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Reconsidering U.S. Housing Policy

Mortgage Fraud in the Sixth District

Rule Changes Fine-Tune Consumer Protection

Forging a Green Partnership

Report Confronts Concentrated Poverty

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COVER STORY

Reconsidering U.S. Housing Policy

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OVERCOMING FORECLOSURE INFORMATION OVERLOAD

Juan C. Sanchez
Vice President and
Community Affairs Officer

If you search for the word *foreclosure* online, you will get over 50 million hits. There are over half a million hits under the *foreclosure resource* heading. These sites vary greatly in what they offer. Some focus on homeowners and others are designed for investors, academics, nonprofits or government organizations. They may provide consumer information, market data, research or links to other sites. Many offer products and services for consumers and investors—usually for a fee.

This information overload can be very confusing and frustrating. Furthermore it is often difficult to distinguish between legitimate and fraudulent sites, prime and predatory products.

In an effort to provide the most up-to-date information about foreclosure and the housing market, the Federal Reserve System has launched an online Foreclosure Resource Center at each of our 12 Banks. These websites are one-stop-shops that offer national and regional data and other information to support a range of inquiries. Our Fed Foreclosure Resource Centers should be useful for community-based organizations, government agencies, financial institutions and concerned consumers.

For consumers, especially homeowners and homebuyers, the Fed's Foreclosure Resource Centers provide descriptions of loan options and alternatives to foreclosure. The site includes a video that outlines foreclosure law, describes the foreclosure process and advises homeowners who are unable to make mortgage payments. Additional information on the site helps consumers understand how different mortgage products will affect their particular situations. For families in financial difficulty, the site lists contact information for reputable agencies that can provide help, including a foreclosure prevention hotline and websites that offer resource information, credit and legal services, and consumer counseling.

Foreclosure Resource Centers refer researchers and policymakers to recent research papers, pertinent articles, speeches and presentations, and other useful materials. Also posted are local and national Fed-sponsored events on developing foreclosure-mitigation strategies, including the system's *Recovery, Renewal, Rebuilding* conference series.

For bankers, policymakers and those in the legal field, the site contains links to materials that address policy issues and changes in regulations. These include amendments to Reg Z, summary information on the Housing and Economic Recovery Act of 2008, press releases on final rules, and information about examinations and loan modification.

The Fed's Foreclosure Resource Centers also offer dynamic maps and data that track levels of foreclosure across the U.S., thus providing valuable information about specific markets for researchers and community groups.

Our web address is http://www.frbatlanta.org/comm_affairs/frc.cfm. We will continue to update this site with new information about the mortgage industry and foreclosure issues. The Atlanta Fed is proud of our System's collective effort to provide useful information to a diverse audience.

Juan

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Reconsidering U.S. Housing Policy

Excerpts from an Interview with James H. Carr, Chief Operating Officer, National Community Reinvestment Coalition

In a recent interview with the Federal Reserve Bank of Atlanta on the future of the housing market, National Community Reinvestment Coalition Chief Operating Officer Jim Carr responded to questions about which housing policies would best meet the challenges presented by the foreclosure crisis. The following excerpts discuss measures to address the de-stabilization of housing markets, the loss of billions of dollars in home equity and the long-lasting negative impacts on areas with high concentrations of foreclosed properties.

In my view, at least five major areas of public policy related to the housing markets demand serious attention and action.

1 Contain the current foreclosure crisis and purge predatory lending.

Addressing the current foreclosure crisis in a meaningful way is essential. The longer this crisis lingers, the more households will be impacted and the greater the damage will be to housing markets, the financial system and the economy. To date there has been limited legislative response to address the magnitude and depth of the current foreclosure crisis. The most promising legislation enacted thus far has been an expansion of Federal Housing Administration (FHA) to enable the refinancing of up to 400,000 additional loans that likely are heading to foreclosure between 2009 and 2011. While this is a start, it represents a very small portion of existing problem loans. Moreover, for a variety of legislative and administrative reasons, the program is not likely to go into effect fully until early 2009. By that time, more than an additional million households will have gone into foreclosure. And, the recently enacted $700 billion financial system rescue package remains imprecise about how foreclosures will be addressed.

Earlier this year, the National Community Reinvestment Coalition proposed the establishment of a national Homeownership Emergency Loan Program or HELP Now. This program would authorize the U.S. Treasury to purchase loans in bulk and at steep discounts (equal to their current market values) from securitized pools and apply those discounts to problem loans in order to achieve significant modifications that would ultimately create long-term borrower affordability. The advantage of this program is that loans could be modified, repackaged and resold immediately.

In addition to an improved loan modification or refinancing program, four categories of post-foreclosure activity are needed:

Improve data on the ownership and availability of foreclosed properties. The first challenge is to determine the full extent of the damage likely to occur should there be no additional and meaningful support for borrowers. The housing industry is in need of more robust data – specifically forecasts – on the types, as well as locations, of loans likely to fail over the next 12 to 36 months. This information would be useful for cities to better plan and prepare for the continuing foreclosure crisis.

