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Transitioning Youth from Foster Care to Successful Adulthood

LouisianaSpeaks

Don't Bet the House

Is Bankruptcy Reform Legislation Working?

Predatory Lending and the Military

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Complexities of Community Development Finance

In theory, the concept "community development finance" suggests a broad set of activities that usually includes innovative, flexible financial products designed to channel investments into disadvantaged communities where markets don't function well on their own.

How the concept plays out in practice varies widely depending on the needs of the community and the resources available. Some practitioners view community development finance through a lens of affordable housing, while others think more in terms of small business enterprise development. But regardless of the perspective, development and finance organizations must join forces to address risks and challenges.

One of the most important things I've learned in my years of community development experience is that the risks and challenges differ—sometimes greatly—even among similar deals. It is therefore extremely important to understand the potential problems and benefits of a particular project when approaching finance. A combination of financing products that complement each other helps to mitigate the level of risk and improve the long term viability of each project.

Renewing brownfield sites seems to be one of the most challenging community development activities. According to the Environmental Protection Agency (EPA), a brownfield is "real property, the expansion, redevelopment, or reuse of which may be complicated by the presence or potential presence of a hazardous substance, pollutant, or contaminant." The U.S. has approximately 450,000 brownfields, many of which are located in or near industrial parks.

The large number of sites and the potential for redevelopment present financial institutions with great opportunities. But banks must be acutely aware of the immediate and inherent risks associated with these types of deals. In addition to applying standard bank underwriting principles such as analysis of cash flow, debt service coverage and maximum loan-to-value guidelines, lenders must also address nontraditional factors to mitigate the level of risk of each brownfield project.

When using different layers of financing, it is important to understand the guidelines of each product including terms, conditions and limitations of guarantee. It is also critical to determine the level and class of contaminants found in a specific site through site and/or soil sample assessments prior to consummating a deal. Furthermore, lenders should mitigate their liability by complying with specific criteria that protect them from the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA).

The EPA has taken a proactive role to inform lenders of the steps required to establish exemption from CERCLA liability. The Federal Reserve Bank of Atlanta recently held a forum with the EPA and industry professionals in our New Orleans Branch to help educate the local banking community. Other forums of this type are planned throughout the country.

The Atlanta Fed encourages financial institutions to participate in such training programs to gain a deeper understanding of both the opportunities and the complexities associated with unique community development finance deals. This type of training will enable banks to set up strong programs that ensure proper due diligence in assessing and mitigating lender risk.

Juan

Juan C. Sanchez
Community Affairs Officer

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Transitioning Youth from Foster Care to Successful Adulthood

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FOSTER YOUTH AGING OUT OF THE SYSTEM HAVE BECOME ONE OF THE COUNTRY'S MOST VULNERABLE POPULATIONS.

There are currently about 500,000 children in foster care across the country. Each year, approximately 20,000 youth, deemed legal adults at age 18, "age out" of the foster care system. While the number of children in the foster care system has been declining, the number of youth aging out of the system continues to increase.

Most young people at age 18 still rely on family and community support to help them transition into adulthood. Foster youth, however, have no permanent family or support network to assist them as they age out of the system, and only limited assistance is available from the states to support their transition to independence. Many of these young people have limited education, few basic skills and no role models or adult mentors.

The issue

Young people leaving foster care face many more challenges than their peers who come from supportive families. Research indicates that four years after leaving foster care, 46 percent of these youth have not finished high school, 25 percent have been homeless, 42 percent have become parents themselves and fewer than 20 percent are completely self-supporting[1].

Census data show that only 3 percent of young people who age out of the foster care system are likely to finish college, compared with 28 percent of the U.S. population. Young people leaving foster care disproportionately suffer from mental and other health problems and are more likely to be involved with criminal activities. These youth are often very isolated and face a future of living in poverty.

Barriers to economic success

Young people coming out of the foster care system face a number of barriers that limit their opportunities for economic success. First, they often have low educational attainment and no work experience, so their job opportunities are limited. Second, many of these youth do not have a driver's license, which again limits their job opportunities. Third, many youth do not have access to basic health care.

Fourth, they do not have the financial resources needed to secure housing. These young people do not have supportive adults who can co-sign on an apartment lease or help them with rent deposits, so housing is always a significant concern. Finally, these youth have no financial safety net, and many lack basic life and financial management skills. Overcoming these barriers and helping these young people achieve economic success is critical for stabilizing this very vulnerable population.

Resources for youth aging out of foster care

Government officials, foundations and researchers are increasingly recognizing the challenges that youth aging out of foster care face and the need for greater resources to prepare them for the adult world. The largest federally funded program to assist these young people is the John H. Chafee (Chafee) Foster Care Independence Program. Created in 1999, this program provides states with funding to create and expand programs to assist youth transitioning out of foster care, up to age 21. States are required to provide a 20 percent local match for the federal funds.

Chafee funds are flexible, and states can tailor programs to meet the specific needs of their foster youth population. States have developed a range of services including educational programs, training, employment assistance and financial support to help those leaving foster care to become healthy, self-sufficient adults. While these funds have helped states address some of the needs of youth aging out of the foster care system, the funding is not sufficient to provide the comprehensive assistance needed by these youth.

The Jim Casey Youth Opportunities Initiative (the "Initiative") is another significant resource to assist youth leaving the foster care system. This national program brings together people and resources to help youth

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make the connections they need to assist with education, employment, health care, housing and supportive relationships. The Initiative is currently working in 10 communities across the country including Atlanta, Nashville and Tampa (a co-investment site with the Eckerd Family Foundation). In all communities, the Initiative encourages youth engagement, and local coordinators to work in their communities to develop partnerships and resources to provide a safety net for those transitioning out of foster care.

The center piece of the Initiative is the Opportunity Passport™, which is designed to create new opportunities and financial resources for youth leaving foster care. The goal of the program is to help young people leaving foster care:

- to become financially literate,
- to gain experience using the mainstream banking system,
- to build assets for education, housing or other expenses, and
- to receive streamlined educational and vocational assistance.

"DOOR OPENERS" CONNECT YOUTH AGING OUT OF FOSTER CARE TO HOUSING, JOBS, MENTORS AND OTHER OPPORTUNITIES THAT WILL HELP THEM GAIN FINANCIAL INDEPENDENCE.

The program includes three components: (1) personal debit accounts for short-term expenses, (2) matched savings accounts or Individual Development Account (IDA) and (3) "door openers" or services that connect youth aging out of foster care to housing, jobs, mentors and other opportunities that will help them gain financial independence.

Young people between the ages of 14 and 23 are eligible to participate in the Opportunity Passport program if they are in the child welfare system on their 14th birthday and have successfully completed the required financial literacy training. About 2,000 youth are enrolled in the Opportunity Passport program nationwide, and together, they have saved almost $1.5 million through IDAs.

