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COMMUNITY INVESTMENTS

This publication is produced by the Community Development Department of the Federal Reserve Bank of San Francisco. The magazine serves as a forum to discuss issues relevant to community development in the Federal Reserve's 12th District, and to highlight innovative programs and ideas that have the potential to improve the communities in which we work.

Community Development Department
Federal Reserve Bank of San Francisco
101 Market Street, Mail Stop 640
San Francisco, CA 94105
www.frbsf.org
(415) 974-2765 / fax: (415)393-1920

CI Notebook

by John Olson
District Manager, Field Staff

When I tell new acquaintances that I work in "community development," I sometimes secretly hope that the conversation will end there. I've worked on my elevator speech over the years, and can offer a decent description of our work in twenty seconds, but it's awfully challenging to be succinct. How can you be succinct and still capture all the richness of this field? How to explain that it's a combination of finance, public policy, and community organizing? Or that our constituents include everything from governments to financial institutions to community groups? Or that the issues we work on range from poverty alleviation to bank compliance to education to structured finance?

Every now and again, someone who is especially curious (or unusually patient) will have survived a more thorough version of my explanation of what community development is, and will ask "OK, I get what community development is, but what exactly do you DO?" This, too, is not an easy story to tell. The Federal Reserve's role in the community development field is a blend of research, data analysis, publications, conference planning, meeting facilitation, technical assistance, and training.

One of the themes that ties these seemingly disparate offerings together is collaboration. The Federal Reserve's Community Development function provides a forum for community stakeholders – bankers, governments, community organizations – to collaborate, or more simply, work together. In this issue of *Community Investments,* we highlight some of the complex issues facing the field, including such vexing problems as banking the unbanked, providing mortgage credit in Indian Country, and preventing foreclosures. For each of these issues, we also highlight the Fed's efforts to keep our constituents informed on the issues, and our role as the convener of community stakeholders, all with the ultimate goal of helping people collaborate to solve problems.

We hope you enjoy this issue of *Community Investments,* and as always, we would love to hear from you with feedback and ideas.

John D Olson

Inside this Issue

From Mattress Money to Checking Accounts

A Profile of Bank on San Francisco

"You don't have to worry about somebody snatching money from you when you come out of the check-cashing place – or losing it," Virginia Johnson, 71, said of how her life has changed after opening a checking account through Bank on San Francisco.[1]

For individuals without a bank account, the seemingly simple act of cashing a check or paying a bill can be complicated, expensive, and, as voiced above, risky. But few actively choose to stay outside of the financial mainstream–otherwise known as being "unbanked". Many people face barriers to accessing mainstream financial services, and instead turn to alternative providers such as check cashers and payday lenders to pay bills and manage their finances.

Until recently, mainstream financial institutions have done little to tailor their products, policies and outreach efforts to the unbanked market. Increasingly, however, the volume of business conducted through the alternative, or "fringe," financial services industry–an estimated 340 million transactions costing customers $13 billion a year[2]–is being taken as a demonstration of the demand for financial services among the unbanked. Bank on San Francisco, launched in 2006, is a pioneering effort that seeks to tap into this market opportunity and help the unbanked open checking accounts, a first step in participating in the financial mainstream. To date, more than 15,000 new accounts have been opened across the city, surpassing the initial goal of 10,000 new accounts in two years. As word of Bank on San Francisco has gotten out, other cities and organizations across the nation have begun to explore the possibility of launching similar initiatives. To support the replication of this effort, this article reviews the genesis of the program, and looks at some of the lessons learned thus far.

BANK ON SAN FRANCISCO

Why are People Unbanked?

Nationally, as many as 22 million people lack basic checking and savings accounts, and are generally referred to as the "unbanked" or "underbanked". Yet it would be a mistake to see the unbanked as a monolithic group. The unbanked sector is composed of a wide range of individuals who have varied reasons for conducting either some or all of their financial transactions outside the mainstream. Some may not use bank accounts because they live paycheck-to-paycheck and may be fearful of minimum balance requirements or overdraft penalties. In some cases, those who are unbanked had–and perhaps mismanaged–a bank account at some point in the past, and their negative credit histories keep them from opening new accounts. For recent immigrants, identification requirements for opening an account may be a hindrance to bank usage; others may have a cultural distrust of financial institutions. Still others may use fringe outlets instead of banks because they may offer a less intimidating environment than a bank or have more convenient locations or hours of operation.

For households without a bank account, the costs of using fringe financial services are high. Estimates suggest that among households lacking a checking account, 52 percent include at least one full-time worker, and using a non-bank check casher costs the household an average of $40 per payroll check.[3] Perhaps more significantly, the unbanked do not have access to the tools necessary for creating savings and building assets, which leaves them particularly vulnerable in times of crisis or emergency. Owning a checking or savings account is the first step in allowing consumers to enhance their financial security and climb the economic ladder–to save and build credit toward covering health care costs, to purchase a car or a home, to send children to college, or to retire.

Bank on San Francisco

How did Bank on San Francisco get started? Much of the motivation for developing the Bank on San Francisco stemmed from data that came out of the Working Families Credit initiative, a city program that aimed to encourage low-income residents to apply for the federal Earned Income Tax Credit (EITC). This program offered a ten percent local match to the federal EITC for families with children, on average providing an extra $220 to the city's working families. However, city officials were dismayed to discover that many recipients were cashing their Working Families Credit checks at check cashers. "It tore me up that people were taking $100 or $200 checks to check-cashing stores and losing a significant amount to fees," said City Treasurer José Cisneros.[4]

This state of affairs prompted a simple question: if there are clear costs to families who don't have access to banking services, and there are clear financial benefits to banks and credit unions in attracting and retaining new customers, is it possible to bring the public and private sectors together to help unbanked residents overcome the barriers to entering the financial mainstream?

Anne Stuhldreher, then a Fellow at the New America Foundation and one of the early architects of the Working Families Credit, promoted the idea of an initiative to "bank" the unbanked and argued that this type of effort would neatly link to the city's interest in helping working families keep more of their earnings. Stuhldreher, in partnership with the city, approached a number of partners to serve on a steering committee to guide the development of a strategic plan for such an initiative. EARN, a nonprofit that helps low-income San Franciscans build savings and assets, was enlisted to provide perspective on the needs of unbanked consumers and to help establish networks with other nonprofit partners. The Federal Reserve Bank of San Francisco became involved to offer expertise on regulatory issues associated with banking products and services and to help convene financial institution partners.

The discussions that ensued led to the creation of Bank on San Francisco. A partnership between the offices of Mayor Gavin Newsom and Treasurer José Cisneros, the Federal Reserve Bank of San Francisco, EARN, and financial institutions across the city, Bank on San Francisco began in 2006 as an effort to bank the City's unbanked through appropriate products and innovative outreach channels. While the specifics of the initiative have evolved over time, the essential goals of Bank on San Francisco were articulated early on by Mayor Newsom and Treasurer Cisneros. The initiative seeks to:

- Change bank products and policies to increase the supply of low-cost starter account options for the unbanked market.
- Raise awareness among unbanked consumers about the benefits of account ownership.
- Provide quality financial education and equip residents of San Francisco with the tools they need to build assets and achieve financial security.

First Steps

The first challenge facing the steering committee was to develop an estimate of how many residents in the city lacked a bank account, and to gain a better understanding of how the city's lower-income earners view and use financial service providers. Developing an accurate count of the number of unbanked at the local level is difficult. The Survey of Consumer Finances, collected by the Federal Reserve Board, is the main data source that includes information about checking and savings account usage, but the sample is designed to paint a national, not local, portrait of consumer finances.

Owning a checking or savings account is the first step in allowing consumers to enhance their financial security and climb the economic ladder.

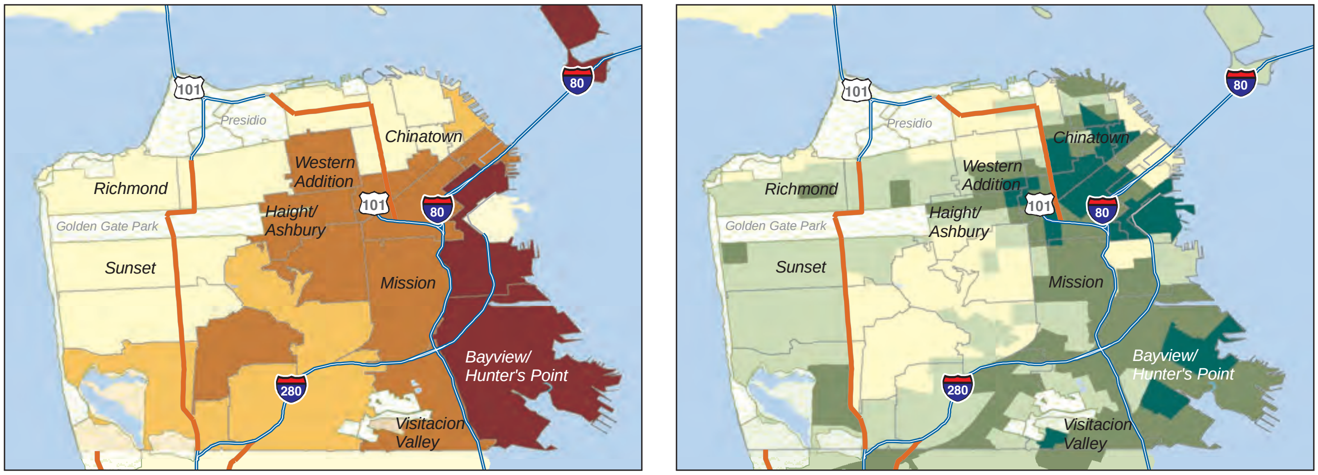
However, it is possible to use these national figures to approximate the size of the unbanked market. Matt Fellowes, then of the Brookings Institution, a public policy think-tank in Washington D.C., used the national data to derive estimates of the unbanked in San Francisco. His research estimated that at least 50,000 households in the city were unbanked, and that many of them were Latino and African American. His research also showed that while many of the unbanked had extremely low incomes, a significant share of unbanked households in San Francisco earn between $20,000 and $40,000, a good target market for the initiative. From these estimates, the initial Bank on San Francisco task force set the Initiative's goal of opening 10,000 accounts. Data from the Working Families Credit program also pointed to the large number of unbanked among African American and Latino households in the city, and showed that many of these households were clustered in the Mission and Bayview Hunters Point neighborhoods. (See Figure 1)

In addition, the city held several focus groups with unbanked residents in San Francisco to uncover their experiences, aspirations and fears related to financial services. The focus groups offered several insights and take-away lessons about the barriers to accessing the financial mainstream. Focus group participants emphasized the value of "second chance" accounts, and voiced concerns about hidden fees and identification barriers. In addition, participants noted some cultural barriers to using financial institutions–involving both general distrust of financial institutions, and more basic concerns about the lack of culturally and linguistically appropriate service and materials.