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Develop and implement post-foreclosure damage mitigation and rehabilitation strategies. Nonprofits and local governments also need enhanced initiatives to enable them to coordinate the identification of vacant and abandoned properties. This allows for early intervention and preventive efforts to limit vandalism and crime. Programs are also needed to facilitate the transfer of ownership of foreclosed properties into a housing trust or similar vehicle for renovation and return to affordable housing usage. This intervention is needed in many communities, especially where foreclosures are concentrated. Increasing need for affordable rental housing will also be a challenge for these communities as homeowners losing their properties contribute to a growing rental demand.

Jump-start emerging market homeownership. This issue relates to the resale of housing. Innovative products and approaches to homeownership will help minority families and communities regain the losses they are disproportionately experiencing as a result of the foreclosure epidemic. Shared equity mortgages, for example, hold great promise for bringing consumers into the housing market who are unable to make large down payments, but who are otherwise ready for homeownership.

Under a shared-equity arrangement, an investor contributes some or all of the down payment for a home purchase in return for a fixed share of the future home price appreciation. Shared-equity mortgages would also be an important antidote to the market's recent failure to protect financially vulnerable borrowers, because they ensure that an investor's equity is on the line, and therefore the borrower's and investor's interests are aligned.

Lease-purchase products are also promising tools, particularly in the current environment in which the credit scores of potentially millions of consumers have been damaged, in many cases due to unfair and deceptive loan products. Despite their blemished credit histories, millions of families may, nevertheless, remain fully prepared to own under reasonable financial circumstances. And, lease-purchase products might be the innovation to return those consumers safely to the homeownership market.

Purge predatory lending from the housing markets. Unfair and deceptive lending practices greatly contributed to the current foreclosure crisis. Those behaviors should also be purged from the housing market through more comprehensive anti-predatory lending legislation. The Federal Reserve Board has issued new *Home Owner Equity and Protection Act* (HOEPA) regulations pertaining to a broad range of abusive lending practices in the mortgage industry. The rules address almost every aspect of high-cost lending, from underwriting and appraisal practices to product marketing and more.

These revisions take an important step forward in providing enhanced consumer protection in the high-cost mortgage market. But there remain a number of ways in which consumers are vulnerable to abusive mortgage lending practices, such as yield-spread premiums. That practice, as well as many others, should be addressed by a strong national anti-predatory lending law that can complement the revised HOEPA regulations.

2 Reform regulation of the financial system. The current foreclosure crisis is a clarion call for financial system regulatory reform. The U.S. Department of the Treasury recently released a report that recognized the need to restructure the financial regulatory system. The report focuses heavily on the advances in financial engineering, technological evolution, conflicts of interest, overlapping or confusing regulatory oversight or authority, and growth of new international competitor financial systems.

These are all important issues, but the current financial distress may be due to more fundamental issues, such as poorly regulated markets that allowed reckless lending behavior to permeate the system. Although much of the current financial crisis results from regional economic downturns and speculative purchases of homes in response to rapidly rising prices, widespread deceptive lending practices fueled, or at least supported, the market's meltdown.

Stated otherwise, the basic welfare of the borrowing public was not the paramount focus of regulatory oversight. Failure to acknowledge this issue in the context of financial system modernization amounts to a reshuffling of the chairs on the deck of the ship. And it leaves the ship of financial regulation vulnerable to further catastrophic events in the future. As Harvard University law professor Elizabeth Warren has artfully stated, consumers had better protection buying a toaster or microwave oven than they had when purchasing the family home.

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"Inefficient land use patterns artificially drive up the costs of housing and create problems where problems need not exist."

Rethinking the financial system should begin with the goal of enhancing the economic well-being of the American public. This means helping people, families, communities and the nation build wealth, enhance economic mobility, and ensure the nation's economic competitiveness in an increasingly competitive global economy. Regulation of the financial system should include a measure of how well the system promotes the economic interests of the American public—not just measure the profitability of financial institutions.

This goal should be self-evident, but it is not. We now have millions of problem loans and hundreds of troubled financial institutions that prove that it is possible for financial institutions to make extraordinary sums of money (in the short-term) while acting in a manner that is in contravention of the financial needs of their customers. Financial system modernization cannot afford to ignore this point in the future.

As a starting point for an enhanced consumer focus for financial regulation, financial regulatory agencies should study more in depth which households are left out of the system, why, and what can be done to bring them into the financial mainstream of the 21st century. Not everyone has the same potential to participate in the financial system. But with nearly 10 million unbanked households, it seems more could be done to achieve a more inclusive financial system. In fact, a recent report by the Center for Financial Services Innovation estimates that there are 40 million under-banked households (those not accessing the full and appropriate range of banking services) in the U.S. Bringing them into the financial mainstream would enable them to leverage their resources and better engage the housing markets in a more supported and financially sophisticated manner.