The structure of the matched savings accounts is different in each community in terms of the amount the youth can save, the amount of the local match and the assets that can be purchased. However, the most common asset goal for the youth is a car, followed by rent deposits, educational expenses and health care expenses. The number of youth reaching their savings goal nationwide is continuing to increase.

Fostering Success provides services to Nashville youth

Each year, the Tennessee Department of Children's Services estimates that 200 youth age out of the foster care system in Davidson County, and many end up incarcerated or homeless. The Fostering Success program launched in Nashville, Tenn., at Vanderbilt University in 2002 provides former foster care youth access to education, employment, transportation, housing and other opportunities they need to become successful adults. Jim Casey Youth Opportunities Initiative provided the initial funding for the program.

Fostering Success is a collaborative effort of many partners including Vanderbilt University, the Tennessee Department of Children's Services, United Way of Metropolitan Nashville and several other nonprofit agencies in Nashville. The collaborative also receives significant support from community and business leaders across the city who offer assistance and resources to support youth aging out of the foster care system.

This Middle Tennessee program serves youth facing barriers to economic success common among youth aging out of the foster care system nationwide. Initial surveys of former foster youth enrolled in Fostering Success indicated that 1 in 3 youth did not have a GED and the majority did not have access to transportation, which is critical for finding a job.

The Opportunity Passport, a central initiative of Fostering Success, is administered by Monroe Harding, a

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nonprofit agency in Nashville that has developed a one-stop shop for youth transitioning out of foster care. Currently more than 225 youth are enrolled in the Opportunity Passport, and 160 youth have met their savings goals and purchased assets worth $165,000. Opportunity Passport offers a 100 percent match for savings up to $1,000 each year for 3 years. The average match is $525. Most youth save for cars, housing, education and insurance. U.S. Bank has been a key supporter of this initiative in Nashville, hosting the IDA accounts for foster youth and providing those enrolled in the program with a personal bank account for their short term expenses.

The impact of Fostering Success has been significant for former foster care youth in Nashville. Through the Opportunity Passport, many have gained some financial stability. Follow-up surveys of participants in the program indicate that 53 percent of program participants are now living independently; 25 percent have finished high school or earned their GED; and 23 percent have completed some training or education after high school.[2] Clearly, the prospects for youth who participate in this initiative are improving.

The success of this initiative has turned it from a pilot project into a sustainable community collaborative. Currently, Fostering Success partners are exploring options to expand the initiative across the state within the next three years.

Conclusion

Young people aging out of the foster care system face many of the same barriers as other youth coming from impoverished families, but they lack the traditional family and community support to help them transition into adulthood. As a result, former foster care youth often face a very bleak future of unemployment, poverty and homelessness. Funding to assist these youth is limited, but there is growing recognition that helping them as they leave the foster care system will reduce the future cost to society. The Jim Casey Youth Opportunity Initiative illustrates the type of comprehensive strategy that is needed to engage community and business leaders in helping these youth transition out of foster care to become healthy, productive and financially self-sufficient adults. ♦

This article was written by Jessica LeVeen Farr, regional community development manager in the Atlanta Fed's Nashville Branch.

Endnotes

[1] Based on data from the U.S. Department of Health and Human Services and the Jim Casey Youth Opportunity Initiative.

[2] This data are all based on those who responded negatively to these questions initially; it is not based on everyone who is enrolled in the Opportunity Passport program. Thus, of those who were not living independently, 53 percent are now living independently and of those who had not finished high school/GED, 25 percent have now completed high school or earned their GED.

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Affordable Housing for Former Foster Youth

Finding affordable rental housing is a significant challenge for youth aging out of the foster care system. They face barriers such as the lack of savings for a security deposit, a poor or nonexistent credit history and the lack of a parent or guardian to co-sign a lease on an apartment.

In addition, many of these youth do not have steady employment so they can not afford to pay rent. Thus the chance of former foster youth ending up homeless for some period of time is high, and the need for permanent, affordable housing is critical to help these youth transition into adulthood.

Tennessee nonprofits address housing needs

Two nonprofits in Nashville partnered almost five years ago to develop a model to address the housing needs of foster youth aging out of the system. Woodbine Community Organization, a nonprofit housing developer, partnered with Monroe Harding, a nonprofit agency that works with foster youth in Nashville, to develop three homes with a total of 14 units of affordable rental housing specifically for this population. Each person will have a private bedroom and bathroom, and share common living space in the home. The first units became available in spring 2007. Woodbine Community Organization is the developer and owner of the house, and Monroe Harding is managing and leasing the units.

Tennessee nonprofits have worked for five years to meet housing needs for youth leaving foster care.

This is Nashville's first step toward providing safe, affordable housing for 18- to 23-year-olds emerging from foster care, many of whom have been a part of state custody for their entire lives. Young people who rent the units must meet certain criteria: they must have been in state custody previously and be at least 18 years old; their caseworkers must verify that they have basic skills to live on their own; and they must be in school or working.

The rent will vary based on the individual's income, but on average, monthly rent for each unit will range from $230 to $270, well below the market rent for a one-bedroom apartment in Nashville. As the youth increase their income, their rent will also increase.

Supportive services to ensure project's success

Monroe Harding will provide a staff member who oversees the homes, checks in with the youth at least once per day, verifies their employment and educational status on a regular basis and assists them with their independent living needs.

"The housing project opens doors for youth who have been in foster care and allows the teens to gain the tools and skills they need to succeed in life," says Patty Harman, President and CEO of Monroe Harding, Inc.

This venture is an example of the type of public/private partnership needed to develop quality housing that is also affordable for former foster youths with very limited income. Woodbine Community Organization, one of the largest nonprofit multi-family housing developers in Nashville, provided the development expertise and overall project management. The project received funding from the Federal Home Loan Bank of Cincinnati through PrimeTrust Bank, a community bank based in Bellevue, Tenn. Woodbine received the three lots used for development along with a HOME grant from the Metropolitan Development Housing Agency (MDHA). ♦

This article was written by Jessica LeVeen Farr, regional community development manager in the Atlanta Fed's Nashville Branch.

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Louisiana *Speaks*

IN SPITE OF THE CHAOS AND TRAGEDY PRODUCED BY HURRICANES KATRINA AND RITA IN THE SUMMER OF 2005, A FEW BRAVE VISIONARIES HAVE DARED TO LOOK BEYOND THE DESTRUCTION AND GRASP THE OPPORTUNITY TO BUILD A NEW AND IMPROVED LOUISIANA.

Bolstered by world-class planners Calthorpe & Associates, motivated by the drive of local partners like Elizabeth "Boo" Thomas, executive director of the Center for Planning Excellence, blessed with the assistance of the Louisiana Recovery Authority, infused with the investment of funding and human capital from several national and local foundations and think-tanks, this group embarked on a regional planning process that encompasses southern Louisiana from Lake Charles to St. Bernard parish.