Building the Collaborative

The next challenge? Bringing the financial institutions to the table by making the case that this kind of initiative would benefit not only city residents, but would also help to develop long-term customers for the banks. The Federal Reserve Bank of San Francisco, along with the Mayor and Treasurer, invited bank and credit union executives to come

Figure 1. *Many unbanked households in San Francisco reside in CRA-eligible areas.*



Unbanked in San Francisco by Zip Code
Percent Unbanked, 2004

- 0-10%
- 11-20%
- 21-35%
- 36-50%

Source: Working Families Credit Survey

CRA Eligibility by Census Tract

- Low Income
- Moderate Income
- Middle Income
- Upper Income

Source: FFIEC

together to discuss the potential of such an initiative, and then asked them to agree to work collaboratively to develop a Bank on San Francisco product.

And then the hard work began. Using the information garnered from the focus groups, participating institutions set upon crafting a product that would address both the hard and soft barriers to banking. This process involved negotiation and compromise; the steering committee had specific ideas for what they wanted banks to develop, and in turn, the banks offered feedback as to what was and was not feasible. During the process of negotiating product features, a few institutions dropped out of the initiative, and others joined. But a year after the first meeting was held, the Bank on San Francisco initiative was defined. While the initial concept was to create a unique "Bank on San Francisco" account, due to concerns about timelines for product roll-out, the steering committee agreed to allow each financial institution to offer its own unique product meeting a set of minimum requirements. Banks and credit unions participating in Bank on San Francisco have agreed to:

- Offer a low- or no-cost product with no minimum balance requirement;
- Adapt internal systems to allow customers on ChexSystems to open an account;
- Accept consular ID cards as primary identification;
- Waive one set of overdraft fees per client; and
- Provide quarterly data to the Federal Reserve Bank of San Francisco on the number of accounts opened, the number of accounts closed, the average monthly balance of the accounts and the zip code of the account holder. As a neutral entity, the San Francisco Fed is able to both collect and guard the privacy of such data.

Nearly all of these elements prompted concerns from banks, and in order to come to agreement, the collaborative had to contend with the different cultures, resources, and internal procedures among the banks and credit unions at the table. First, the issue of no- versus low- cost raised interesting questions: would customers feel accountable if they were offered a free account, or would the accounts be more successful if customers had to put up some of their own money? Would they be willing to pay a small fee? Focus group participants had expressed that cost was a concern, but indicated that they were willing to pay a small fee for an account as long as the pricing was transparent; indeed, some voiced a slight bias against free accounts, as they harbored a distrust for "free" offers that might turn out to have hidden fees. Ultimately, it was agreed that banks could choose whether accounts would be no- or low-cost, but the Steering Committee was firm on its position that the accounts have no minimum balance requirement.

The second key point of discussion was around ChexSystems. ChexSystems is a network of member financial institutions that contribute information on customers who have mishandled checking and savings accounts. Wary of exposure to excess risk, many banks do not offer new accounts to those who appear in the ChexSystems database. But this policy is a major barrier for many of the unbanked. Discussions around this issue resulted in an agreement among banks to revise their policies to offer "second-chance accounts" for those who have mismanaged an account in the past. However, some banks are requiring customers to repay debts on past accounts in order to open a new account at their institution.

Another major sticking point was around the acceptance of alternative IDs such as the Mexican Matricula Card and Guatemalan consular IDs. Some banks were concerned with the reputational and regulatory risks involved in accepting such forms of identification, and were particularly wary of the potential for increased scrutiny under the Patriot Act. In addition, some banks were unwilling to change policies on a local level that would trigger potential risk in other areas of their business footprint. In the end, however, the group determined that if they were truly seeking to reach unbanked residents of the city through this program, participating institutions would have to accept alternative forms of ID.

Finally, there was some back-and-forth on the issue of overdraft fees. At the outset, the Steering Committee wanted up to three instances of overdraft to be forgiven for Bank on San Francisco accountholders, as they felt that there needed to be room for new customers to learn financial management skills before being penalized. Managing a bank account can be particularly confusing for new customers using a debit card at a point-of-sale, as, contrary to at an ATM, there is no indication that one's account has been overdrawn. However, participating institutions argued that waiving three sets of fees was too lenient, and settled on waiving fees for a Bank on San Francisco customer's first instance of overdraft.

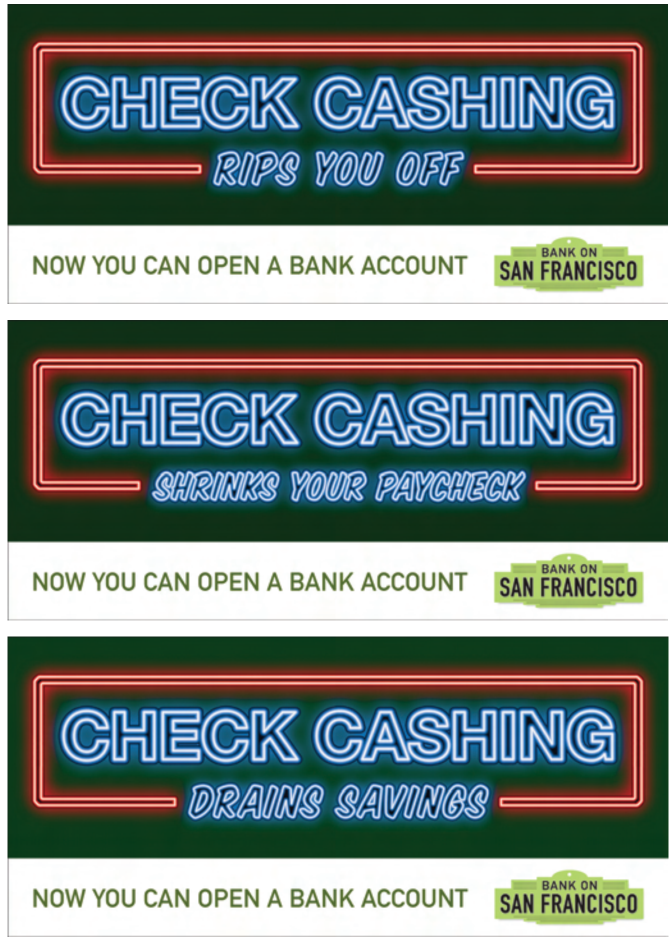


Figure 2. *The Bank on San Francisco media campaign, which included outdoors billboards and bus advertisements, was aggressive in portraying the wealth-stripping features of check cashers.*

The Marketing Strategy

With the product in place, the next challenge was to develop a marketing campaign that would be effective in reaching the unbanked. Recognizing that various segments of the unbanked face different barriers to opening accounts, two separate marketing campaigns were developed to target the immigrant Central-American market in San Francisco and the African American community in the city's southeastern neighborhoods.

One of the key factors in Bank on San Francisco's success was the partnership with McCann Worldgroup, a renowned advertising firm based in the city. McCann graciously worked *pro bono* to develop a Bank on San Francisco logo and tagline and all other program materials including brochures, posters, window clings for bank branches, coupons, outdoor advertisements and a website. McCann also developed a media strategy that relied heavily on generating press and *pro bono* advertising in ethnic and community newspapers, television, and radio and included a citywide outdoor media campaign on buses and billboards. The campaign was aggressive in both promoting the Bank on San Francisco initiative, and in portraying the predatory and wealth stripping features of check cashers and payday lenders. (See Figure 2) All participating financial institutions were asked to contribute to printing costs of the marketing materials.

In addition, many other partnerships with nonprofits and other local agencies have proved to be important in supporting and getting the word out about Bank on San Francisco. The United Way, for instance, through its 2-1-1 Helplink phone system, is offering referrals to Bank on San Francisco institutions. With one call to 2-1-1, callers can obtain bank and credit union locations and branch manager contact information. One Economy, the leading provider of web-based services to low-income communities, provides on-line referrals to Bank on San Francisco branches. PG&E also helped to get the word out to its 55,000 low- and fixed-income customers enrolled in its CARE program—an income-qualified program that offers discounts on monthly energy costs—through a letter about Bank on San Francisco. In-Home Supportive Services, the Human Services Agency, the Mayor's Office of Community Development and many others have assisted in providing outreach to unbanked city residents.

Linking Accounts to Asset Building

Another vital element of the program is to make quality money management education more easily available to low-income San Franciscans, as financial education is key to helping residents manage and build assets over the long term. Initially, participating banks aimed to develop a standardized curriculum for financial education classes in the city that would be certified as Bank on San Francisco approved trainings. This proved difficult, as did other efforts to get account openers to attend financial education classes offered at a central location in the city. Now, EARN serves as the primary broker of financial education–both providing classes directly to account openers and offering training through community based organizations.

> *Bank on San Francisco is demonstrating that new products and outreach strategies can help the unbanked succeed in the financial mainstream.*

Moving Forward

Bank on San Francisco is demonstrating that new products and outreach strategies can help the unbanked succeed in the financial mainstream. Bank on San Francisco's success is reflected not only in the volume of accounts that have been opened, but also in the inquiries the city has received about the program from Atlanta, Denver, Miami, Boston, and many other jurisdictions around the nation. In addition, the National League of Cities has recently launched a "Bank on Cities" campaign that will provide technical assistance to help cities around the nation design and launch efforts modeled on Bank on San Francisco.[5] The Federal Reserve Bank of San Francisco is also working with partners in many of the other cities within its district, such as Los Angeles, Seattle, and Tucson, to replicate this type of program there.