Finally, regulation of the financial system should encourage product innovation, particularly among mortgage products, in a manner that might expand safe and sound homeownership.

3 Encourage more efficient, lower-cost and environmentally sensitive land-use planning, building codes, construction practices and related practices.

Prior to the foreclosure crisis, the U.S. was suffering from rapidly growing problems that reached from coast to coast. When the current inventory of unsold homes is off the market, those problems will return. Inefficient land-use

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patterns artificially drive up the costs of housing and create problems where problems need not exist.

The silver lining of the recent energy price shock was the wake-up call that our current land-use practices are counterproductive to the public interest. Although energy prices recently have fallen dramatically, as a direct result of fears of a global recession, energy prices will return to unaffordable levels when global economic markets rebound. As a result, federal policies should tie HOME, Community Development Block Grants (CDBG), and other housing subsidies—along with highway, mass transit and other infrastructure funds—to the way in which communities plan and build in an efficient manner. This would help reduce the need for public subsidies to buy down the rents on unnecessarily over-priced housing.

Addressing fundamental weaknesses in land-use regulations with the goal of providing opportunities to produce more housing, encouraging greater reliance on innovative building technologies, determining the benefits and costs of alternative green technologies, updating building codes, and streamlining permitting-and-approval processes is the key to leveraging market forces more effectively to meet the housing challenges of the future.

4 Reform federal housing policy.

It would be a stretch to say that the U.S. has a housing policy. With the exception of the general goal of increasing homeownership held by multiple and successive administrations, and an occasionally expressed desire to promote mixed-income housing, there are few, if any, meaningful national objectives against which federal housing programs might be measured. In fact, rather than a policy, we have a range of programs that date back to the Great Depression—many of which are in need of serious overhaul. The demographic face and age of the population has changed dramatically over the last half century and continues to evolve rapidly. Both of these issues present a host of challenges and opportunities for the nation's housing infrastructure.

Moreover, energy and other environmental concerns are now major inputs into housing policy considerations—issues that were all but completely ignored a half-century ago. These issues raise broad questions such as: What is the role of housing policy in promoting vibrant communities and the economic interests and social well-being of the population? And, based on that response, what are the relationships between housing policy and energy, transportation, education and other national programmatic priorities? Suffice it to say that having a focused discussion on the goals of housing policy would enhance our discussion of ways in which the financial system can play the most expansive and robust role in its support. Beyond these general macro issues, housing policy should address each segment of the population and their unique shelter challenges.

"What are the relationships between housing policy and energy, transportation, education and other national programmatic priorities?"

In a recent lecture, Henry Cisneros, former Secretary of the U.S. Department of Housing and Urban Development, suggested that housing can be viewed as a continuum of steps. The lowest step is homelessness, moving next to supportive housing and ultimately a move up to long-term homeownership. Perhaps most powerful about this approach is that by conceiving of housing as a continuum, it encourages policymakers to think of households as moving up a chain of housing successes. This housing

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staircase can also be used as a tool to examine the federal subsidies provided at each level to determine where the allocation of public resources might be more effectively and appropriately redirected to create upward mobility on the housing continuum.

5 Enforce fair housing and fair lending laws.

Many of today's housing problems, particularly those related to minority communities, are the result of the legacy of discrimination and its continuation. Failure to eliminate housing discrimination reinforces the economic distress of disenfranchised communities and contributes to continuing severe levels of segregation and its attendant problems of inferior housing options, limited access to quality education, restricted job opportunities, and artificially constrained home price appreciation for communities of color.

Unfortunately, fully 40 years after the passage of the *Fair Housing Act*, the laws protecting the rights and interests of minority families in the housing market remain poorly enforced. Today, a conservative estimate by the National Fair Housing Alliance suggests that roughly 3.7 million instances of discrimination occur annually. At the same time, the number of cases brought by federal agencies responsible for fair housing and equal credit opportunity enforcement is abysmally low.

In fact, for more than a decade community leaders, civil rights proponents and consumer groups have warned about unfair, deceptive and abusive lending practices targeted in communities of color. Yet, those pleas for better lending supervision were not only ignored, but in some cases contradicted by regulatory policy that weakened the ability of states to protect their own citizens from predatory lending. The net result, according to the Center for Responsible Lending, is that the current foreclosure trend could result in more than 10 percent and 8 percent losses in homeownership for African American and Latino households respectively. United for a Fair Economy estimates this loss could translate into a total loss of wealth among minority households of between $164 billion and more than $200 billion.

A lack of funding is a major part of the problem of poor regulation. But money is not the only issue. A lack of appropriate coordination among various agencies responsible for enforcing civil rights and equal opportunity, and insufficient political stature at the federal administrative level of government to make elimination of discrimination a national priority, all combine to undermine progress on this essential national mandate.