One of the hallmarks of the initiative has been its unwavering and uncompromising commitment to secure and respect the opinions of its most important stakeholders—the residents of southern Louisiana. Over the last 18 months more than 27,000 citizens in 32 different states participated in South Louisiana's Regional Vision poll. This represents the largest and most inclusive regional planning outreach campaign ever conducted in the United States.

The Regional Plan was officially adopted in May 2007, and already the initiative has persuaded the Louisiana Legislature to act upon several key recommendations from the plan.

From tragedy to transformation

The Regional Plan grew out of the struggles of many who, like myself, had to put grief behind them to pursue the promise of the future. When the levees broke, I watched from my stairs as the water rose in my home soaking hardwood floors, rugs, furniture, my electrical system and equipment. The "City that Care Forgot" lay under water and burdened with troubles. That morning I lay in 90-degree heat in my upstairs bedroom and thought about the city's future—my future.

In spite of the initial shock, it dawned on me that this disaster might have created the bold opportunity we needed. As a community development professional I could see the potential for reinventing a healthier, safer

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city while preserving and promoting our unique culture and considerable assets. Apparently I wasn't the only one who was dreaming big.

Others were thinking broadly about what it would take to create and encourage healthy communities: smart growth; environmental protection; efficient, high-speed transportation systems; robust economic development that capitalizes on "cluster industries"; inclusive zoning that encourages safe, affordable workforce housing; public spaces that promote healthy living and human interaction; cradle-to-grave educational systems that encourage lifelong learning and meet the demands of a variety of employment sectors.

Top priority for inclusive planning

To accomplish their goal of creating an agenda that reflected the priorities of Southern Louisiana residents, regional planners turned to experts such as the New York-based nonprofit AmericaSpeaks. This organization had experience in reaching out to far-flung members of disaster-affected communities: in the wake of 9/11, it was responsible for guiding the conversation for the recovery in New York. AmericaSpeaks went to extraordinary lengths to get participation from all segments of the community, from the high-powered Wall Street banker to the homeless man temporarily relocated to New Jersey.

This nonprofit applied its expertise in outreach to spearhead a similar effort in Louisiana. The LouisianaSpeaks initiative included three stages of public participation: surveys, stakeholder workshops and public opinion polling. Each of the outreach efforts made use of all forms of media and technology to reach the public: Internet, printed media, e-mail blasts, radio, television and word-of-mouth were just a few of the methods used to publicize the project.

The group's initial goal was to get a sound understanding of the wants, concerns and awareness of Louisiana's residents and leaders. A random sample telephone survey in February 2006 reached 2,500 residents, and 100 of those surveyed participated in detailed interviews over the next six months. Several key themes emerged according to the report: "the importance of financial, storm and personal safety; a desire for greater prosperity; preservation of Louisiana's cultures; and the need for greater public participation in the planning processes."

Determining shared goals

Anyone working in the public arena knows that getting people from diverse backgrounds and perspectives to work towards a common vision can be daunting at best. But the LouisianaSpeaks team saw this as a unique and critical opportunity to craft a plan that would serve the region for the next 50 years. Almost a thousand people from all sectors of the region came together at locations in five major cities to share their creative solutions to the region's problems and, in many cases, put aside their personal biases for the benefit of the plan. During the full-day workshops, citizens crafted a "cohesive set of strategies for creating a safer, smarter, more prosperous Louisiana."

For a resident of New Orleans who is also a community development practitioner, the process, progression and results of LouisianaSpeaks were fascinating both to observe and participate in. For me this movement represented one of the most optimistic and meaningful symbols of the recovery.

Could it be that our residents really want high-speed, low-emissions public transit that connects Baton Rouge and New Orleans? Would they really be willing to give up their two-acre backyards in favor of more high-density, interactive development? Are we really eager to walk to our workplaces, grocery stores, schools and greet each other on streets built for people instead of cars? Could we agree on or at least support the kinds of industries we want to provide our livelihood over the next ten years? And even more daring: based on public input, could we actually hold our elected representatives accountable for putting our scarce resources where they make the most sense—for everyone? We were ready for one of the most important tests of democracy, the voting poll.

Citizens face complex decisions

The planning group managed to accomplish the almost-impossible goal of distilling down the hopes and dreams of thousands of citizens and leaders to five distinct areas of strategic direction. The survey asked

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respondents five basic yet critical questions (see sidebar). While it might seem easy on the surface to make these choices as individuals, these decisions, like human relationships themselves, involve repercussions that extend beyond the individual.

For example, traditionally the oil and gas sector has driven a large percentage of Louisiana's economy. But let's say you support your family by working offshore on an oil rig, and yet you enjoy the beauty and peace of fishing at dawn in the local marshes. Many believe that the oil and gas economy contributes to the shrinking of our wetlands. Is there a compromise solution that can serve both your economic and personal interests? Is it possible to attract new companies while simultaneously growing small businesses locally? Wouldn't this strategy strain resources and business incentives? How would we restructure our tax code to encourage small business development?

Although New Orleans alone hosts more than five universities, we continue to suffer from "brain drain" that draws our best and brightest to greener economic and professional opportunities. In the absence of local job development here, would strengthening our universities only lead to having our talent and energy cherry-picked by out-of-state companies?

Old patterns or new solutions?

What intrigues me the most are the choices we must make about how we want to grow and move forward as a region. Historically Louisiana citizens and elected officials have held onto very strong individual property rights. Even before the storms New Orleans was losing an average of four percent of its population every decade to the north shore of Lake Ponchartrain and emerging bedroom communities in surrounding areas. Baton Rouge-area residents were purchasing homes in the nearby towns like Gonzales and even sleepy Hammond was experiencing increased growth. Evacuees from Hurricane Katrina exacerbated the problems associated with housing, transportation and educational infrastructures.

Few high-density residential buildings exist in our major cities. Condos and warehouse/loft redevelopments were seen as appropriate housing primarily for the pioneering young, urban professionals, artists or retirees. Cars are required to get to work easily, to pick up the kids from school and to shop. Few of us are aware that this type of development is an increasingly expensive way to grow. Our quality of life, possibly even the length of our lifespan, is being compromised by spending more time in traffic, getting less exercise and less fresh air. In addition we face increased stress because of higher property taxes and gasoline costs related to sprawl. The best choice for moving forward might seem clear, but moving forward might be easier said than done.

