FEDERAL RESERVE SYSTEM CONFERENCE ON SUSTAINABLE COMMUNITY DEVELOPMENT

SESSION ON "HOUSING AND NEIGHBORHOOD DEVELOPMENT"

Discussion by

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The papers I have been asked to discuss speak to critical issues of community development, mortgage mitigation, and the value of external factors that may affect first-time homebuyers. I am delighted to be a respondent on the papers for this session, all of which focused upon critical issues of housing and neighborhood development. Each paper answers some important questions and suggests areas for further research. The panelists have contributed to our enlightenment and I want to thank each of the authors for their work.

The first paper, by John Metzger *et al*, "Organizational Capacity and Housing Production: A Study of Nonprofit Organizations in Michigan," looks at how to support nonprofits whose mission is to produce affordable housing. First let me give a definition for my purposes: Nonprofits, as described in this paper, are sometimes referred to as community development corporations (CDCs). Although CDCs often have a broader mission than housing, this paper focuses on their housing mission and I will focus my comments there also. The study attempts to formulate a valid way of explaining and measuring CDCs' capacity to produce housing in five regions of the State of Michigan. The survey instrument generated findings that built upon the earlier work of Glickman and Servon, which created a framework for funders, practitioners, and policymakers to define CDCs' competence to perform their mission.[1] It is important to note that too little research has been done on CDCs' capability. The Glickman and

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[1] Glickman, Norman J. and Lisa J. Servon. 1998. " More than Brick and Sticks: Five Components of Community Development Corporation Capacity." *Housing Policy Debate* 9: 497–539.

Servon study is important because it provides a framework for looking at CDCs' wherewithal to achieve complex housing functions. Metzger *et al* use their study as a lens to look at CDCs.

With that said, I support the authors' argument that "[w]ithout diminishing the positive impact that nonprofit housing development groups have had in their communities, the present findings offer little promise that the nonprofit sector alone will resolve the affordable housing crisis." The accomplishments of CDCs continue to be overshadowed by market forces, demographic, labor, and societal changes, and these forces are what we should focus our national attention upon.

If we were to have that discussion, we would say that affordable housing isn't very important to the nation.[2] Americans have severe housing needs in both rural and urban communities, yet our national leader really doesn't speak to them. Private investment and development sectors have token involvement in affordable housing production.[3] CDCs, by default, have tried to fill the affordable housing breach left by the private investment and development sector's lack of participation in affordable housing. But while the study advances our understanding of CDCs, the question that we now must ask is, can CDCs solve the nation's affordability crisis? Does anyone believe that the State of Michigan's CDCs can close the affordable housing gap in the state, let alone solve the problem of affordable housing as a social condition?

CDCs typically have operated in undeveloped markets that the private investment and development sectors have ignored. The lack of competitive markets results in inefficiency and

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[2]Doing more for affordable housing, it seems, is not an important issue in Washington these days, a fact made evident by, among other things, the Administration's FY 2004 budget, which closes down HOPE VI, and the Administration's refusal to protect the low-income housing tax credit from the devastation that would have been brought on it if the Administration's dividend tax exemption had been enacted as proposed. See Urban Land Institute, *Multifamily Trends*, Summer 2003: Housing

[3] The rare exception is the low income tax credit, created by the Tax Reform Act of 1986.

higher costs and, many times, in marginal production quality. I am not suggesting that CDCs set up this situation; in fact, CDCs are the fall guys. Any analysis of CDC capabilities must be made in the context of answering the broader question, how do we end affordable housing as a social condition for many Americans?[4]

The second paper, Christian A.L. Hilber's "Neighborhood Externality Risk and the Homeownership Status of Properties," looks at a set of measurable factors that explain why homeownership rates are so low in many inner-city neighborhoods. Homeownership is an important part of the American identity. The 2002 report of the Joint Center for Housing Studies of Harvard University noted that growth in homeownership among low- and moderate-income families, minorities, and immigrants in the 1990s was one of the few bright lights in the persistent disparities in income and wealth in the U.S. democracy. Home equity is broadly distributed across all income groups; homeownership has become the last home for economic equality. Christian Hilber's paper does a good job of describing and quantifying the risks that homeowners and prospective homeowners try to avoid.