In response to this continued failure to enforce the law, the National Community Reinvestment Coalition has asked, in Congressional testimony in June of this year, for the establishment of a new cabinet-level agency focused on Civil Rights Enforcement. This agency would be responsible for measuring, monitoring and eliminating all forms of discrimination from our society once and for all. And given the importance of housing to accessing opportunities for social and economic advancement, housing-related laws would be among the new agency's highest priorities. Enforcing the law would immediately open the door for millions of households who are ready and prepared to access improved housing opportunities and for whom the only impediment is illegal discriminatory actions.

Conclusion

The future of housing policy demands a systemic approach to the issues. Piecemeal strategies have run their course and will be insufficient to address our severe housing challenges. Success will require that the financial system better serve the American public. Success will hinge on the extent to which land-use and development practices are better managed to create greater affordable housing opportunities with fewer federal housing resources.

Success will require that housing subsidies be allocated in a fair and equitable manner to achieve greater benefits by a broader range of households. Success will depend on special programs by local governments and nonprofit organizations to address the unique problems created by high foreclosure activity—particularly in distressed communities. And, finally, success demands an end to biased and discriminatory real estate practices that deny minority households a broader range of housing and economic opportunities for reasons unrelated to their financial ability.

This is a tall order to fill, but if we are willing to address the problems we face at a more systemic level, perhaps we may finally see more substantial positive results that are achievable and essential. ■

For more information about the National Community Reinvestment Coalition visit www.ncrc.org.

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Mortgage Fraud in Sixth District

OVER THE LAST SEVERAL YEARS, UPSETS IN THE HOME FINANCE MARKET HAVE EXPOSED EXTENSIVE MORTGAGE FRAUD. ALTHOUGH CONSUMERS HAVE BECOME INCREASINGLY AWARE OF THE PROBLEM, OPPORTUNISTS WILL ALWAYS TRY TO STAY A STEP AHEAD BY DEVELOPING NEW WAYS OF PERPETRATING MORTGAGE FRAUD.

What is mortgage fraud? The Federal Bureau of Investigation defines mortgage fraud as "*any material misstatement, misrepresentation or omission relied upon by an underwriter or lender to fund, purchase or insure a loan.*" Mortgage fraud schemes range in complexity from misrepresentations by a single borrower concerning income, assets or property occupancy to complex schemes orchestrated by loan officers, attorneys, appraisers, title agents, recruiters, straw buyers and others acting in collusion to defraud financial institutions and private investors of millions of dollars.

Three primary types of mortgage fraud

Mortgage fraud typically falls into three categories. In *fraud for housing*, the intent is to obtain housing or, in the case of refinancing, cash equity. In this case, the borrower intends to repay the loan but has misrepresented information such as income or assets that otherwise would have caused the loan to be denied. In the past, fraud for housing was typically committed by a borrower acting alone. But in recent years it has increasingly involved industry insiders who conspire to qualify borrowers for loans—sometimes without the borrower's knowledge.

In *fraud for profit*, the perpetrator's intent is to bilk the mortgage lender of as much money as possible. These fraudsters do not intend to repay the loan. Property values are typically inflated to provide as much profit as possible. Industry insiders such as mortgage brokers, appraisers, title companies and loan officers collude in this type of fraud, which often involves multiple transactions and borrowers.

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Fraud for criminal enterprise uses proceeds from a mortgage fraud scheme to fund criminal activities and to launder money. Prostitution, drug manufacturing, smuggling, terrorism, false document production and counterfeiting are among the crimes that have been underwritten by mortgage fraud. For example in the Atlanta area, straw borrowers were used to purchase residential homes in upscale neighborhoods for the purpose of growing indoor marijuana crops.

Factors driving mortgage fraud

Fierce competition in the mortgage industry prompted lenders to cut costs and expedite loan closings. To cut costs, many lenders shifted resources from quality control, which is how questionable loans are detected, to loan production. Limited documentation loans, also known as stated or "low-doc loans," were introduced to reduce costs and hasten loan closings. Low-doc loans were justified by the expectation that property appreciation would offset the risks. Lenders simply relied on the borrower's word that income and other financial information stated on the application were true.

In addition, rapidly increasing property values made homeownership less affordable to consumers. The industry responded by introducing nontraditional loans, including subprime loans, to help more consumers purchase homes. Nontraditional loans allow borrowers to defer principal and interest payments over a specified time period. Competition for subprime loan clients induced lenders to relax underwriting criteria and offer low-doc subprime loans. Lenders have generated significant profits by selling subprime loans to Wall Street. Wall Street's appetite for higher yielding mortgage obligations has been cited as a primary reason the subprime market grew so rapidly.

Technology and the Internet also made mortgage fraud easier. Employment and income verifications are easily purchased over the Internet, as are false identities. Fraudsters use photo editing software to enhance appraisal photos that support inflated property values. Individuals with poor credit could increase their credit scores, for a fee, by piggybacking on the credit of individuals with high credit scores. Fraudulent documents such as mortgage satisfactions, leases, bank statements and brokerage statements are now easily created using common software. In larger-scale mortgage fraud operations, fraudsters use prepaid cell phones and mail drops to verify fraudulent employment and income information.