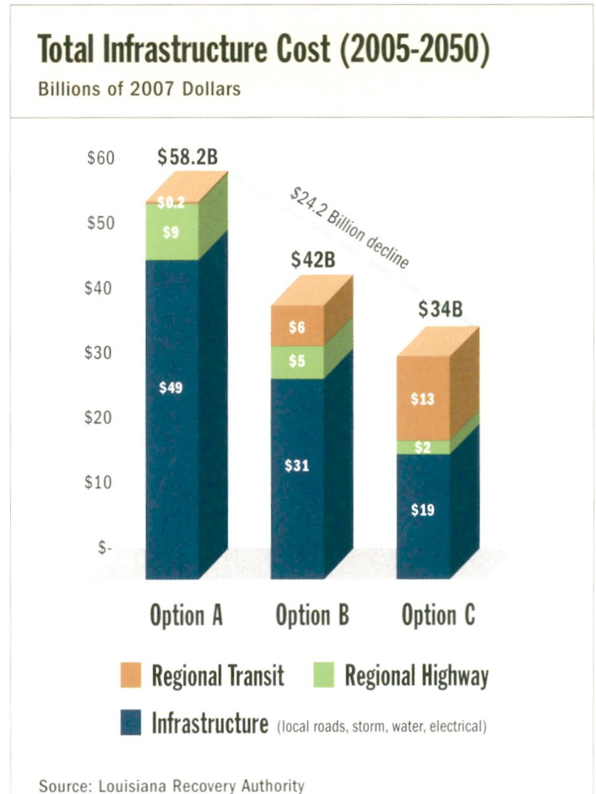
Weighing the costs of future approaches to growth

One of the most powerful statistics on the LouisianaSpeaks ballot were several analyses of the cost to

If we continue to grow as we are we can expect:

- To have over 445,000 new people living in a floodplain
- To log an average of 69 miles of traveling per household each day
- To pay over 60 percent more in fuel costs than if we lived in denser, closer communities.

And, as the graph below shows, we can expect to pay over $24 million more in public funds over the next 45 years to support infrastructure and roads.



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But if we agree on the third option, "focusing development on existing cities and towns," our housing modes would shift to more condominiums, apartments and townhouses, and more public funds would go to build light rail systems rather than roads.

Even though now only one out of every four families in American can afford to purchase their own home, most of our potential first-time homebuyers pursue the dream of a single-family, detached home with a front yard and porch of their own. I'm a professional who preaches the message of homeownership as one of the best asset-building strategies for low-wealth families. By channeling their desire for homeownership into a more affordable living situation such as a condo, would I be perpetuating the frustrations of renting?

I pondered these issues as I cast my own ballot over the Internet. In spite of my apprehensions about how this movement would translate into my own work, I found myself infused with a sense of hope and optimism for Louisiana's future.

More to come

In the next issue of *Partners* I'll discuss the resulting regional plan and how it fits with other plans and the 17 Targeted Neighborhood Zones adopted by the City of New Orleans' Office of Recovery Management. I'll also provide updates on key legislation that can affect the implementation of the plan and relay how leaders and citizens have reacted. And lastly, I'll share stories about how this has affected the work we do as community development professionals and rebuilding residents. To be sure, I'm looking forward to being a part of the regional vision that will be with me for the rest of my days here in New Orleans. As a professional and resident it's a journey and adventure that, eagerly and cautiously, I undertake. ♦

This article was written by Nancy Montoya, regional community development manager in the Atlanta Fed's New Orleans Branch.

Photo on page 7 by Marvin Nauman courtesy of FEMA.

LouisianaSpeaks Poll Questions

Below are the five questions posed to Louisiana residents in the LouisianaSpeaks Regional Vision poll:

1. What are your top priorities for economic development in Louisiana? (pick three)

- Pursuing new opportunities in traditional sectors
- Fostering knowledge-based businesses
- Expanding trade and shipping
- Attracting and retaining companies
- Nurturing entrepreneurs and small companies
- Expanding job-skills and vocational training
- Strengthening colleges and universities

2. Which values in the state's proposed plan are most important to you? (pick three)

- Community preservation
- Commercial fishing
- Navigation and ports
- Recreational hunting and fishing
- Oil and gas infrastructure
- Wildlife habitat and flyways

3. How important do you think funding and implementation of the state's proposed plan is to the recovery? (pick one)

- Very important
- Somewhat important
- Somewhat unimportant
- Not at all important
- Not sure/No opinion

4. How should we grow? (pick one)

- Keep building and developing as we are
- Modify development patterns
- Focus development on existing cities and towns

5. What is the right mix of property rights and community risk? (pick one)

- Emphasize property rights (i.e, no increased restrictions on how or where people build, shared risk increases)
- Balance property rights and community risk
- Emphasize reducing community risk (i.e., development prohibited in unprotected, flood-prone areas)

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Don't Bet the House

IT WAS JUST A FEW YEARS AGO THAT WE WARNED FRIENDS AND FAMILIES MEMBERS: "DON'T BET THE HOUSE" AND "DON'T MORTGAGE YOUR FUTURE."

In recent years, however, these risks have become badges of honor as we've bet the house and mortgaged the future. And now we are beginning to see the consequences.

Home mortgage foreclosures are at record levels, and we're not yet sure that we can see the bottom of the market downturn. Homeowners today are more vulnerable to losing their homes than at any point in the last 80 years—when our grandparents and great grandparents learned not to "bet the house." As a society we have failed to heed those words of advice.

Housing market undergoing correction in home values

The Joint Center for Housing Studies (JCHS) at Harvard has recently released its annual survey of housing—*The State of the Nation's Housing 2007*—and the data are not encouraging. It paints a powerful picture not just of the current excess inventories of houses but of the reasons why homeownership is more precarious today than in decades. This brief 30-page report should be required reading for all homeowners and prospective homebuyers, for all mortgage brokers and mortgage bankers, and especially for governmental agencies and elected officials who have responsibility for housing America's families.

The JCHS Report confirms that we have done things in recent years to undercut the stability of the dream of safe and decent housing for all. The decade of the 90s and the first half of this decade witnessed tremendous annual appreciation in home values and simultaneous record high rates of homeownership. The housing market is now in a "correction" phase which is painful to many. Half of the metropolitan areas in the United States had a real dollar decline in median home prices between the fourth quarter of 2005 and the fourth quarter of 2006. The national homeownership rate declined in 2006, and mortgage delinquencies and foreclosures rose sharply. Even more troubling, however, are the shifts which have occurred in the fundamental conceptions of homeownership, putting at even greater risk the long-term consequences to the American dream. We have unfortunately forgotten the advice of our grandparents and great grandparents in five ways.

Uninformed choices putting American dream at risk

First, the terms of residential finance are so complex and variable that homeowners rarely know what they are doing. Precious few really understand a graduated payment adjustable rate mortgage with negative amortization. In 2006, almost 12 percent of all loan originations involved mortgages with deferred payments of principal and interest, pushing away only for a brief time the pending crisis.