The lessons learned in developing and managing Bank on San Francisco can help these other cities navigate the challenges associated with banking the unbanked. One set of lessons revolves around the collaborative structure of the program. Bank on San Francisco is unique in that large and small banks, as well as credit unions, actively participated in developing all aspects of the program. This collaborative structure has a number of benefits, but building trust among participants and crafting products that suit the needs of all partners does not happen overnight. It took almost a year for Bank on San Francisco partners to develop mutually agreed upon product and systems-change ideas. For cities looking to replicate Bank on San Francisco, it will be important to determine the appropriate partnership structure and plan timelines accordingly.

In a related vein, it is vital to involve a host of partners in such initiatives, including local banks, community organizations, national experts, and banking regulators. But creating and maintaining both the commitment and momentum of such a range of partners is challenging, and ultimately requires dedicated staff to coordinate all aspects of the program. Leigh Phillips, of the Office of the Treasurer, became Bank on San Francisco's full-time program manager, and is responsible for all day-to-day operations including outreach, marketing, fundraising, evaluation and overall program design.

In addition, the rapid uptake of Bank on San Francisco products demonstrates that there is a clear demand for mainstream services among the previously unbanked. But a significant challenge remains in ensuring that opening a bank account is only the first of many steps for city residents to attain financial security. Financial education is critical to helping new banking customers establish savings, reduce debt, build credit and acquire assets, but, as indicated above, it has thus far proven difficult to develop culturally sensitive financial education curriculum and delivery mechanisms that effectively reach clients. Improving financial education efforts, as well as efforts to permanently move people away from fringe financial providers, will go far in making sure that a new bank account is not an end-goal, but rather a springboard toward achieving true financial security.

Conclusion

Bank on San Francisco has proven to be a welcome addition to the asset building toolkit for the city's working families. "I couldn't be more proud of the work we have done so far with Bank on San Francisco," said Treasurer Cisneros. "Not only are San Franciscans opening accounts in large numbers, but these accounts are staying open, being used and are maintaining healthy monthly balances."[6] It is unique in that it has shown itself to be beneficial for government agencies, financial institutions, community groups and unbanked residents, and has received high-levels of support from the public and the media. There is, however, still much to learn about how to better link the unbanked and newly banked to additional opportunities to learn prudent financial management skills and grow their earnings. Indeed, the financial instability and vulnerability wrought by the subprime mortgage crisis makes a strong case that more resources need to be dedicated to improving and expanding programs like Bank on San Francisco that protect and empower those seeking to climb the economic ladder. CI

Foreclosure Prevention in the 12th District

The Role of Community Development

Introduction

In December 2006, *Community Investments* highlighted the issue of homeownership preservation, noting that "Overall, rates of delinquency and foreclosure in the 12th District are lower than the U.S. as a whole. Yet if the housing market cools, and as adjustable-rate or interest-only mortgages reset, many borrowers may suddenly face mortgage default and foreclosure and risk losing the equity that they have gained. This is of particular concern for borrowers in the subprime market." The goal of the issue was to raise awareness about the increase in subprime lending and its associated risks, yet the articles in that issue were cautious about portending any real problems in the overall subprime mortgage market. In retrospect, we didn't sound the warning bells of increasing signs of borrower distress loud enough.

Indeed, a lot has changed in the last 15 months. Subprime lending and the rise in mortgage delinquencies have become the subject of daily news articles, and the impacts of foreclosures have extended from families and local communities to the global financial markets. Nationwide, counselors, lenders, and servicers are working to identify best practices for preventing foreclosures and developing policies and programs to respond to the growing demand for counseling and loan modifications. At the federal level, policymakers and regulators are examining legislation and regulations that govern the mortgage market to determine what policies are necessary to prevent further foreclosures, and to ensure that a similar problem does not occur again in the future.

Within the Community Development Department at the San Francisco Fed, we've been working to leverage our research and convening functions to help prevent foreclosures and to help mitigate the negative impact of foreclosures on families and communities. In early 2007, we launched a comprehensive foreclosure prevention initiative: "Preserving Homeownership: Preserving Communities." In this article, we describe what we are doing as part of this foreclosure prevention initiative, and outline our plans for continuing to work with communities affected by this crisis within the Federal Reserve's 12th District.

The Foreclosure Crisis: Trends within the Federal Reserve's 12th District

To set the context for the Fed's role in foreclosure prevention efforts, it is worthwhile to provide a brief overview of what the data and research show about the rise in foreclosures and its underlying causes, with a focus on the nine states that comprise the Federal Reserve's 12th District. While some communities have been struggling with high rates of foreclosure for a much longer time,[1] the recent rise in delinquencies and foreclosures in the 12th District has been sudden and substantial. As noted above, in December of 2006, the states in the 12th District had among the lowest foreclosure rates in the country; just a year later, Arizona, California and Nevada were among the top 10 in overall foreclosure rates, although rates in the Pacific Northwest remain below the national average. (See Figure 1)

At a more localized level, many metropolitan areas in Arizona, California and Nevada are struggling with even higher rates of delinquencies and foreclosure, especially among subprime loans. The inland areas of California (including Riverside and San Bernardino counties, and the cities of Bakersfield, Fresno, Merced, Modesto, Sacramento, and Stockton) have been severely affected, as have the Las Vegas and Phoenix metropolitan areas. The District is also home to cities with relatively low overall rates of foreclosure, however, including the San Francisco Bay Area, Seattle and Portland. Yet even within these areas, some neighborhoods are seeing a rise in delinquencies and foreclosures, with attendant negative consequences for both the borrowers and the community.

What accounts for the differences in foreclosure rates among the regions of our district? Perhaps the most significant factor driving the rise in delinquency and foreclosures in Arizona, California and Nevada has been declining

Figure 1. *Foreclosure rates in 12th District states*

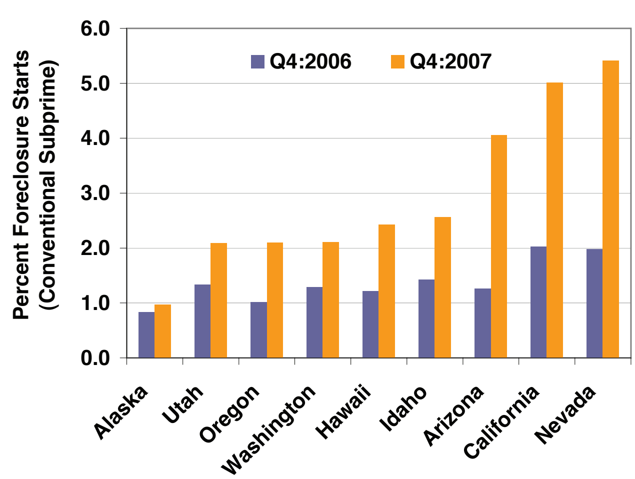
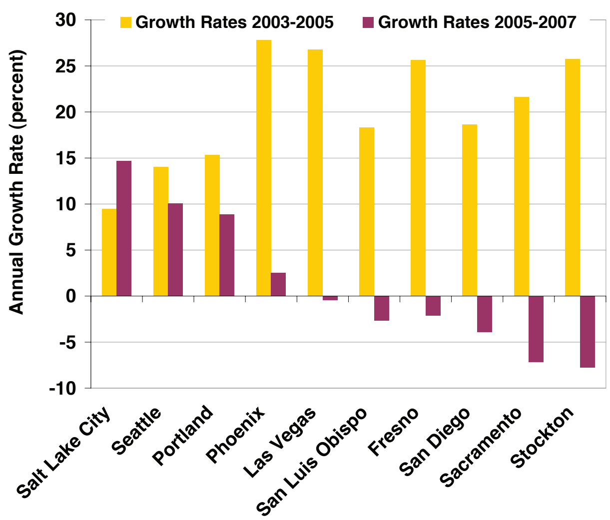
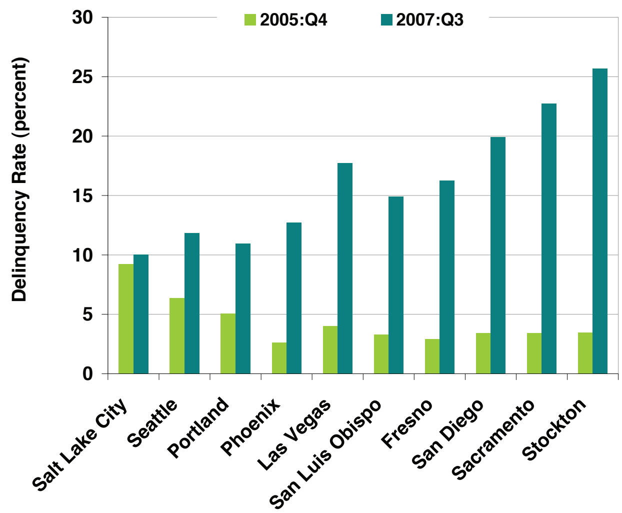


Figure 2A. *Growth Rate of House Prices*



Source: OFHEO

Figure 2B. *Subprime Delinquency Rates* for Selected MSAs*



*60 days or more past due or in foreclosure
Source: First American LoanPerformance

house values. Economic research has shown that downward changes in house prices are strongly associated with subprime delinquency "hotspots."[2] Indeed, as Figures 2A and 2B show, the cities within the 12th District that have seen the greatest changes in house values–from a period of rapid house price appreciation to house price declines–also have seen the highest rates of subprime mortgage delinquencies (See Figures 2A and 2B). This is not to say that declining house values alone cause foreclosure. But, as prices have declined, borrowers who are struggling to pay their mortgage–for example, due to a job loss or illness–may have a more difficult time refinancing or tapping into their home equity to bridge a gap in income. In addition, borrowers who were counting on house price appreciation in order to refinance into a more affordable loan have found doing so difficult, particularly if their loan-to-value ratio has left them with too little equity to qualify for a new loan.

Relaxed underwriting standards and abusive lending practices have also played a role in the increased risk of delinquency and foreclosure for subprime borrowers. As Chairman Bernanke recently noted, "far too much of the lending in recent years was neither responsible nor prudent."[3] Research has shown that between 2001 and 2006, a period of rapid growth in subprime lending, underwriting criteria eased substantially and loan quality deteriorated quickly.[4] For example, many subprime loans layered multiple risk factors, such as a lack of full documentation, high combined loan-to-value ratios, and high debt-to-income ratios. These problems in underwriting, however, were masked by rapid house price appreciation, and it was only when housing markets began to cool that they became widely apparent.