Because compensation in the mortgage industry is commission- and fee-based, brokers and other industry participants are motivated to originate and close as many loans as possible to maximize personal income. Relaxed underwriting criteria and low-doc loans reduce the time from loan application to loan closing and enable brokers to generate greater loan volumes. In some instances, industry professionals were driven by personal gain to do whatever was necessary to qualify a borrower for a mortgage. Developers and builders with large inventories of lots and homes that were not selling conspired with individuals in the mortgage industry to move properties. Documents were altered and new documents were created.

Borrower misrepresentations concerning employment, income, assets, liabilities, and occupancy were commonplace and often necessary to get a loan approved. Freddie Mac estimates that misrepresentation concerning borrower capacity (employment, income, assets and liabilities) account for more than 50 percent of common misrepresentations. In some instances, the borrower is unaware of these misrepresentations. Other common misrepresentations concerning collateral value, down payment, occupancy and property type make up an estimated 35 percent of common misrepresentations. The remaining misrepresentations involve credit score and identity.

Mortgage fraud in the Fed's Atlanta District

Depository institutions are required to file Suspicious Activity Reports (SARs) with the Financial Crimes Enforcement Network (FinCEN) when fraud is suspected. The number of SAR filings is often used to measure mortgage fraud. The chart on page 10 shows mortgage fraud SAR filings nationwide from 1996 through 2007. During this period the number of SARs filed by depository institutions grew from 1,720 to 51,458.

As a percentage of SARs nationwide, those filed in the Federal Reserve's Sixth District peaked between 1999 and 2003. In 2003, Sixth District mortgage fraud SARs represented 16.7 percent of those filed nationwide. The percentage dropped to 8.7 percent in 2007 when a record number of SARs were filed nationally. Among Sixth District states, Florida has filed the most mortgage fraud SARs, followed by Georgia and Tennessee.

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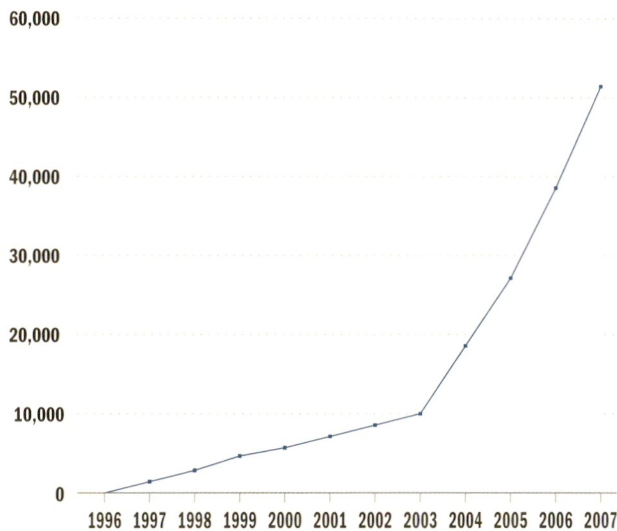

Financial Crimes Enforcement Network (FinCEN), *The SAR Activity Review - By the Numbers*, Issue 10 - May 2008.

Although SAR filings are commonly used to measure mortgage fraud and identify states with high rates of mortgage fraud, there are several reasons why SAR data may not be an accurate indicator. Depository institutions are required to file a SAR when fraud is detected or suspected, but filing is not proof that fraud actually occurred. Private mortgage lenders, which account for approximately half of all mortgage originations, are not required to file SARs. In addition, some SAR filings report individual mortgage fraud transactions while other SAR filings report multiple transactions originated, say, by the same employee. The SAR data reported by FinCEN does not take into consideration multiple transactions or the dollar amount of fraudulent mortgage transactions.

Are foreclosures a better indicator of mortgage fraud? Like mortgage fraud, foreclosures have always had a presence in the mortgage industry. But mortgage fraud is only one of the reasons for foreclosures. A borrower's ability to meet mortgage obligations can change suddenly due to divorce, unemployment, loss of income due to poor health, medical expenses and a range of situations that have nothing to do with mortgage fraud. Nevertheless, borrowers do face foreclosure as result of mortgage fraud. Law enforcement officials report that the full cost of mortgage fraud, though estimated in the billions of dollars, will never be known.

Mortgage fraud assumes many guises. For example, individuals have been lured by the prospect of big returns at the point of sale into financing construction of homes in developments with slow sales. In a Louisiana scheme just prior to Hurricane Katrina, many individuals colluded to recruit investors to obtain a construction loan while misrepresenting that the properties would be owner-occupied.

Prosecuting mortgage fraud

Mortgage fraud in Sixth District states is being aggressively prosecuted. In June 2008, the U.S. Department of Justice and the Federal Bureau of Investigation (FBI) announced a national takedown of mortgage fraud schemes in Operation Malicious Mortgage. From March 1 to June 18, 2008, Operation Malicious Mortgage resulted in 144 mortgage fraud cases cited in every region of the country. At least 406 defendants were charged. The FBI estimates that the various schemes employed in these cases caused approximately $1 billion in losses. U.S. Attorney's Offices throughout the Fed's Sixth District announced indictments from Operation Malicious Mortgage in South Florida, Jacksonville, Fort Myers, Atlanta, Nashville, New Orleans and Jackson.