Who would guess that junk, litter, street noise, and crime would play a significant role in rates of homeownership of inner-city neighborhoods? This work should be more prominent in the public policy dialogue on what cities can do to reduce the wide disparity in rates of homeownership between cities and the surrounding suburbs. This study strongly suggests that the traditional amenities (such as trash pick-up, vacant lot litter campaigns, and public civility) that are lacking in inner cities should be rethought. Instead of focusing so heavily upon mortgage financing and limited housing grants, cities should refocus their efforts on low-cost ways to improve the appearance of older neighborhoods.

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[4] John McIlwain, "Housing Now: Affordable Housing in the United States Is in a State of Crisis." Urban Land Institute, January 2003.

In 1997, the Wisconsin Housing and Economic Development Authority (WHEDA) launched a neighborhood revitalization plan centered on increasing homeownership for a neighborhood of 40 square blocks in the City of Milwaukee. Lindsay Heights was a subdivision development, without traditional subdivision tracts, based upon new homes constructed on city-owned vacant lots. Milwaukee, like many older cities, had thousands of unkempt parcels that together represented an untapped resource. Hilber's work confirmed what WHEDA learned the hard way: New homes, with subsidy, couldn't overcome the prospective buyer's anxiety about drug houses, abandoned cars, trash, and litter on countless vacant lots. WHEDA's multimillion-dollar investment was at risk until the agency shifted direction.

WHEDA's buyers told them that they liked the new homes and the location of the neighborhood, but couldn't overcome their concern about the external factors described in the paper. WHEDA bolstered its initial investment by:

- Supporting block clubs' efforts to eliminate abandoned cars from vacant lots and streets
- Organizing regular clean-up campaigns and pushing the city to make it easier for residents to do clean-ups for themselves
- Aggressive strategy to eliminate vacant lots through acquiring them in mass from the City of Milwaukee and quickly turning them over to buyers in targeted and clustered sub-neighborhoods
- Resident-friendly paint- and fix-up programs that provided a small grant to do a range of sweat equity to small contracting jobs on every exterior in targeted sub-neighborhoods
- Backing residents in pressuring the police to enforce civility laws

- Realizing that although buyers may have had lower incomes, they weren't stupid consumers and didn't want grants at the expense of tolerating the negative external factors prevalent in Lindsay Heights

Within a year, the buyers began to buy in increasing numbers as crime, trash and littered vacant lots declined. WHEDA didn't have to solve all the problems around the externalities noted, but Milwaukee had to significantly reduce the conditions in order to give consumers confidence that the largest investment in their life had a reasonable chance to be successful. The result of reducing negative externalities marked an increase in rates of homeownership at the census tract level.

The third paper, "Mortgage Default and Default Resolution: Their Impact on Communities," looked at the FHA's efforts to preserve existing homeowners whose loss of wages resulted in the possible loss of their property. This important work examines the results of the FHA's loss-mitigation program, established in late 1996 to reduce foreclosures on HUD mortgages, particularly for low- and moderate-income buyers. Not only does foreclosure have a micro effect on the borrower and their family, but it can also have macro effects on the neighborhood where the property is located. Capone's research notes that by 1996 Freddie, the VA, Fannie, and the FHA had established official loss-mitigation programs. It is a shame that it took so long for the mortgage industry to come around. I am not surprised by the results of this research:

- Many defaulted borrowers have short-term financial difficulties that don't jeopardize their long-term abilities to meet their mortgage obligation
- Working with the borrower saves the mortgage at a fraction of the cost of foreclosure
- Timing saves money, reaching out to the borrower earlier than the 90-day period to cure could create a winnable solution for all parties

- In a major economic downturn that results in high unemployment and depressed property values, avoiding foreclosure might still mean measurable savings

I would be remiss if I didn't mention the role played by Gale Cincotta, a working-class housewife from Chicago, who had to prod HUD and the private mortgage market to reconsider their mortgage mitigation practices. She was sometimes known as "The CRA Lady" because her work in lobbying for the Community Reinvestment Act led some of the early protests to get HUD to implement a loss-mitigation program. She wasn't a lender, insurer, or investor; she simply saw the result of the backward approach the lending industry took with borrowers and, ultimately, with the neighborhoods that were hurt by the industry's practices.