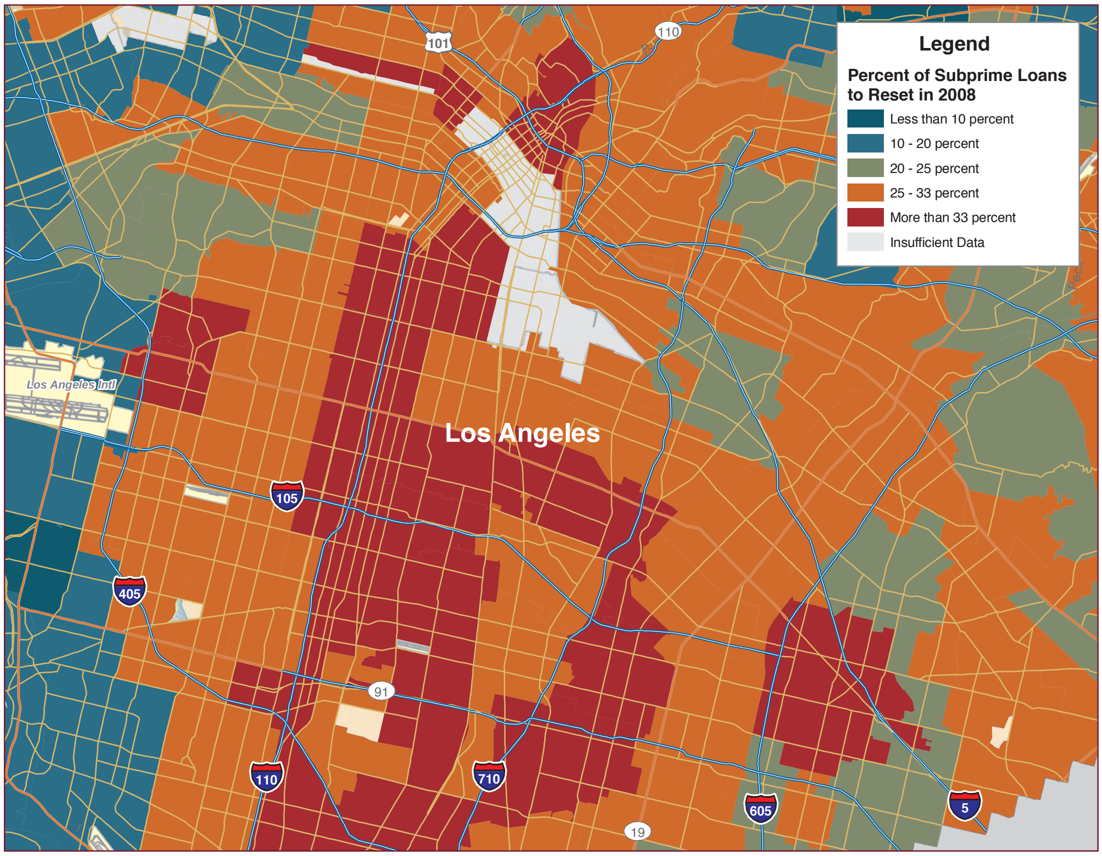
While much attention has focused on interest rate resets as a trigger for delinquencies and defaults–particularly on loans with artificially low introductory rates–so far they have not played a significant role.[5] This is not to say, however, that resets won't matter going forward. The Federal Reserve Board estimates that about 1.5 million loans are scheduled to reset in 2008.[6] Especially for borrowers already stretched to the limit, these resets may significantly increase the likelihood of delinquency.

The rising number of delinquencies and foreclosures has serious implications for low- and moderate-income communities. While linking data on borrower income and race with data on loan performance is difficult, studies of cities like Baltimore, Chicago, and Cleveland have found that low-income and minority communities have been the hardest hit by concentrations of foreclosures.[7] Foreclosures could undermine much of the success that has been achieved in increasing the number of low-income and minority homeowners, and limit their ability to build wealth over the long-term. The rise in foreclosures may have other negative implications as well, such as reducing neighborhood property values and increasing crime.[8] Furthermore, as declining property taxes and transfer fees shrink local government revenues, vital services to low- and moderate-income families may also suffer.

Addressing the Problem: The Role of Community Development at the San Francisco Fed

For these reasons, minimizing the impact of foreclosures on low- and moderate-income families and communities has become an important priority for the Community Development department, and we have been dedicating both our research and outreach activities to helping lenders, municipal governments, and community groups respond to the foreclosure crisis. Our work has focused in three key areas: research and analysis, raising awareness, and supporting the work of local foreclosure prevention task forces.

Figure 3. *The distribution of subprime loans in Los Angeles that will reset in 2008. Mapping the data can help identify "hotspots" that may benefit from targeted borrower outreach and foreclosure prevention and mitigation efforts.*



Source: Reset data from First American LoanPerformance (12/2007). Map generated by the Federal Reserve Bank of San Francisco Community Development Department, based on analytics provided by the Federal Reserve Board of Governors and aggregated at the zip code level.

Research and Analysis

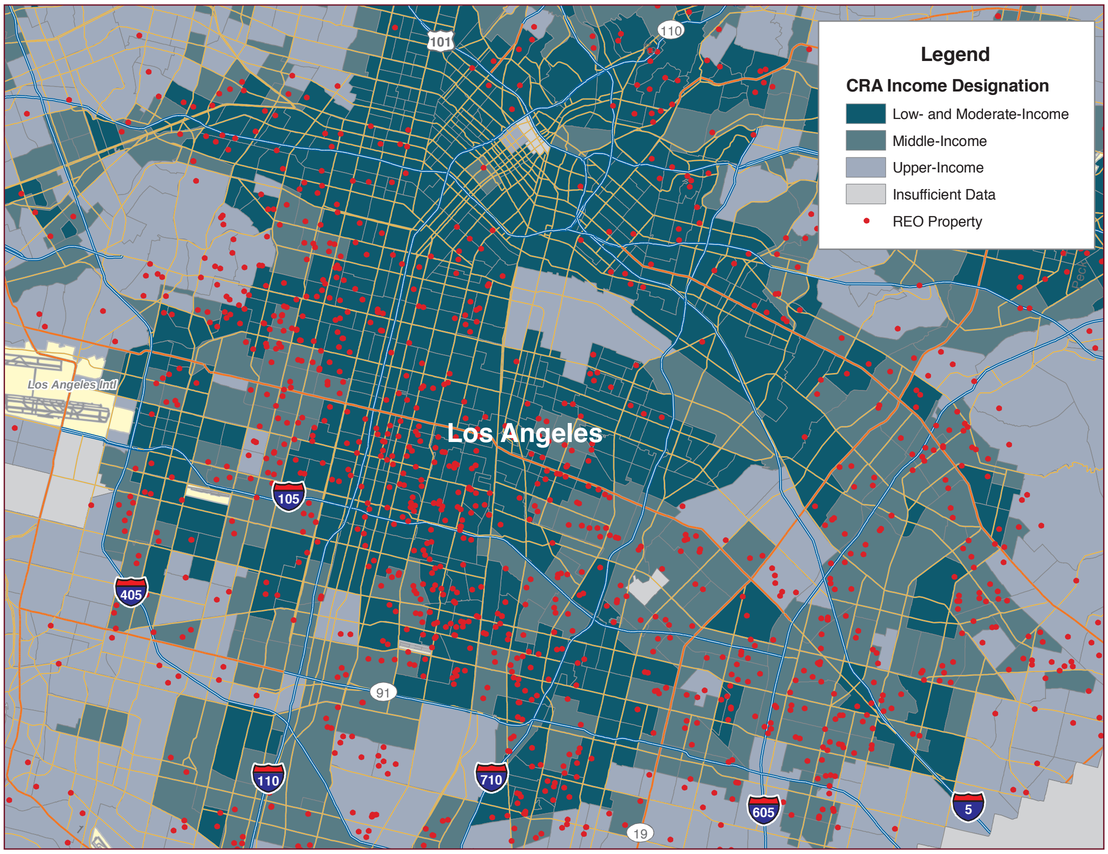
Starting with the December 2006 issue of *Community Investments,* the research team has undertaken several projects designed to support the Department's foreclosure prevention efforts. Key among these has been examining data on mortgage foreclosures to identify local "foreclosure hotspots" within our District, with the goal of helping local groups strategically target their borrower outreach and foreclosure prevention efforts. Using local data from LoanPerformance and foreclosure filings from county recorders' offices, the team has created localized maps that show the distribution of subprime loans as well as the distribution of delinquencies and foreclosures. Another aspect of this work has been to identify which neighborhoods will see the greatest number of loans resetting in 2008, since these borrowers may benefit from targeted outreach and the refinance and loan modification programs that exist. (See Figure 3) The Department is also mapping neighborhoods with high concentrations of REO properties, and is working to identify best practices for converting REO properties into affordable homeownership opportunities. (See Figure 4) All of these maps and tables are provided as presentations that can be used as part of outreach meetings, and are available on the Community Development website.

The research team is also working to identify longer term research projects to try and answer other questions related to the impact of foreclosures. For example, who has been most affected by the rise in defaults and delinquencies in the subprime market? What happens to low-income families after they lose their homes? What is the relationship between savings, consumer debt, and financial decision-making? While these questions are much more difficult to answer–particularly given the lack of data–the goal is to at least provide exploratory information in these areas to help shape better policies and strategies that can support sustainable homeownership, now and in the future.

Raising Awareness

Building on this research, the second part of the Department's work has focused on educating stakeholders about local foreclosure trends and disseminating best practices in foreclosure prevention. In the summer of 2007, in partnership with the other three banking regulatory agencies,

Figure 4. *Real-Estate Owned properties (REOs) in Los Angeles. As of March, 2008, many of LA's REOs were concentrated in low- and moderate-income neighborhoods.*



Source: REO properties compiled from RealtyTrac and bank REO listings (3/2008). CRA eligibility is determined by the FFIEC. Map generated by the Federal Reserve Bank of San Francisco Community Development Department.

the Department hosted six foreclosure prevention summits in San Francisco, Fresno, Los Angeles, San Diego, Phoenix, and Las Vegas. The summits brought together over 700 participants, including local, state, and federal government officials, bank and nonbank lenders, loan servicers, mortgage brokers, housing counselors, leaders of community organizations, and academics. These meetings helped inform participants about the nature, causes, and extent of foreclosures in their areas, and galvanized local initiative to target interventions and resources to the most affected areas. Since then, additional meetings have been held in Modesto, California's Inland Empire, and Utah.