Is the worst over?

Is the worst mortgage fraud behind us? The recent escalation in fraud has prompted lenders to tighten underwriting standards and increase pre-funding quality controls. But we can expect new and existing variations of mortgage fraud schemes to continue, such as air loans, builder bailouts, chunking or gunning, illegal property flips, the one-transaction flips, foreclosure rescue scams, equity stripping, identity theft schemes, phantom second liens, churning, phantom leases, and pot houses, perpetrated by individuals with and without co-conspirators motivated by greed. ■

This article was written by Linda Word, senior examiner in the Atlanta Fed's Anti-Money Laundering Group.

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Tips for Avoiding Mortgage Fraud

For Consumers >>

- Don't overstate (or let your lender overstate) your income or assets to qualify for a loan.
- Don't state a company as your employer if you are not employed by that company.
- Don't overstate your position with your employer.
- If you don't intend to live in the property, don't promise that you will.
- Don't state in the purchase contract that you paid a deposit unless you have.
- Don't state that you received a gift for the deposit if it is a loan and has to be repaid.
- Don't sign two purchase contracts for a property and give the lender the contract with the higher purchase price in hope of qualifying for a larger loan.
- A loan officer who is the property listing agent may not protect your interests.
- Don't accept seller incentives unless you disclose them to the lender.

For Financial Institutions >>

- Conduct due diligence on all third-party originators. Know who you're doing business with.
- Don't fund the loan if all pre-closing conditions are not met.
- Don't allow payments from the seller's funds to non-lien holders.
- Don't accept an appraisal that is dated prior to the application date.
- Don't accept an appraisal with comparables that are clearly superior to the subject property.
- Don't accept bank statement deposits that are not consistent with income or payroll dates.
- Don't fund a loan if the applicant has an unusually high income given his profile, especially for a stated income program.
- Don't fund a loan until you can explain inconsistency of ownership between the title commitment, appraisal and sales contract and unexplained variations in the borrower's name that appear on documents.
- Understand why there are cross-outs on the title commitment, sales contract or other loan documents involving the borrower's name.

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Rule Changes Fine-Tune Consumer Protection

In July of this year the Federal Reserve Board finalized new mortgage rules under the Truth in Lending Act and Regulation Z resulting in changes that will affect three classes of mortgage loan products. Mortgage products reflecting the new rules include HOEPA loans (Homeownership Equity Protection Act), Higher-Priced Mortgage loans (HPM), and Consumer Principal Dwelling loans (CPD). Most of the new provisions will go into effect on October 1, 2009.

HOEPA rules

Although HOEPA rules are largely unchanged from the current provisions in Regulation Z, the Board did amend two HOEPA sections of Regulation Z related to loan limitations for prepayment penalties as well as a borrower's ability to repay a loan.

Prepayment penalties. The prepayment penalty provision originally allowed a penalty during the first five years following consummation of the loan. The final rule will allow prepayment penalties only in the first two years of a HOEPA loan transaction. This section also allows a prepayment penalty for adjustable rate transactions if the periodic payment of principal, interest or both do not change during the first four years of the transaction. The prepayment penalty rules also apply to high-priced mortgage loan transactions.

Repayment ability. Repayment ability provisions prevent a lender from making a HOEPA loan without considering and verifying a consumer's repayment ability at closing as indicated by expected income, employment, assets other than collateral, current obligations and mortgage-related obligations.

Higher-Priced Mortgage rules

The HPM rules identify a new class of mortgage loans—those secured by a consumer's principal dwelling that have higher-priced rates based on a formula defined in the regulation. The final rule represents significant changes from the rules proposed in 2007.

Rate spread. The Board changed the Annual Percentage Rate (APR) spread in the final rule for first lien and subordinate lien loans to 1.5 and 3.5 percentage points, respectively, above the "average prime offer rate" (APOR).

APOR. The new APOR will be based on the APR derived for the average interest rates, points and other loan-pricing terms currently offered to consumers by a representative sample of creditors for mortgage transactions that have low-risk pricing characteristics. The Board expects

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to publish a rate table weekly on the Internet and will initially use the rates from the "Freddie Mac Primary Mortgage Market Survey." Current Freddie Mac rates are found on its website and include rates for two fixed and two ARM products.

New Restrictions. The new HPM rules also include specific restrictions for prepayment penalties and repayment ability assessments based on the HOEPA rules and restrictions for escrow accounts and open-ended credit. The escrow account rules require lenders making HPM loans secured by a first lien on a consumer's principal dwelling to establish, prior to closing the transaction, escrow accounts for property taxes and mortgage-related insurance required by the lender. Because of the operational changes required for some lenders, the Board has delayed the effective dates for escrow accounts until April 1, 2010 for HPM loans, except for those secured by manufactured housing, which are delayed until October 1, 2010.