Second, we've gone away from the classic fixed-rate mortgage which fixes the amount of the monthly payments for the entire life of the loan, and in which each payment

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involves a small but definite buildup of equity, of savings. Instead, we rejoice in the lowest possible monthly payments found in interest-only loans or teaser rates, blindly ignoring tomorrow. Though ARMs have been a significant part of the residential mortgage market for 25 years, the reliance on traditional ARMs has declined in the face of interest-only loans and payment option loans, which counted for almost one-third of all loan originations in 2006.

Third, we seek to borrow the largest possible amount for the biggest possible house, making the lowest down payment possible. With little or no down payment and little or no equity buildup, the only "cushion" that the homeowner has when tough times come lies in the hope for constantly increasing home values; but that is precisely what stops happening in tough times. The JCHS Report points out that 13 percent of recent homebuyers (in 2003 and 2004) already have "negative equity" in their homes as the mortgage debt exceeded the value of the home. With declining home values, higher interest rates coming into effect and deferred principal payments, the numbers carrying negative equity will likely increase in the next 24 months.

Fourth, we've taken the beauty and simplicity of ATM cash and applied it to our homes. Between 2002 and 2006, consumer debt increased by 21 percent, but overall mortgage debt increased by 62 percent. Whenever we desire or need cash we quickly and simply refinance (on terms we don't understand), leaving the cupboard bare for those tough times. Over 85 percent of all mortgage refinancings in 2006 involved cashing out equity, and the aggregate amount of home equity cashed out last year was $352 billion—more than 10 times the amount cashed out just six years earlier in 2000. When home prices stop rising this option quickly disappears.

Fifth and finally, we've let down our legal and social guards against the dangers of short- term gains which lead to long-term losses. We've completely abandoned all substantive legal constraints on residential mortgage borrowing in the name of freedom and instant satisfaction, leaving the foreclosed-upon family with little freedom and no satisfaction. For the past 30 years public policies have responded to market failures and market abuses in residential finance by increasing mandatory disclosures and by preempting state and local attempts to create substantive protections. If all borrowers had advanced degrees in real estate finance then disclosures might work to soften the problems. But that's not the way it is.

Low-income families less able to bear risk

Some can afford to take risks in balancing their incomes, their expenditures and their mortgage debt. It is those who have less who tend to get hurt more. The cost of housing has continued to rise while incomes have not, at least not for families in the lower half of the distribution of family income in the U.S. Half of all low-income families are spending more than 50 percent of their income on housing—the definition of severely cost-burdened, and this is at a time when federal assistance for affordable housing is not even keeping up with inflation in real dollar terms.

As a society we all bear responsibility. The lending industry needs to regain its sanity in loan underwriting criteria and in designing loan products. Our political leaders need to recover their courage in setting legal limits designed to protect a future for us all. As borrowers we need to reclaim the knowledge and understanding of the relationship between our income, the payments we might have to make and the reserves we have for those tough times.

For current and future homeowners there is still time to protect themselves even if the lending industry and political leaders close their eyes and point their fingers. Consumers can and must take advantage of intensive financial literacy and homebuyer education programs. Existing homeowners now confronting impossible mortgage obligations can and should seek help immediately. The recently created consumer foreclosure prevention program (1-888-995-HOPE) is a powerful first step, but it is only a first step. A second step is for everyone to read and then read again *The State of the Nation's Housing 2007*.

Don't bet the house. Don't mortgage your future. ♦

These views are presented by Frank S. Alexander, professor of law at Emory University School of Law, an expert in Georgia real estate finance and foreclosure law.

The State of the Nation's Housing 2007 is available online at www.jchs.harvard.edu/publications/markets/son2007/index.htm

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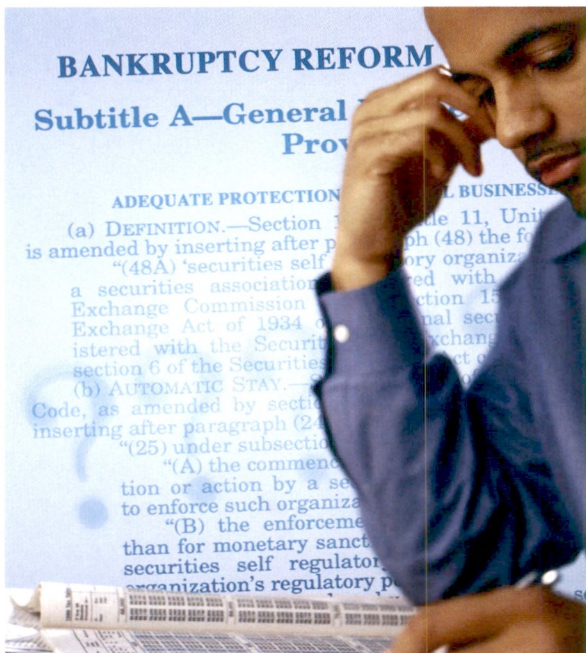
Is Bankruptcy Reform Legislation Working?



IN 2005 WHEN LEGISLATORS LAUNCHED BANKRUPTCY REFORM MEASURES, ANNUAL PERSONAL BANKRUPTCY FILINGS WERE AVERAGING WELL OVER 1 MILLION PER YEAR.

The number doubled to just over 2 million in 2005 due to the surge of filings in anticipation of the October enactment date. (See *Partners* Vol. 15, No. 2.)

Not surprisingly, the barrage of filings in 2005 was followed by a dramatic decrease in 2006. Consumer bankruptcies dropped by 71 percent, to a total of 598,000 filings for the year.

Does this mean the legislation has succeeded in putting a damper on bankruptcy filings? Not necessarily. Most analysts believe that passage of the legislation prompted many consumers who were working through credit problems to opt instead for filing—before tougher measures were put in place. According to the American Bankruptcy Institute (ABI), 500,000 consumers raced to file claims the week before the bankruptcy law took effect.[1] This rush to file in 2005 very likely contributed to the subsequent steep drop in 2006 filings.

The question remains whether the new legislation will keep bankruptcy filings low. Figures for 2007 already indicate a significant rise in filings. Growth in the numbers of bankruptcy filings can be traced to an increase in mortgage delinquencies and foreclosures nationwide. Some analysts predict that bankruptcy filings could reach pre-reform levels of one million by year-end.

Credit counseling needs improvement

The effectiveness of credit counseling, a critical component of the bankruptcy reform legislation, is under scrutiny in response to opinions stated in a recent Government Accountability Office (GAO) report. It indicates that the pre-filing credit counseling required by the law does not seem to be working as intended.[2]

According to the GAO, "Anecdotal evidence suggests that by the time most consumers receive counseling, their financial situations are dire, leaving them with no viable alternative to bankruptcy." The GAO recommended that the Justice Department track and analyze the results of credit counseling to gauge its impact on bankruptcy filings.

Justice Department tracking results show that at least 10 percent of the consumers who completed counseling decided not to file bankruptcy. However, the data do not rule out the possibility that filings may have occurred at a later date. The Justice Department plans to improve current tracking procedures with enhanced automation and time series data that will provide more reliable information on the outcome of credit counseling.