Strengthening Local Task Forces

The third focus of our work has been to create and/or strengthen local task forces to help address "on the ground" challenges to foreclosure prevention. Each task force–comprised of a broad coalition of government agencies, nonprofits, financial institutions, and servicers–is designed to respond to local needs and to take on a range of activities related to foreclosure prevention and mitigation. Already, the task forces have been instrumental in leveraging and aligning local resources to address barriers to foreclosure prevention. The Arizona Foreclosure Prevention Coalition, for example, has raised additional funds from private, state, and federal sources to increase the capacity of local housing counselors to respond to the growing number of calls from distressed borrowers in the state.

Much of the focus of local task forces has been on improving borrower outreach, and connecting distressed borrowers with counselors and/or servicers. One strategy that is proving to be successful is borrower outreach fairs. In Modesto, Lena Robinson, the Community Development department's regional manager for Northern California, worked with the community-based group No Homeowner Left Behind-Stanislaus to organize a borrower outreach fair in early March that attracted over 200 homeowners. Many of the large lenders, including Citi, Wells Fargo, Chase, Countrywide and Washington Mutual, sent staff members to the event to negotiate personally with borrowers, and start the process of loan modifications. Similar fairs have been held in other hard-hit locations such as San Bernardino, CA and Phoenix, AZ.

In addition, local task forces have undertaken efforts to improve the institutional capacity of stakeholders who provide loan modification and forbearance assistance. Community Development has sponsored several training workshops for housing counselors, lenders, and servicers in an effort to improve loan modification processes and forbearance plans. The Loan Servicer Forum in Los Angeles in December 2007, for example, helped identify the major barriers to effective loan resolutions and resulted in improved communication channels between housing counselors and servicers.

> *"We should not view the current foreclosure trends as justification to abandon the goal of expanding access to credit among low-income households..."*

Next steps

As trends in the mortgage market unfold, the Department will continue to identify areas where its research and convening functions can help to mitigate the negative impact of foreclosures on borrowers and communities. As mentioned earlier, one key focus will be on identifying best practices in the area of REO property conversion. Are there innovative ways to convert foreclosed properties into affordable rental or homeownership opportunities?[9] What can municipalities faced with large numbers of vacant properties do to minimize the negative spillover effects on the wider community? This summer, the Department intends to hold a two-day conference to provide training to government officials, nonprofits, and lenders that are interested in these questions.

Over the long-term, however, the Department will continue to think more broadly about how homeownership fits into the overall asset-building picture for low-income households, and what other programs or policies are necessary to ensure that homeownership is sustainable. This is likely to entail a wide range of interventions, from expanding access to financial education and increasing the supply of affordable homeownership opportunities to ensuring that families have access to health care so that they don't need to tap into their equity to pay for medical debts. In addition, it requires that we continue to see homeownership as a key part of a broader community development agenda, one that focuses on comprehensively revitalizing neighborhoods and expanding the asset building opportunities available to low-income households. Finally, we will continue working on expanding access to responsible lending to low-income families and communities. As President Yellen noted in her remarks at our 2008 National Interagency Community Reinvestment Conference, "We should not view the current foreclosure trends as justification to abandon the goal of expanding access to credit among low-income households, since access to credit, and the subsequent ability to buy a home, remains one of the most important mechanisms we have to help low-income families build wealth over the long term."[10] CI

Community Land Trusts

Preserving Long-term Housing Affordability

A community land trust combines the best features of home ownership – control, predictability in mortgage costs, inheritability, and wealth creation – with protection against runaway gentrification. Ownership of the house, which stays with the occupant as in any typical homeownership situation, is split from ownership of the land underneath, which rests with the CLT.[1]

As municipalities and community groups seek innovative ways to mitigate the negative impact of foreclosures on borrowers and communities, some are exploring the potential of "bundling" foreclosed properties and converting them into a community land trust (CLT). Foreclosed properties, which would otherwise stand vacant or be sold back into the private market at a loss, would instead be transferred to a CLT and then returned to the community as affordable homeownership opportunities. A community land trust, which is a form of land ownership in which a private, nonprofit organization acquires and holds land—and sets controls for its use—for the benefit of local community residents, can allow low-income families to become homeowners, improve neighborhood stability, and preserve the long-term affordability of homeownership opportunities. These outcomes stand in stark constrast to the negative impacts of foreclosure.

But how do CLTs work? And if there are so many benefits offered by CLTs, why aren't they more common? In this article, we examine how community land trusts are structured, provide a brief history of CLTs, and report on research that measures the benefits and limitations of the CLT model.

How a Community Land Trust Works

Although each community land trust is structured in its own way, the key feature that characterizes a CLT is that it treats land separately from buildings on the land; the CLT owns the land, but individuals or organizations own the buildings. This arrangement allows the cost of land to be removed from calculations of building price, thereby lowering costs. CLT land, which is used most commonly for the development of permanently affordable homes for low- and moderate-income households, is conveyed to individual homeowners through a ground lease. The lease, which typically runs for ninety-nine years unless a shorter term is required by state law, defines the rights and obligations of each of the parties in a CLT, and can be both renewed and inherited.

Those who own housing units on CLT land enjoy the same rights as most homeowners, including security of tenure, privacy, and the right to remodel or redecorate, although permission from the CLT is required for major capital improvements. They can also build equity, albeit not as much as on the private market; the selling price of a CLT house is determined not wholly by the market but rather by a resale formula written into the ground lease, which limits price increases and thereby preserves long-term affordability of the unit. Further restrictions can be written into the lease as well, such as requirements that a CLT home be used as a primary residence; in other words, an owner would not be allowed to sublet the home or use it as an investment property. The CLT also enforces the maintenance of the property, and in the case of mortgage default, the CLT will take over the lease to prevent foreclosure.

Responsibility for monitoring and enforcing all of these restrictions on the use and resale of owner-occupied housing rests with the CLT. This management function of the CLT is an important one, and significant efforts must be made to ensure that the management and governance of the CLT has the capacity to manage the properties effectively. Most CLTs are governed by a board that includes both at-large community members and land-trust residents. The joint governance structure offers balanced accountability: residents have a real voice in the governance and operation of the organization, while members from the community at large ensure the long-term protection of the organization's core values and its integration into the wider community.

The History of Community Land Trusts

The principles underlying community land trusts have a long history, and draw on the cultural traditions and land tenure systems of groups such as the native peoples of North America and South America, the Ejidos of Mexico, the "commons" of England, the Crofter system in Scotland, tribal lands in Africa, the Gramdan movement in India, and the Jewish National Fund in Israel. Many of these systems sought to ensure that land was being put to the use that would most benefit the community at-large, while still recognizing an individual's interest in the land. The late 1960s saw the establishment of the first nonprofit community land trust in the United States–New Communities in Albany, Georgia–which had the goal of providing residential and agricultural leaseholds for African-American farmers.[2]

During the 1980s, CLTs expanded from these rural roots to urban areas. Inner-city communities were turning to community land trusts as a way to prevent runaway housing cost increases and displacement in gentrifying areas, and to curtail the downward spirals resulting from absentee ownership and neglect in disinvested neighborhoods. For example, in the Roxbury neighborhood around Dudley Square in Boston, many parcels had been abandoned and were being used for illegal trash dumping. Neighborhood residents asserted that without ownership of the land in the neighborhood, they would not be able to fully participate in local redevelopment efforts, and that benefits would flow to absentee landlords rather than the community. The Dudley Street Neighborhood Initiative (DSNI) won eminent domain power to acquire the vacant land, and established a community land trust to manage the land and ensure permanent community ownership and affordability. To date, the DSNI's land trust has rehabbed 300 homes and created more than 300 new homes, a Town Common, urban agricultural gardens, a commercial greenhouse, parks and playgrounds on this land.[3]

Spurred on by early successes, community land trusts have emerged in localities across the country, aided by the technical support of groups such as the Institute for Community Economics and Burlington Associates.[4] While many CLTs are still resident-led, many are driven by other stakeholders in the community interested in the preservation of homeownership affordability.[5] Indeed, municipalities are increasingly looking at CLTs as an option to preserve housing affordability for their residents. In Irvine, California, and Portland, Oregon, for example, municipal officials initiated the creation of a CLT as a means to expand and preserve access to homeownership for low-income families. But private companies and other organizations can also play a pivotal role in launching a CLT. In Rochester, Minnesota, the Mayo Clinic used a community land trust model to meet its workforce housing objectives, and in Los Angeles, the California Community Foundation has established a CLT to bridge the growing gap between incomes and the cost of housing in the LA Region.

The benefits of the CLT model

Recent research on community land trusts suggests that CLTs are an effective affordability tool, and that compared to many other homeownership subsidies, such as downpayment assistance programs, they use public subsidies more efficiently. In traditional downpayment assistance programs, when a unit is sold by a homeowner the public subsidy is generally recaptured by the program. However, if the same house is to be re-purchased by another low-income buyer, the program must now subsidize its appreciated value. If the land has appreciated significantly, the program must provide a new, larger subsidy to get another low-income household into the same home. In contrast, the CLT model ensures that "the value of public subsidies used to develop the affordable housing are permanently tied to the housing, thus recycling subsidy dollars from owner to owner."[6]

The Kulshan Community Land Trust's Matthei Place in Bellingham, Washington provides permanenly affordable–and environmentally sustainable–homeownership opportunities for low and moderate-income families.