Capone's results remind us of how we got loss mitigation in the first place. Ms. Cincotta believed her rather radical actions to get the mortgage industry's attention were more than justified. As she said in 1982, "They say we are not nice when we protest and demonstrate at people's homes and offices. But bad housing isn't nice." During the "Reclaim America" campaign, National People's Action, the coalition she led, virtually shut down Wall Street.

Ms. Cincotta's 30-year career in community organizing began in the late 1960s when she became president of the Organization for a Better Austin (the West Side Chicago neighborhood where she grew up). She was one of the first local community organizers to look beyond the geographical boundaries of her neighborhood. She saw that the multitude of foreclosures occurring across America's neighborhoods was directly tied to the re-industrialization that was gutting virtually every American city. She built a national coalition around abuses in the Federal Housing Administration's housing programs. And when a HUD official told her in 1972 that her demands for foreclosure reform were beyond their power to grant, she and others organized a national housing conference that drew thousands of White ethnic, African-American, and Hispanic grassroots activists to Chicago. They then took their case to the U.S. Congress.

Ms. Cincotta spearheaded activists' efforts to oppose redlining and prevent foreclosures. Much of what the mortgage industry has accomplished with default resolution, "would never have become a reality but for the research and local organizing activity undertaken by her and the organization she led, National People's Action (NPA)."

Before she passed in 2001, at the age of 72, she and the NPA negotiated the development and implementation of Credit Watch, which gives HUD the power to deny participation in the FHA mortgage insurance program to lenders with excessive foreclosure rates. Prior to the creation of the program, the NPA maintained more complete foreclosure data than the government!

Ms. Cincotta posed a simple question: Should U.S. workers who have always played by the golden rule see their American dream become a nightmare? The question that Capone's research poses to the mortgage industry today is this one: Is America undergoing an extraordinary transformation from an industrial economy to a knowledge economy? Some economists have argued that the transformation process will mean major dislocation of traditional jobs overseas; extended periods where wages will be flat; and localized high unemployment in regions or sectors of the economy. This transformation could take decades. U.S. workers/homeowners are the fulcrum of this change. Is the nation's mortgage industry prepared to respond to this transformation, on behalf of borrowers, by building on the successes of loss mitigation noted in this study?

The last paper, “The External Effects of Subsidized Housing Investment on Property Values,” contributes to a growing body of work that quantifies the benefits of public property investment. Many of the studies I am familiar with were initiated to combat NIMBY-ism around rehabilitating Section 8 housing, special needs housing, elderly housing, and low-income-tax-credit developments.

A research report by Professors Steve Malpezzi and Richard Green, “Low-Income Housing Tax Credit Housing Developments and Property Values,” June 14, 2002, found no evidence that such developments have a big impact on surrounding property values. The study looked at every home in the Milwaukee metropolitan area that sold twice between 1995 and March 2001, including homes in Waukesha, Washington, Ozaukee, and Milwaukee counties. It also looked at homes in Madison that sold twice between 1990 and March 2001.

The index they created looked at appreciation rates and the distance to the nearest affordable housing development. The study looked at housing that qualified for Section 42 federal tax credits. Section 42 offers a 10-year income tax break in return for reserving a bank of “affordable” units for modest-income households. About 26,000 apartments have been built in Wisconsin using the program. Green said the data indicated that Milwaukee County property values appreciated less rapidly the closer the homes were to Section 42 housing, but that "there is a pretty strong pattern that if these sorts of developments had an influence, it is very small."

Ingrid Gould Ellen *et al* goes beyond much of the research done to date. They advance the understanding of the external factors influencing housing investment by analyzing the impact of 66,000 new, affordable housing units produced in New York City on 293,000 sales of homes, condominiums, and apartments buildings. With access to this extraordinary real estate database, they could analyze the impact of subsidized housing over a 13-year period, as well as price appreciation by proximity, neighborhood, size, and type of housing. Their work suggests that public investment in affordable housing achieves multiple benefits for low-income families who need housing, the varying neighborhoods where the property investment is sited, and the communities that make the investment.

Thank you.