Georgia leads as nation's "bankruptcy capital"

Most states logged a significant decrease in personal bankruptcy filings in 2006. Georgia saw a drop as well but continued to lead the nation with the highest number of individual filings. On a per capita basis (based on

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Table 1: Consumer Bankruptcy Filings by State
** ( ) denotes 2005's ranking*

STATE	2006	2005
GEORGIA	39,142	79,273 (8)*
CALIFORNIA	37,107	162,532 (1)
TEXAS	34,550	117,612 (3)
OHIO	34,466	133,541 (2)
MICHIGAN	32,746	88,402 (7)
TENNESSEE	31,406	65,360 (11)
ILLINOIS	29,774	105,964 (6)
NEW YORK	29,059	107,489 (4)
FLORIDA	24,709	106,250 (5)
PENNSYLVANIA	23,190	77,587 (10)

Table 2: Bankruptcy Filings per 1,000 households
** ( ) denotes 2005's ranking*

STATE	FILINGS PER 1,000 HOUSEHOLDS	
	2006	2005
TENNESSEE	13.3	28.0 (3)*
GEORGIA	11.4	23.6 (11)
ALABAMA	10.8	26.7 (7)
INDIANA	9.0	32.5 (1)
MICHIGAN	8.5	23.0 (13)
ARKANSAS	8.5	27.8 (5)
MISSISSIPPI	8.1	21.9 (18)
OHIO	7.7	29.7 (2)
KENTUCKY	7.4	24.3 (9)
LOUISIANA	6.8	21.6 (19)

Source: U.S. Bankruptcy Court, U.S. Census Bureau

filings per 1,000 households), however, Georgia ended the year second behind Tennessee.

Part of the reason for Georgia's dubious distinction may be the state's creditor-friendly laws, which have often left borrowers with few options other than bankruptcy to protect them in the event of financial difficulties, especially when a mortgage is involved. Georgia is a non-judicial state that permits lenders to foreclose on a home without going to court. From initiating foreclosure proceedings to selling a home on the courthouse steps, the process can be completed in as few as 37 days in Georgia, compared with a timeframe of close to a year in states like Florida and New York where foreclosure happens under judicial law. Rather than lose their homes, most consumers opt to file for Chapter 13 protection to slow down or stop foreclosure proceedings.

In addition, Chapter 13 reorganization bankruptcy relief filings are more common in Georgia than Chapter 7 liquidation filings. Because federal bankruptcy reform targeted Chapter 7 filings, the legislation's impact was not as pronounced in Georgia.

Another contributing factor was Georgia's high volume of nontraditional and subprime mortgage loans in recent years. Most of these mortgages were extended to first-time home buyers who qualified based on low introductory rates scheduled to reset within one to two years. Now that rate adjustments have begun to occur, many affected borrowers have not been able to make the higher payment. Often they are not able to refinance because of the negative amortization typically associated with these products. Many of these consumers now face the prospect of foreclosure and possibly bankruptcy.

Also of note, the top 10 highest filing states on a per capita basis included five Sixth District states: Alabama, Georgia, Louisiana, Mississippi and Tennessee. Florida ranked 38 and 35 for 2006 and 2005 respectively (Table 2).

Conclusion

Debate continues about the effectiveness of the bankruptcy reform legislation. Some argue that the new requirements and additional costs only impose more burdens on consumers who legitimately need debt relief. Others assert that the law is necessary to curb abuse and ensure that those consumers who can afford to repay at least a portion of their debts do so. ♦

This article was written by Lisa Easterwood, financial analyst in the Supervision and Regulation division at the Atlanta Fed.

Endnotes

[1] Erika Lovely, "Bankruptcy Filings Rise Upward—Trend is Expected to Continue Through 2007." *Houston Chronicle*, April 9, 2007.

[2] Gregory Stanford, "Bankruptcy: Repairs to Law Needed." *The Milwaukee Journal Sentinel*, May 4, 2007.

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Predatory Lending and the Military

PREDATORY LENDING IS ALWAYS PROBLEMATIC, BUT IT'S A SPECIAL CONCERN WHEN MILITARY PERSONNEL ARE PREYED UPON DURING ACTIVE DUTY. A NEW LAW WILL HELP CURB ABUSES, AND THE FEDERAL RESERVE IS PLAYING A REGULATORY ROLE ALONGSIDE THE DEPARTMENT OF DEFENSE (DOD).

Protective provisions within The John Warner National Defense Authorization Act for Fiscal Year 2007 (Warner Act) were signed into law in October 2006 and will become effective October 1, 2007. Also known as the Talent Amendment, the new legislation will protect servicemen and women and their families from some of the worst practices of loan sharks.

Early in 2005, legislation was proposed to limit predatory lending practices targeting military personnel. The Servicemembers Anti-Predatory Lending Protection Act sought to limit the annual percentage rate (APR) to 36 percent, enhance disclosure of loan terms and restrict automatic loan roll-overs. (See *Partners* Vol.15, No.2.) Although this bill didn't become law, it paved the way for the new legislation.

Effects of predatory lending

Over the last several years, DOD has been increasing financial education for members of the military. Over 40 percent of military service personnel are under the age of 25, and many are not experienced in financial matters. Thus they are easy targets for predatory lenders.

A 2005 survey of servicemembers rated personal finances more stressful than deployments, health concerns, life events and personal relationships. The most common traps have been payday loans, vehicle title loans, military installment loans, tax refund anticipation loans and rent-to-own purchases.

Financial stress not only affects the well-being of individual service members but also the operation of the armed forces as a whole. Financial strain is so systemic that many members have become unqualified for strategic security clearances, thereby compromising the ability of the armed forces to conduct their missions. As a result of these concerns, the DOD developed a strategic plan to reduce the stress related to financial problems, increase the personal savings of its members, decrease its members' dependence on unsecured debt, and decrease the prevalence of predatory lending practices.

Even though the DOD has been partnering with a number of organizations like the FDIC to provide financial education, these efforts have not been sufficient to stem the tide of predatory lending. DOD therefore pressed Congress to provide greater legal protections from predatory lending practices.

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New rules to curb abuses

Section 670 of the Warner Act, "Limitations on Terms of Consumer Credit Extended to Service Members and Dependents," is designed to curtail abusive practices associated with payday lending and other predatory lending practices targeted at military personnel.

The law applies to both service members and their dependents. It stipulates that the APR of a covered extension of credit cannot exceed 36 percent, and it mandates disclosures and terms mirroring the Truth in Lending Act. It also includes a provision against any state or federal preemption, unless those laws provide even greater protections.