In addition, research has shown that CLTs also allow homebuyers to build equity–perhaps not as much as they would have in the private market–but certainly more than if they had remained renters. As John Emmeus Davis, a leading scholar of CLTs, has noted, "The CLT resale formula is designed to give departing homeowners a fair return on their investment, while giving future homebuyers fair access to housing at an affordable price – one homebuyer after another, one generation after another."[7] Research appears to bear out this claim. In one study, the average annual rate of return for CLT homebuyers in Minnesota was 33.2 percent, although the rate varied depending on how long homeowners had stayed in the home.[8] These equity gains mean that CLTs can provide an important step for low-income households up the housing ladder, allowing them to build some equity that could be used for a downpayment on a market rate home. In addition, this same research found that the CLT homes were resold at a value that, on average, was $17,000 less than the original price, demonstrating that CLTs can and do preserve affordability over the long-term.

CLTs also play a long-term stewardship role in the community. Often, they provide homebuyer education and training as well as other services to homeowners, such as support in the face of unexpected financial difficulties and assistance in cases of delinquency and foreclosure.[9] In addition, the governance structure of CLTs plays into this stewardship role, in that the diverse board representation enables the CLT to receive guidance from, and be responsive to, a host of community interests.

Recent research on community land trusts suggests that CLTs are an effective affordability tool, and that compared to many other homeownership subsidies, such as downpayment assistance programs, they use public subsidies more efficiently.

Challenges to the expansion of CLTs

Despite these benefits, the total number of homes in community land trusts remains small. While estimates vary, there are approximately 160 land trusts operating in the United States, with control over somewhere between 5,000 and 9,000 units.

There are a number of factors limiting the proliferation of CLTs. Many community land trusts face challenges in acquiring land and developing properties. The CLT model works best when land is owned debt-free by the CLT, allowing the CLT to remove the entire cost of the underlying land from the selling price of housing and other improvements. This can be difficult to achieve, especially in high-cost areas where the value of land makes it particularly difficult to acquire. In addition, most CLTs require additional subsidy to achieve the desired level of affordability. Where construction costs are high, a CLT—like every other nonprofit developer—requires grants that are sizeable enough not only to remove the costs of the land but to subsidize a portion of the building's cost as well. But aside from recent support from select municipalities, public funding for CLTs has been limited in scale.

Not only can CLT developers face difficulties in assembling the land and other resources to create a land trust, would-be purchasers may find it hard to secure a mortgage for their CLT homes. Financial institutions are often leery of underwriting mortgages for resale-restricted homes on leased land. Melody Winter Nava, regional manager for Southern California, has been working to raise awareness about community land trusts among the lending community in the region. "Banks have a lot of questions about the Community Land Trust model," notes Melody. "There can be a hesitancy to jump into something that they're not comfortable with. What happens if a borrower in a CLT property defaults? What types of financing do CLTs need? Will there be enough volume for the lender to justify developing a CLT product?" Melody works with lenders to answer these types of questions. "My role is to keep the lenders at the table, and bring in CLT experts to explain the benefits of the model to the lending community."

Conclusion

In many rapidly growing areas within the Federal Reserve's 12th District, the high cost of land has been the primary contributor to escalating house prices, placing homeownership out of reach for low-income households. While there is still much that lenders, community-based organizations, and municipalities must learn about CLTs in order to support them and foster their expansion, the effort could pay off as CLTs may be a particularly effective way of providing homeownership opportunities that are affordable over the long-run. CI

Employer Assisted Housing

Addressing the Housing Affordability Gap

In 1912, Clarkdale, Arizona was founded by Senator William A. Clark to provide housing for workers at his United Verde copper mine in nearby Jerome. Like other "company towns" established during the industrial heyday of the 19th and early 20th century, United Verde built and maintained the housing stock in Clarkdale and thereby ensured that its employees could live nearby. Today, Clarkdale is no longer a mining town, but it is home to mixed-income housing, a thriving commercial district, recreational and cultural facilities, and parks, reflecting the imprint of Senator Clark's original master plan for the community.

Today, few company towns still exist. But with housing costs now far exceeding workforce wages in many parts of Arizona, the idea of "employer assisted housing"–albeit in a different form than the development of an official company town–is gaining renewed traction. In 2004, The Arizona Association of REALTORS partnered with Fannie Mae to launch "Housing Arizona's Workforce," a program designed to assist employers in developing housing benefits for their employees. Arizona's pilot has now become a national effort called "Home from Work," cementing the idea that employer assisted housing is an important tool for addressing the affordable housing needs of the country's workforce.[1]

More of an umbrella term than a specific program, employer assisted housing (EAH) encompasses a wide range of possible activities, ranging from simple and inexpensive strategies such as providing homebuyer education classes at the workplace and notifying employees about existing government subsidies, to more significant interventions such as offering downpayment assistance and mortgage loan guarantees. (See Figure 1) At the heart of EAH is the idea that employees should be able to afford to live in the communities in which they work, and that there are multiple benefits to being able to do so. Not only do EAH programs reduce employee housing costs, they also reduce the costs associated with commuting and congestion.[2] Employers also benefit. A study by the Joint Center for Housing Studies at Harvard University shows that reducing commute times can increase employee morale and productivity, and decrease absenteeism, tardiness and stress. All of these factors can reduce turnover, which cost businesses an average of 25 percent of an employee's annual salary.[3]

Well-designed EAH programs can also contribute to neighborhood revitalization and support a broader range of community development goals, such as infill development, community involvement and civic participation. In West Palm Beach, Florida, for example, MerryPlace received funding from the legislature under a pilot workforce housing project, bringing urban infill construction to an area that had historically been plagued by crime and abandoned buildings. The $45 million project qualified for $5 million in funds from a state workforce housing program by setting aside units for teachers at nearby schools. The school district is among several agencies funding the project. Universities have also used EAH programs to help revitalize neighborhoods surrounding their campus facilities.

Figure 1. *Employer Assisted Housing Can Span a Wide Range of Activities*

Demand-Side Mechanisms

Up-Front (Down Payment, Closing Costs) Assistance:
- Deferred loan
- Repayable loan
- Forgivable loan
- Grant
- Savings plan withdrawals/loans
- Employee savings match
- Second mortgage
- Mortgage guarantee

Monthly (Carrying Costs) Assistance:
- Mortgage buydown
- Group mortgage origination
- Group mortgage insurance
- Securities purchase
- Equity guarantee (assurance/insurance pool)

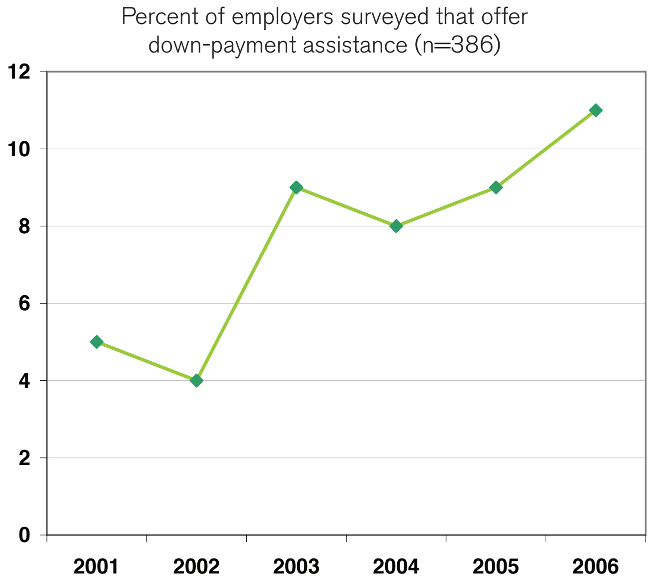
Marketing/outreach services

Education/counseling services

Supply-Side Mechanisms

Advocacy
Cash participation
Provision of development sites
Donation of services
Construction financing
Purchase guarantees
Master leases

Figure 2. *Growth in Employer-Assisted Housing Benefits (2001-2006)*



Source: Office of the Comptroller of the Currency (2007).

In the last five years, the number of EAH programs has grown significantly, though it has a long way to go before it is as common as health or retirement benefits. (See Figure 2) In part , this is because EAH remains an unfamiliar concept for many human resource departments, and employers may not be aware of the range of benefits they could offer under EAH. To address these barriers, the Community Development Department has hosted forums and roundtables in many high-cost areas in the Federal Reserve's 12th District to introduce the concept of EAH to a wide range of stakeholders and to facilitate the partnerships needed to develop EAH programs. In Idaho, for example, Craig Nolte, the Community Development Department's regional manager for Alaska, Idaho, Hawaii, Oregon and Washington, helped organize a "Northern Idaho Workforce Housing Summit" at Schweitzer Mountain Resort in Sandpoint to address the growing gap between the area's wages and housing costs, which are being driven upwards by demand for expensive vacation properties. The Summit brought together over 200 participants, including employers, government officials, nonprofit organizations and lenders, to learn how they could collaborate to provide more affordable housing options in the region. Craig has also worked with banks to educate them about the mortgage lending opportunities associated with employer assisted housing programs.[4]

Another barrier to widespread adoption has been lack of funding to support more robust EAH programs. Some states, most notably Illinois, have created EAH tax credit programs to help offset employer costs of offering a housing benefit. Between 2000 and 2006, the Illinois program has helped over 1,000 employees buy homes using their employers' contributions towards their downpayment, and more than 2,000 employees have benefited from credit counseling, homeownership education, and down payment assistance.[5] Some state housing finance agencies and city governments also offer EAH mortgage programs especially for targeted workforce groups such as firefighters and teachers.

Still, many suggest that there is a need for a national tax credit to increase the scale of these programs. The Housing America's Workforce Act, introduced in Congress in March of 2007, aims to do just that. The Act, based on the Illinois model, would provide a tax credit equal to 50 percent of the cost of qualified housing expenses for eligible low- and moderate-income employees. For homebuyers, this would provide up to $10,000, or six percent of the employee's home purchase price (whichever is less), which could be used to subsidize down payments, closing costs, financing costs, contributions to second mortgage pools, mortgage guarantee programs, or contributions to an employee homeownership savings account. For renters, up to $2000 could be applied toward security deposits and rental payments. The Act also would award $5 million a year in grants for nonprofit groups and local governments taking part in employer-assisted housing programs.[6]

While it is unlikely that the Act will pass before the 2008 national elections, efforts to promote federal legislation supporting EAH will undoubtedly continue. The National Housing Conference, which was the driving force behind the introduction of the bill and which has been working to educate legislators about the benefits of EAH, sees this as an important bi-partisan issue. Rosalyn Crain, Policy Associate at the National Housing Conference, says that EAH offers "a triple win. It benefits the community, it benefits businesses, and it benefits employees. A federal law would help to raise the visibility of EAH as a viable and cost effective affordable housing strategy, one that works in rural communities as well as in high-cost metropolitan areas."