Consumer principal dwelling rules

The final rules also include a new section for loans secured by a consumer's principal dwelling. Affecting the broadest category of loans, these regulations stipulate prohibited acts or practices for any consumer credit secured by the consumer's primary home, including purchase and non-purchase money transactions, prime and subprime loans.

The prohibited acts or practices cover rules related to: the definition of a mortgage broker, misrepresentation of the value of a consumer's dwelling through coercion of an appraiser, servicing practices prohibitions and exemption for home equity lines of credit (HELOCs).

Mortgage broker. The regulation proposal issued in 2007 included rules for mortgage brokers that prohibited payments beyond those specifically agreed to and disclosed in writing before closing the transaction. The proposed rules particularly sought to reduce broker incentives to increase consumer rates and thus to limit the potential unfairness, deception and abuse in the use of yield spread premiums (YSP).

While the Board remains concerned about the yield spread premium issue, they withdrew the broker rule on the basis it may confuse consumers and undermine the loan decision-making process rather than improve it. The Board's decision was informed by an analysis of comments, consumer testing and other data. The final rule includes only a definition of the term "mortgage broker."

It is important to note that while the Federal Reserve Board did not add new rules for mortgage brokers about YSPs under the Truth in Lending Act as originally proposed, YSPs are considered in the finance charge and APR disclosures. YSPs must also be itemized and disclosed to consumers on the HUD-1 loan closing document, required by Real Estate Settlement Procedures Act (RESPA).

Other prohibitions. The other prohibitions specifically relating to coercion of appraisers and servicing practices are similar to those in rules as initially proposed.

Advertising rules

The final rules also include changes to the advertising provisions for both open-ended and closed-end credit. The changes require additional information about rates, monthly payments and other loan features. The final rule also bans seven deceptive or misleading advertising practices.

Housing and Economic Recovery Act

In addition to the Truth in Lending/Regulation Z final rule changes, Congress recently passed the comprehensive Housing and Economic Recovery Act of 2008, which included changes to the Truth in Lending Act similar to the regulatory requirements discussed above. In particular, early Truth in Lending Act disclosures are required on a broader range of mortgage products, at least seven days prior to closing. The Act would also expand civil liability provisions for transactions secured by a dwelling from the current amount—not less than $200 or greater than $2,000—to not less than $400 or greater than $4,000. ■

For more information:

For access to all regulations and regulatory amendments go to www.federalreserve.gov/bankinforeg/reglisting.htm.

This article was written by Jeff Paul, manager for Industry Outreach and E-Banking/Privacy Act Compliance in the Consumer Affairs Section at the Atlanta Fed.

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Reverse Mortgages Revisited

Legislative Changes Introduce Greater Consumer Protections

REVERSE MORTGAGES, WHICH ALLOW HOMEOWNERS TO CONVERT A PORTION OF THEIR HOME EQUITY TO CASH, ARE BECOMING INCREASINGLY POPULAR.

Despite recent troubles in the national mortgage market, growth in reverse mortgage lending is being driven by a flexible government-sponsored product and a growing supply of potential borrowers.

Like any mortgage product, reverse mortgages can be beneficial for consumers' financial stability; but the product's complexity is a downside for borrowers. While it is the consumer's responsibility to make informed decisions, new protections provided by the Housing and Economic Recovery Act of 2008 (HERA) should enhance consumer protection and education as this product develops.

How do reverse mortgages work?

Reverse mortgages are characterized by the payment flow: rather than making mortgage payments, the borrower receives cash from the lender. This product has thus far been targeted to older adults, enabling them to borrow against their home equity to create a tax-free source of income while they continue living in their homes. Borrowers have no repayment obligation until the home is no longer their primary residence (the result of a move or death).

According to the National Council on Aging, the reverse mortgage is an important tool for seniors who intend to "age in place," living at home as they grow older. AARP also supports reverse mortgages as a valid financial option, but urges borrowers to consider whether less costly options might meet their financial needs.

The reverse mortgage market is dominated by the Home Equity Conversion Mortgage (HECM), a product administered by the Department of Housing and Urban Development (HUD) and insured by HUD's Federal Housing Administration (FHA). Since 1989, HECMs have been originated by private lenders and purchased by Fannie Mae. Although proprietary reverse mortgage products began to appear in 1995, the recent economic turmoil has driven all HECM competition out of the current marketplace.

The government-sponsored HECM product has defined the reverse mortgage market. HECMs require borrowers to be at least 62 years old and to have a substantial amount of equity in their principal residence. HECMs use a formula to determine the maximum amount of principal a homeowner can borrow. Under HERA, HUD created a uniform national mortgage limit of $417,000, which replaced the regionally based limits that previously existed. Borrowers can draw down payments in monthly installments, lump sums, lines of credit or a combination of these options.

