterns in gentrification. At the onset, the neighborhood is generally characterized by a relatively high concentration of Black and Latino homeowners, and they see increased levels of home equity. But then, many of them appear to move to other parts of the metropolitan area as the process continues. And equity gains vary considerably. For example, in Denver, New Orleans, Seattle, and Phoenix, equity gains are comparable among Black, Latino and White homeowners in gentrifying areas. However, in Portland and Oklahoma City, only White homeowners experienced equity gains during gentrification. Glick concludes that on balance, gentrification does not benefit Black and Latino homeowners, and may in fact encourage the re-concentration of Black and Latino homeowners in other parts of the metropolitan area where home equity gains may be lower. This suggests a need to focus more policy efforts on preserving minority homeownership in these communities and stemming the negative effects of displacement.

Glick, Jonathan. 2008. "Gentrification and the Racialized Geography of Home Equity." *Urban Affairs Review* Vol. 44 No. 2: 280-295.

Government Spending and Economic Mobility

Most Americans embrace the ideal of hard work and talent as a means to economic advancement; after all, we live in the "land of opportunity." But we also know that poor children are much more likely to stay poor, even as adults. Education can break that cycle, and research has shown that investment in children's human capital increases their future income, but most studies focus solely on parental investment, ignoring the effect of government spending on low-income children. To what extent does government investment in children's human capital development affect intergenerational economic mobility?

Susan Mayer and Leonard Lopoo use data from the Panel Study of Income Dynamics and state spending data from the U.S. Census of Governments to address this question. The authors explore differences in the level of overall state spending per child using data from 1972, 1977, 1982, and 1987. Following the children living in those states over time, they find greater intergenerational mobility in high-spending states compared to low-spending states, and also find that the difference in mobility between advantaged and disadvantaged children is smaller in high-spending compared to low-spending states. Mayer and Lopoo also find that certain categories of spending are more significant in increasing economic mobility, such as investments in elementary and secondary education, public welfare, Medicaid, health and hospitals.

These findings indicate that government spending can be a potential mechanism to overcome parental income differences and improve the economic potential of children from low-income families.

Mayer, Susan and Leonard M. Lopoo. 2008. "Government spending and intergenerational mobility." *Journal of Public Economics* 92: 139–158.

Photo credit: Wonderlane

Teacher Retention in High-Poverty Schools

Attracting and retaining high quality teachers can be a challenge, particularly for schools with low test scores or those located in high-poverty communities. A seemingly straightforward solution would be to increase teacher compensation, but political and fiscal challenges have made this approach difficult to implement. Moreover, maybe money isn't what drives teachers to tough it out another year? Does more pay entice qualified teachers to stay in low-performing schools in poor neighborhoods, to the benefit of disadvantaged students?

The answer appears to be yes, money does matter, but only slightly when the pay raise is small. Observing an incentive program in North Carolina, researchers Charles Clotfelter, Elizabeth Glennie, Helen Ladd, and Jacob Vigdor find evidence that a bonus payment was sufficient to reduce teacher turnover. The North Carolina Bonus Program, implemented from 2001 to 2004, awarded annual bonuses of up to $1,800 to certified teachers of math, science and special education in middle and high schools serving low-income or low-performing students. The bonus reduced turnover rates from about 30 percent to 25 percent. The impact wasn't dramatic, but the bonus payment was relatively small, about four percent of the teacher's base salary. And the bonus program had the highest relative impact on experienced teachers. Experience is one of the few observable teacher characteristics that reliably predict higher student achievement, suggesting that increasing salaries may be an effective strategy for improving the quality of education in high-poverty schools.

The authors note two important program design elements. First, an incentive program perceived as permanent appears to be more effective than a temporary or one-time bonus program. Second, bonus payments are more effective at influencing decisions regarding where to teach relative to decisions regarding whether to teach. Properly structured market incentives can improve teacher retention, which could make a world of difference for disadvantaged students.

Clotfelter, Charles, Elizabeth Glennie, Helen Ladd, and Jacob Vigdor. 2008. "Would higher salaries keep teachers in high-poverty schools? Evidence from a policy intervention in North Carolina." *Journal of Public Economics* 92: 1352–1370.

Loan Modifications and Higher Debt?

When the OCC released its figures that more than half of loans modified in the first quarter of 2008 fell delinquent within six months, many claimed that loan modifications don't work, and that efforts to prevent foreclosures may be unsuccessful. Yet many assumed that loan modifications make a loan more affordable, not less.

Alan White challenges this assumption and argues that certain subprime loan modifications in the past year were not successful because in many cases they actually increased homeowner debt and monthly payments. Using a large database of three and a half million subprime and alt-A loans, known as the Columbia Collateral file, White analyzed data for the months of January, October, November, and December of 2008. He found that more than two-thirds (68%) of voluntary modifications reported in November 2008 actually increased debt by capitalizing unpaid interest and/or fees by adding them to the outstanding balance; the average capitalized amount was $10,800 per mortgage. In addition, White found that debt writedowns occurred in a very small portion of modifications, and were done by only a few servicers. In 90% or more of the modifications, there was no forgiveness of past due interest, expenses, or principal reported. Comparing the monthly payments for all mortgages reported modified in November 2008, White reports that only 35% showed a reduced monthly payment, while 18% showed an unchanged payment and 47% showed an increased payment.

White encourages the mortgage industry to develop coordinated policies that will discourage foreclosures by making aggressive and permanent adjustments to failing mortgage loan contracts. Hopefully, the Administration's plan to prevent foreclosures, which focuses specifically on reducing monthly payments to affordable levels, will further encourage lenders to do just that.

Alan White. 2009. "Deleveraging the American Homeowner: The Failure of 2008 Voluntary Mortgage Contract Modifications." *Connecticut Law Review*, Forthcoming