Other provisions include the following prohibitions:

- Lenders may not roll over, renew, refinance or consolidate credit unless the new transaction results in more favorable terms to the borrower.
- Borrowers cannot be required or allowed to waive the right to legal recourse.
- In the case of dispute, lenders cannot require the borrower to submit to arbitration or impose onerous legal notice provisions.

The Warner Act provides specific definitions of the terms "interest," "APR" and "consumer credit." For example, its definition of APR includes all fees and charges connected to the loan, including single-premium credit insurance and other products sold in connection with the transaction. Some of these fees and charges are exempt from standard APR calculations so the new method of calculation is being called the "Military APR" - or "MAPR."

Prior to becoming obligated through the transaction, each applicant must be provided with a clear and conspicuous "covered borrower identification statement" that must be signed by the borrower.

It should be noted that the law does not apply to residential mortgage loans and loans to purchase vehicles. Residential mortgage loans are defined not only as purchase money but also refinancing, home equity loans and home equity lines of credit.

For covered loans, servicemembers should expect to receive the following at the loan closing:

1. A disclosure containing the MAPR and the total dollar amount of all charges;
2. Any disclosures required by the Truth in Lending Act;
3. A clear description of the payment obligation; and
4. A "covered borrower identification statement."

Framing the regulations

The new legislation assigns DOD the responsibility of issuing regulations and implementing them. However, it also stipulates that DOD must consult with the Federal Reserve and other primary banking regulatory agencies as well as the FTC and NCUA. This will be the first time DOD has been involved in drafting regulations that will affect the banking industry. Proposed regulations were published in the Federal Register on April 11, 2007, and the comment period ended in June 2007.

Comments acknowledge that significant protections are added into law by the stated provisions, but they also cite challenges, including crafting language that does not present contradictions or create confusion with regard to existing laws and regulations. For example, some believe that disclosing an APR and a MAPR might be confusing to consumers, or that the definition of "consumer credit" might be too narrowly stated.

Others argue that installment loans should be included. Still others note that open-ended credit such as credit cards, bank overdraft loans and payday loans over 91 days were not addressed. Furthermore, some are concerned that predatory lenders will restructure loan terms to get around the regulation's definition of "consumer credit" in order to continue their predatory practices.

An important debate

Enhancing consumer protections for servicemembers is clearly beneficial. But some have argued that in terms of personal finance our servicemembers are no different than the rest of us, and that consumers as a whole could benefit from stronger protection against predatory practices. At the same time, regulatory bodies must walk a fine line to avoid undue restriction against access to credit. While the debate continues, all parties agree upon the value of having financial education in making wise financial choices. ♦

This article was written by Michael Milner, regional community development director in the Atlanta Fed's Birmingham Branch.

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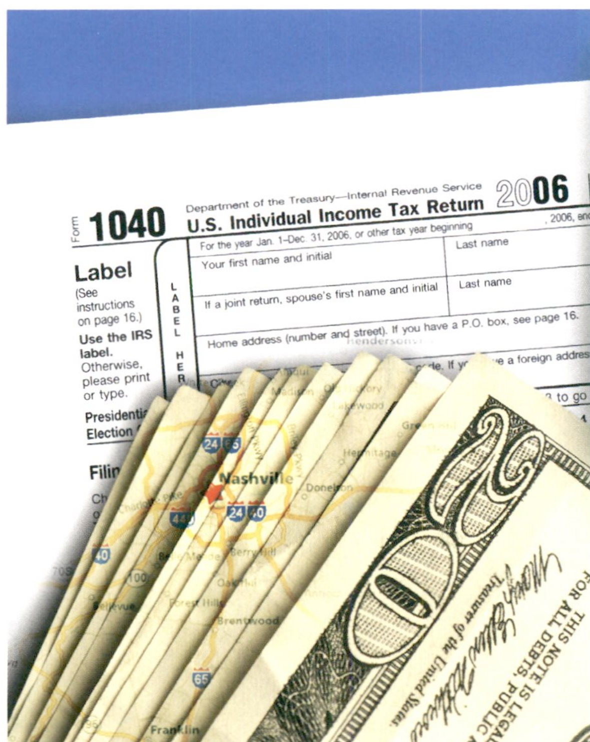
Free Tax Sites Generate Refunds for Nashville Families



THANKS TO FREE TAX PREPARATION AND THE EARNED INCOME TAX CREDIT, MORE THAN 6,000 LOW- AND MODERATE-INCOME FAMILIES THROUGHOUT NASHVILLE RECEIVED A TOTAL OF MORE THAN $9 MILLION IN FEDERAL TAX REFUNDS THIS PAST TAX SEASON.

The Nashville Wealth Building Alliance (NWBA) sponsored 13 tax preparation assistance sites, plus a mobile unit that traveled to several nonprofit organizations and local employers to provide help for households earning $40,000 or less.

Thanks to the work of the Volunteer Income Tax Assistance (VITA) sites:

- 6,213 returns were filed through all VITA sites, a 6 percent increase over 2006;
- $8,946,529 in Federal refunds were due to VITA site clients, a 4 percent increase over 2006;
- $3,009,283 in Earned Income Tax Credit (EITC) refunds were tallied, a 7 percent increase over 2006.

Each VITA client also received a free "Financial Stability Resource Guide," which provides a comprehensive listing of the free or affordable asset-building services in Nashville. VITA clients were encouraged to call 2-1-1 to get a free, one-hour financial consultation which includes a customized budget and goal assessment as well as information about resources for further help.

NWBA extends its reach through new partners

The Nashville Wealth Building Alliance works with numerous companies and organizations to broaden its outreach and educational efforts. This year, their collaborations produced:

- Four new VITA sites, including an employer-sponsored VITA site at Tyson Foods that offered services in 9 different languages.
- A new partnership with Tennessee's Department of Human Services, which sponsored the NWBA's largest VITA site and implemented EITC outreach to Families First and food stamp clients.

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- A new partnership with a local company, Blevins Inc., to provide a free-standing VITA site in a low-income area.
- A new partnership with Vanderbilt University to establish a VITA site and site coordinator to target Vanderbilt students and employees.
- A 76 percent increase in calls to United Way's 2-1-1 call center in Nashville/Davidson County about the hours and location of VITA sites.

Economic ripple extends to Nashville economy

The EITC is arguably the most effective anti-poverty program in America and lifts more children out of poverty than any single federal program or combination of federal programs. It provides one of the best opportunities for working families to put money into savings, which is an important step towards helping them achieve greater financial stability.

An economic impact study sponsored by the NWBA found that EITC is not only a benefit for the working family claiming the credit, but also a boost for the Nashville economy.

"The 'ripple effect' from EITC refunds spent in Nashville produces millions of dollars each year in economic stimulus, creates hundreds of jobs due to increased demand for products and services purchased with EITC refunds, and reduces poverty within our local community," said Congressman Jim Cooper (5th District, Tennessee). Congressman Cooper is one of the founding members of the NWBA.