Affordable housing is one of the many community development issues that requires that we continue to develop innovative strategies that bring new resources and partners to the table. Craig and the other regional managers in the department will continue to explore ways to raise awareness of EAH programs among employers, lenders, and community groups, seeing it as one way to effectively leverage public and private funds to address housing affordability challenges and community revitalization within the Federal Reserve's 12th District. CI

The Center for Community Development Investments

The community development investment field has grown increasingly complex in recent years. While still significantly influenced by CRA-motivated depository institutions, the field is now populated by a wide array of investors, including banks, insurance companies, pension funds, foundations, religious institutions, investment intermediaries, and individuals. Coupled with an increasing range of investment vehicles, this crowding has prompted a need for better research and collaboration to inform the fast-paced evolution of the industry.

To address this need, the Center for Community Development Investments (the Center) was created to seek out new ideas that have the potential to further expand investment in low-income communities. The Center disseminates information through its website and two publications: the *Community Development Investment Review* (the *Review)* and an ongoing working paper series. The Center also propels the industry forward by bringing together community development finance experts at conferences, roundtables, and online. These forums provide platforms for innovation.

One such innovation recently advanced by the Center is the expansion of the secondary market to include community development loans. A widely used financial tool, the secondary market refers to the sale of loans—which have typically been converted into securities—to third party investors. By converting illiquid assets such as mortgages, credit card payments, and municipal bonds into liquid, tradable securities, investors can now tailor their investments to fit a particular appetite for risk and return. If properly applied, this approach has the potential to radically improve the community development landscape. Community development loan originators—such as community development financial institutions (CDFIs)—could offer more affordable and flexible products if they were free to sell their loans to third party investors. Significant strides have been made in recent years to make these loan sales a reality. The Community Reinvestment Fund (CRF), for example, is testing a beta version of an electronic marketplace to trade such loans. As a result of these and other significant efforts, CRF has made efficient community development loan trading a genuine possibility. Nevertheless, the recent sub-prime mortgage crisis has depressed demand for asset-backed securities; it may be some time before the mainstream finance industry can be persuaded to invest in “exotic” community development securities.

The Center is also encouraging innovation in rural community venture capital. Rural areas have been underserved by investors for a host of reasons; distance from supply lines, a lack of technology-based opportunities, and limited human capital conspire to isolate rural communities from global capital markets. To explore solutions to this problem, the Center recently invited policy makers, venture capitalists, academics, and community organizations to participate in a conference at the Federal Reserve Board in Washington, DC. Many valuable themes came out of the conference; among them, a recognition that more must be done to attract venture capitalists to small rural towns. Most venture capital dollars flow through Silicon Valley or Boston’s “Route 128” because these locations offer numerous clustered investment opportunities. Rural communities will never achieve this level of concentrated deal flow, but they can do a much better job of utilizing existing technologies, such as the internet, to counteract their geographic disadvantage. The Center will continue to work with both rural entrepreneurs and venture capitalists to help match investment dollars with promising rural business opportunities.

To facilitate further innovation, the Center is also developing a social networking platform to bring leaders in the community development finance community together online. In addition to this networking component, the online platform will have decision-making tools such as an information market and a dynamic poll that will allow its participants to work collectively towards solving challenging community development problems. This peer collaboration could lead, for example, to industry-wide agreement on standardizing community development loan documents and other underwriting procedures, collecting data on performance, and structuring transactions.

Despite these and other innovations in the field, capital needs remain. Two interrelated problems—the absence of reliable loan data and an inability to accurately assess risk—continue to restrict growth in the field. Accordingly, the Center is actively encouraging loan data collection and identifying promising new approaches to risk assessment. In the most recent issue of the *Review*, data collection experts highlighted the improvements that have been made in recent years to measurement processes and tools. Community development loans are increasingly being monitored and risk patterns have begun to emerge. In light of the subprime mortgage crisis, capturing these patterns will be a crucial step towards making community development investments more attractive to traditional investors. While much work remains, the Center will continue to find ways to lower data collection costs, increase access to capital markets, broaden the appetite for community investments, and develop innovative ways to encourage industry-wide collaboration.

Please visit the Center for Community Development Investments website at: http://www.frbsf.org/cdinvestments for more information and to subscribe to the Center’s publications.

Streamlining the Mortgage Approval Process in Indian Country

With its roots in the Community Reinvestment Act, it is not surprising that one of the primary goals of the Community Development Department is to improve access to credit in underserved areas. And nowhere is this work more evident than in the Department's efforts to expand mortgage lending on tribal reservations. Over the past 10 years, the Department has emerged as a leader in working with lenders and tribes to overcome credit barriers in Native Communities. Craig Nolte, the Department's regional manager for Alaska, Hawaii, Idaho, Oregon and Washington, has been leading this initiative and meeting with tribal officials located in the remote corners of our District in order to help tribal members obtain homeownership.

Remoteness is just one of the barriers to lending on reservations. The high rates of poverty and lack of economic development in many Native Communities certainly affect the ability of tribal members to become homeowners. But as the CDFI Fund's *Native American Lending Study* documented, the sovereign status of Indian Tribes adds on additional constraints that are unique to lending on reservations. First, lenders are often hesitant to lend on tribal lands because they are not subject to state and federal laws. As a result, lenders seeking to act on their leasehold collateral must work with the tribal judiciaries for the administration of foreclosure, eviction, and priority of lien procedures.[1] Second, the trust status of many tribal lands further complicates the home-buying process. Land held in trust cannot be sold or encumbered by a lien unless first approved by the Bureau of Indian Affairs (BIA). In addition, fractionated land–a circumstance in which a given parcel of land is owned by multiple people due to the system by which land is passed intergenerationally–in some tribal areas requires that the multiple owners must all agree on its use before the land can be leased, sold, or developed. As a result of these barriers, Native Americans have the lowest effective home ownership rate of any racial group.[2]

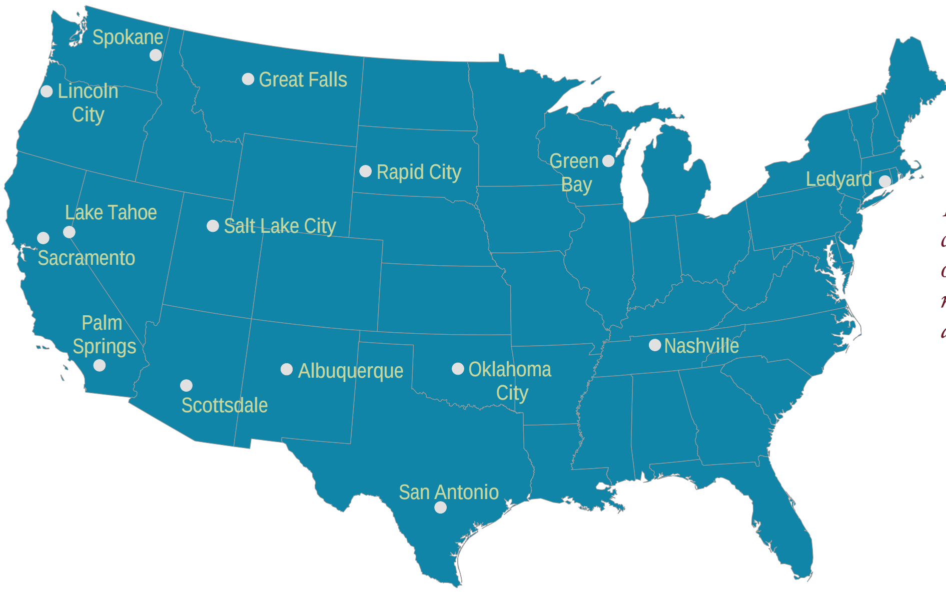
One of the key aspects of the Department's efforts has been to promote initiatives that are designed to address these unique barriers. Craig has been working with tribes to improve their legal codes so that lenders feel confident that they have a clear legal recourse for the loans that they make. In addition, Craig held a series of workshops to raise awareness of the Department of Housing and Urban Development's (HUD) Section 184 Indian Home Loan Guarantee Program, which reduces the credit and collateral risk associated with lending on trust land. The Section 184 mortgage product provides lenders with a 100 percent guarantee for approved loans to Native Americans–in the event of non-payment on the loan, the mortgage holder can request that HUD pay the full amount of the mortgage note.[3] HUD then works with the tribal council to transfer the leasehold mortgage to another tribal member or to the tribal housing authority or other governing body.

"After listening carefully to tribal members and lenders during our initial meetings, it became clear how incredibly complicated the process for obtaining a mortgage really is. Very few people were aware of all the steps and procedures."

Despite the presence of the Section 184 program, lending in Native Communities has remained well below national averages. In addition, a recent study conducted by researchers at the San Francisco Fed found that although the Section 184 program improved the approval rate for mortgages on tribal reservations, the program alone wasn't enough to overcome other barriers. Key among these barriers is the institutional complexity associated with the mortgage approval process on Indian lands. "After listening carefully to tribal members and lenders during our initial meetings, it became clear how incredibly complicated the process for obtaining a mortgage really is. Very few people were aware of all the steps and procedures," Craig explains. "In addition, the lack of communication between the various groups involved in mortgage approval, from the borrower to the lender to the tribal council and BIA, has been adding to the difficulties of obtaining a mortgage on tribal land."

With an eye toward developing a solution to these problems, Craig launched a system-wide effort in partnership with HUD, USDA Rural Development, and the Bureau of Indian Affairs, and Stewart Title Guaranty Company to hold a series of workshops: Streamlining the Mortgage Approval Process in Indian Country. In total, 15 workshops were held across the country, bringing together a wide range of stakeholders: tribal officials, lenders, nonprofit organizations, title

Figure 1. *Streamlining the Mortgage Approval Process in Indian Country: Workshops Nationwide*



15 workshops were held across the country, bringing together a wide range of stakeholders: tribal officials, lenders, nonprofit organizations, title companies, and government officials.

companies, and government officials. (See Figure 1) The purpose of each workshop was to have a frank discussion about the long and frequently confusing mortgage process tribal members must endure and to identify both short-term and long-term strategies for improving the process.