NWBA is a broad-based coalition of government, non-profits, churches and businesses working together to help low- and moderate-income individuals and families throughout Nashville/Davidson County to build and maintain financial stability. Sponsors include : Blevins Inc.; Bank of America; Regions Bank; Tennessee Department of Human Services (DHS); Tyson Foods Inc.; the Bank of Nashville; US Community Credit Union, and David & Adrienne Piston. United Way of Metropolitan Nashville is a leading partner of the NWBA. ♦

This article was written by Rachel Freeze, Nashville Wealth Building Alliance manager at United Way Nashville.

2007 Season Results

PERFORMANCE INDICATORS	ALL CLIENTS	
# filing returns	6,243	
Total federal refunds claimed	$8,946,529	
Total Earned Income Tax Credit	$3,009,283	
# claiming Earned Income Tax Credit	1,678	29.12%
Total child & dependent care credit	$117,568	
# claiming child & dependent care credit	257	4.46%
Total child tax credit	$1,925,230	
# claiming child tax credit	$1,483	25.74%
Total education credit	$283,747	
# claiming education credit	378	6.56%
# claiming unemployment compensation	270	4.69%
# with positive tax amounts	3,498	60.71%
# with positive federal refund amounts	5,133	89.08%
# using direct deposit (federal tax)	3,075	59.91%
# federal returns filed (electronic)	5,154	89.45%
Median Adjusted Gross Income	**$20,078**	
# with AGI > $37,263	**717**	**12.44%**

Source: Nashville Wealth Building Alliance

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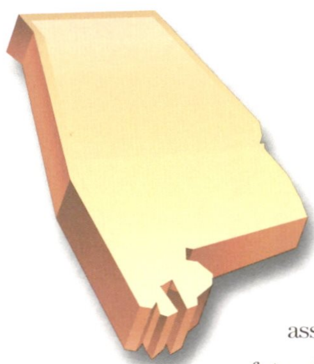

ALABAMA

HOUSING PLAN HOLDS PROMISE FOR FUTURE

The HillsDale community of Mobile, Ala., has assumed the motto "forging a future" to describe its neighborhood revitalization efforts. Located along one of the area's main transportation arteries and adjacent to University of South Alabama, this once-vibrant neighborhood is embarking on a plan to reclaim its sense of community and attract new residents.

DASH partners in HillsDale revitalization

Spearheaded by the residents and supported by DASH (Dependable, Affordable, Sustainable Housing) for the Gulf Coast, a NeighborWorks® affiliate, the revitalization plan will build 220 new homes and renovate 24 existing homes in the neighborhood. The total investment is estimated at almost $27 million.

Three new model homes were showcased recently to residents, local banks and other stakeholders. They are modular construction with upscale amenities such as oak cabinets and garden tubs making them appear far pricier than comparable site-built affordable homes.

The units range from a two-bedroom, 992-square-foot home priced at $95,000, to a 1,450-square-foot, four-bedroom, two-bath home for $149,000. Buyers can currently choose from seven different floor plans, but DASH will eventually make up to 12 plans available. DASH hopes to attract families displaced by Hurricane Katrina as well as any buyers interested in a revitalized HillsDale.

Unique aspects of plan

In addition to incorporating modular housing, another unique feature of the revitalization plan is the scale and targeted nature of the funding provided by local government.

Rather than parceling out smaller pots of money to various community development projects, the three-member CDBG (Community Development Block Grant) Entitlement Committee made the bold decision to dedicate over $750,000 of the city's $3 million annual CDBG fund to projects in the HillsDale neighborhood. The money will be used to build sidewalks, improve drainage, refurbish a nearby park and help residents with down payment assistance.

Construction of the new homes will begin in mid-November, and DASH anticipates that they will be ready for occupancy by January 2008. Homebuyer training classes will begin in November at the DASH Homeownership Center.

For more information about the development or DASH for the Gulf Coast call (251) 438-7800 or visit the website at www.dashgulfcoast.org. ♦

This article was written by Nancy Montoya, regional community development manager in the Atlanta Fed's New Orleans Branch.

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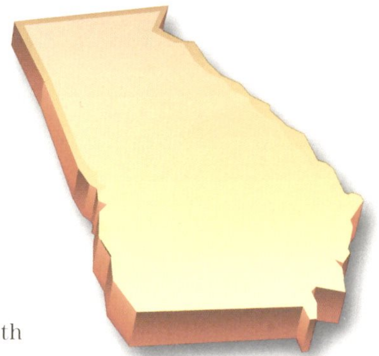
GEORGIA



FORECLOSURE SOLUTIONS: HELP FOR GEORGIA HOMEOWNERS

The recent rise in foreclosure activity is a national trend affecting thousands of U.S. households. According to RealtyTrac®, more than 1.2 million foreclosures were filed nationwide in 2006. This issue is of particular concern in the Southeast, where Georgia ranked sixth in the nation in foreclosures last year.

The Federal Reserve Bank of Atlanta's Community Affairs office recognizes that foreclosures can have a devastating ripple effect on consumers, financial institutions and the overall community. Combining research, communication and active involvement, the Community Affairs staff has worked with community partners to provide information that will help those affected by foreclosures make more informed decisions.

The Atlanta Fed has responded with two key initiatives: (1) production of a video that presents some of the issues Georgians are facing as a result of foreclosures, and (2) participation in a national foreclosure prevention campaign in partnership with several national, state and local organizations.

Video focuses on Georgia foreclosures

The Bank's foreclosure prevention video provides a national perspective on foreclosure issues with particular emphasis on the foreclosure process in Georgia. Interviews with national and state leaders provide information about resources available to nonprofit agencies that work with consumers to preserve their homes. In addition, Emory Law School professor Frank Alexander explains the expediency of the foreclosure process in Georgia compared to other states.

Perhaps the most important aspect of the video is a segment that highlights several consumers who have faced foreclosure. They describe their predicaments and offer advice for others facing similar problems.

Atlanta Fed partners in foreclosure prevention campaign

The Atlanta Reserve Bank is an active partner in the NeighborWorks America/National Ad Council Foreclosure Solutions Campaign, which promotes the Homeownership Preservation Foundation's (HPF) national HOPE hotline in Georgia, 1-888-995-HOPE (4673). Operated by HPF and staffed in part by CCCS of Greater Atlanta counselors, the hotline connects homeowners facing foreclosure with free counseling 24 hours a day, 7 days a week. The HOPE hotline was launched in Georgia in early 2007. Between January and April 2007, over 6,300 homeowners called the hotline, and approximately 1,500 callers received counseling.

Both of these initiatives are part of the Atlanta Fed's ongoing effort to promote a better understanding of foreclosure issues in the region and to support programs that seek to help affected consumers. ♦

This article was written by Sibyl Slade, regional community development manager at the Atlanta Fed.

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