While the issues raised in the workshops varied somewhat by region, a few common concerns emerged. In particular, participants expressed the need to improve BIA communications, both internally and externally, and to move towards standardized documentation and processes among the BIA field offices. Perhaps the biggest concern raised was that it takes too long to receive Title Status Report (TSR) certification. Given its responsibility to manage trust land, the BIA must verify the parcel's legal status before granting the rights for a leasehold mortgage. Often, it can take several months to a year to obtain a TSR. Because mortgage applications are only good for 30 days, a delayed TSR means that a new application must be completed, and changes in interest rates or other mortgage and real estate market fluctuations can disadvantage the potential homebuyer.

Tribes can also do more to streamline the mortgage approval process. Tribes often have their own compliance requirements and processes, and do not always communicate those efficiently to tribal members wanting to become homeowners. Many tribes lack a "homeownership coordinator"–a person who could help borrowers navigate the process–and there is a continued need for additional homeownership counseling, financial education, and asset building opportunities to help tribal members get ready to become homeowners. Tribal members are expected to plot their own course through the very complex home buying process, from seeking land and acquiring a lease to completion of the mortgage. Other challenges discussed included the difficulty of appraising the value of land on reservations, the lack of lenders interested in offering the Section 184 product, and the lack of public infrastructure such as electricity and water.

Craig notes that the value of the workshops was that all the stakeholders gained a better appreciation of the challenges within each of the organizations. "I think the workshops helped people realize that everyone is responsible for contributing to the delays, which made it the group's responsibility to come up with solutions," he said. "We shifted the conversation away from blame towards constructive ideas." The workshops identified a number of ideas for streamlining the mortgage approval process. For tribes, a short-term fix might be to provide a checklist of tribal and BIA requirements to potential homebuyers, which would help to ensure that all the paperwork and processes are followed correctly. Regional BIA offices also came up with short-term strategies to improve communications with nearby tribes, and acknowledged the need to streamline procedures and policies at the national level as well.

Craig and the other regional managers in Community Development will work with the BIA and the tribes to move forward on these and other recommendations. "We're not going to fix this overnight," says Craig. "But the workshops were an important first step towards developing solutions to the problem." Craig is currently looking for individuals to join "Regional Streamlining Teams" that would help implement on the solutions discussed during the workshops. These teams are being formed across the country to benefit all members, not just those located in the 12th District–please contact Craig directly if you are interested in joining. CI

Joining Forces

Banker Collaboratives Seek Greater Community Development Impact

Collaboration among government agencies, nonprofit organizations, and local residents has nearly become standard practice within the community development field. How else would it be possible to mobilize the resources and knowledge needed to tackle the multifaceted problems of poverty and disinvestment? Collaboration among private firms, however–and especially among competitors–is much less common. Yet this is precisely what many banks, particularly in the area of community development, are doing.

As research increasingly demonstrates that community development requires the strategic deployment of significant resources, banks are realizing that by working together, their CRA activities can have a bigger impact. "It's too big a task for any one bank to do on its own," says Nancy Hamilton, vice president for community development at Wells Fargo in Nevada and a member of the Nevada Bankers Collaborative. "Through collaborating and sharing our collective experiences we can do an even better job of making a difference in the lives of low income families in our community."

To facilitate the establishment of formal bank collaboratives, the Community Development Department has been working in a number of states to provide convening support and technical assistance on how collaboratives can be structured and what activities they can undertake. Jan Bontrager, the regional manager for Arizona, Utah and Nevada, has been supporting the work of existing and emerging bank collaboratives within her region. "It's one of the best parts of my job," says Jan. "Establishing a collaborative is far from easy–a lot goes into figuring out decision-making processes, the emphasis of a collaborative's work, and what each bank can or will contribute. But when the pieces finally come together, it's inspiring."

The Nevada Bankers Collaborative, established in late 2002, has successfully launched an IDA program as well as an initiative to support nonprofit capacity building in Nevada. The collaborative structure has already led to tangible benefits for participating banks. For example, by being part of the collaborative, small banks in Nevada can contribute modest amounts of money to the IDA program, yet still be involved in a program that is of large enough scale to have an impact. The Nevada collaborative also provides an investment vehicle for the limited purpose banks that would not otherwise be involved in managing the accounts. Of significance is that the collaborative achieves economies of scale in administering funds, can coordinate fundraising efforts, and serves as a centralized source of technical expertise for community groups. Now, the collaborative is exploring how it can expand its efforts by collectively investing in and supporting neighborhood revitalization efforts in Las Vegas.

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In Arizona, Jan helped to organize introductory meetings throughout 2007 with a group of CRA officers from around the state. These exploratory convenings led to the formation of the Arizona Community Reinvestment Collaborative (ACRC), due to be introduced by taskforce members in early 2008 to other bankers, community leaders and nonprofit organizations. Barbara Boone, senior vice president at Alliance Bank of Arizona, said that the idea for ACRC came out of a desire to meet the needs of local nonprofits. "We kept hearing from nonprofits that they need more general operating funds, help with developing marketing strategies, and technical assistance. No one bank has the resources–either investment dollars or the time for services–to meet all those needs. But together we can make a difference and support community development in Arizona." The mission of ACRC will be to support the development and stabilization of affordable housing in Arizona. In this regard, the steering committee plans to work closely with the AZ Foreclosure Prevention Taskforce and raise funds to support homeownership counselors working with distressed borrowers. The collaborative also plans to host meetings for nonprofits to network and share best practices with each other.

Overall, collaborative structures can boost the ability of banks to contribute to sustainable and holistic community development efforts. As Boone noted, "By coming together, we can learn from each other and draw on each other's strengths and resources. Our hope is that by working together, we'll be more likely to have a large and long-lasting impact on the community." CI

From Mattress Money to Checking Accounts

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Streamlining the Mortgage Approval Process in Indian Country

1. As sovereign governments, tribes have the right to form their own government; the power to make and enforce both civil and criminal laws; the power to tax; the power to establish membership; the right to license, zone and regulate activities; the power to engage in commercial activity; and the power to exclude persons (Indian and non-Indian) from tribal territories.
2. See Listoken et.al (2004). The effective homeownership rate is calculated to reflect the factors that are usually associated with homeownership tenure in the United States: many owned units on Reservations are Mutual Help (which is a rent to own program and is not market based, and 'owners' cannot sell their units). The effective homeownership rate also excludes units that don't have electricity, plumbing or a kitchen.
3. The terms of the mortgage product are also beneficial to borrowers. The downpayment requirement is low: 1.25% to 2.25% depending on the appraised value of the home. In addition, borrowers need not take out private mortgage insurance (borrowers pay a 1% guarantee fee at closing), and need only to demonstrate a 41% debt to gross income ratio which can be exceeded with compensating factors. Section 184 loans can also be sold to Fannie Mae and Freddie Mac in the secondary market. While initially the program was targeted primarily to on-reservation lending, the Section 184 program was expanded in 2002 to apply more broadly to all tribal areas.

Foreclosure Prevention in the 12th District
The Role of Community Development

1. For example, cities such as Chicago and Minneapolis were experiencing high levels of foreclosure well before the current national increase in foreclosure rates.
2. Mark Doms, Frederick Furlong, and John Krainer, "Subprime Mortgage Delinquency Rates" (Working Paper 2007-33, Federal Reserve Bank of San Francisco, 2007).
3. Ben S. Bernanke, "Fostering Sustainable Homeownership," remarks presented by Federal Reserve Chairman Ben S. Bernanke at the National Community Reinvestment Coalition Annual Meeting, Washington, D.C., March 14, 2008.
4. Yuliya Demyanyk and Otto van Hemert, "Understanding the Subprime Mortgage Crisis" (Federal Reserve Bank of St. Louis, February 4, 2008).
5. Kristopher Gerardi, Adam Hale Shapiro, and Paul S. Willen, "Subprime Outcomes: Risky Mortgages, Homeownership Experiences, and Foreclosures" (Working Paper 07-15, Federal Reserve Bank of Boston, 2007).
6. Ben S. Bernanke, "Reducing Preventable Mortgage Foreclosures," remarks presented by Federal Reserve Chairman Ben S. Bernanke at the Independent Community Bankers of America Annual Convention, Orlando, Florida, March 4, 2008.
7. See, for example, William C. Apgar, and Mark Duda, C*ollateral Damage: The Municipal Impact of Today's Mortgage Foreclosure Boom* (Homeownership Preservation Foundation, Minneapolis, MN, 2005) and Ira Goldstein and Richard Voith, "One Industry's Risk is Another Community's Loss: The Impact of Clustered Mortgage Foreclosures on Neighborhood Property Values in Philadelphia," paper presented at the Federal Reserve Bank of Philadelphia, Reinventing Older Communities, April 2006.
8. See, for example, Dan Immergluck and Geoff Smith, "The Impact of Single-family Mortgage Foreclosures on Neighborhood Crime," *Housing Studies* 21, no. 6 (2006): 851-866. Dan Immergluck and Geoff Smith, "The External Costs of Foreclosure: The Impact of Single-Family Mortgage Foreclosures on Property Values," *Housing Policy Debate* 17, no. 1 (2006): 57-79. Vicki Been, Solomon Greene and Jenny Schuetz, "Spillover Effects of Foreclosures on Property Values in New York," paper presented at the New York City Subprime Lending and Foreclosure Summit, December 12, 2007.
9. Some promising examples of programs to address vacancies already exist. For example, the Neighborhood Housing Services Redevelopment Corporation in Chicago has acquired hundreds of abandoned properties from such sources as the Department of Housing and Urban Development, the City of Chicago, REO properties, and private owners. The properties are then rehabilitated and sold to owner-occupants.
10. This assumes responsible lending and that homeownership is sustainable. Research has shown that low-income homeowners build more wealth than low-income renters, both through accumulated equity in the home as well as a greater propensity to save. See Edward M. Gramlich, S*ubprime Mortgages: America's Latest Boom and Bust* (Washington, D.C., The Urban Institute, 2007), pp. 70 – 77 for an analysis of the 2004 data from the Survey of Consumer Finances on this topic.

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