Borrowers are not required to repay a reverse mortgage until a "maturity event," namely the death of the borrower, sale of the property or violation of the mortgage agreement. Although borrowers do not make payments until they no longer inhabit the home, they are required to maintain the property, pay property taxes and pay the home insurance.

The loan principal for reverse mortgages increases with each payment, as interest and other accruing charges are rolled into the total funds advanced to the borrower. HECMs are available with fixed or adjustable rates. Fees for these products include standard origination fees, a monthly servicing fee and an FHA insurance fee. Compared to forward mortgages, the comparatively high upfront fees associated with HECMs are typically offset by lower interest rates. As a result, HECMs may be an expensive option if the loan comes due within three years. Cost concerns have

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recently been addressed by Congress through HERA, which placed new lower limits on HECM origination fees.

The reverse mortgage market is poised for take-off

After a period of very slow growth from 1990 to 2002, the reverse mortgage market expanded exponentially in recent years. Though they now represent only 1 percent of the overall mortgage-lending market, these loans were expected to mushroom by as much as tenfold in the next 20 years.

Given the recent changes in the economic climate, these projections may soon be seen as overstated. Although the HECM product showed marginal growth in fiscal year 2008, reverse mortgage lending overall decreased slightly. The decrease in lending was driven by the withdrawal of proprietary products and the HECM mortgage limit changes resulting from the enactment of HERA. The industry is projecting market growth in fiscal year 2009, resulting from pent up demand from 2008, eligible seniors needing additional cash to recover from substantial losses in the stock market, and an expected increase in available capital from a new Ginnie Mae securitization program.

Demographic trends point to the likelihood of escalating consumer interest in reverse mortgages. Americans 62 years of age and older currently hold an estimated $4.3 trillion in home equity. As baby boomers quickly become age-eligible, this number will increase dramatically. Consumer interest will also be stimulated by increasing product options and innovations.

Lenders' interest in the reverse mortgage market could quicken if capital becomes available from the growth of the secondary market, where mortgage buyers purchase loans from lenders. An established secondary market for reverse mortgages would provide greater liquidity and could broaden lender distribution channels and expand the investor base. Although the market was slowly evolving the necessary techniques to securitize these products, the economic downturn may stall or redirect its realization.

Obstacles to stronger consumer protections

Reverse mortgages are a complicated financial product, and burgeoning varieties of reverse mortgage options make it increasingly difficult for borrowers to determine which reverse mortgage, if any, is suitable. It is critical that potential borrowers of reverse mortgages, many of whom are seniors, get adequate information and, preferably, counseling. Borrowers who take out an HECM are required to complete HUD-certified counseling; but private products that do not require counseling leave consumers on their own to determine whether a reverse mortgage product will suit their needs.

Government and industry efforts to improve the value of counseling and expand its availability have faced challenges. The quality of reverse mortgage counseling options appears to vary greatly. HUD-approved agencies are, at a minimum, required to focus on product suitability and the possible alternatives, but HUD-certified counselors and their counterparts face different standards. And even within the certified group, expectations and procedures vary: counseling may be offered by video, telephone or in person, and sessions range from 10 minutes to two hours.

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Recently passed HERA legislation includes provisions to improve the quality of HECM counseling by requiring HUD to establish additional standards for individual counselors. HUD is responding by implementing ongoing counselor training as well as instituting a certificate program for borrowers. Unfortunately, the cost of these improvements will probably be passed on to the borrowers.

A lack of available counselors in some locations, particularly in areas with a heavy volume of reverse mortgages, is another source of concern. Currently, the need for counselors specializing in reverse mortgages is competing with the national surge in demand for foreclosure counselors.

Deterring predatory lenders

Anecdotal evidence suggests a rise in predatory lending practices related to reverse mortgages. Thus, counselors must be even more equipped to educate borrowers regarding mass marketing schemes for high-cost products and sales pressures, as well as provide general financial planning. One practice that has raised particular concern is a tactic that advises reverse-mortgage borrowers to bundle their loans with a second financial product, such as a deferred annuity or insurance. Because of the high upfront cost of reverse mortgages, using this product to purchase annuities or insurance is almost always financially unsound.

Congress has attempted to address these predatory practices through HERA by prohibiting lenders from being associated with any other "financial or insurance activity" unless they maintain appropriate firewalls. HERA also prohibits many mortgage brokers, who are less regulated, from reverse lending by requiring all lenders to be HUD-approved. However, the regulations and supervision of this legislation have not yet been implemented.

Despite the risks, reverse mortgages offer consumers an increasingly important option for accessing additional cash as they age. But borrowers must seek sound information about whether a reverse mortgage is the right product for them. ■

Additional Resources

American Association for Retired Persons (AARP): www.aarp.org/money/revmort/

Department of Housing and Urban Development (HUD): www.hud.gov/offices/hsg/sfh/hecm/hecmshome.cfm

This article was written by Heidi Kaplan, senior community affairs analyst at the Board of Governors of the Federal Reserve System. Reprinted by permission, with updates, from the spring 2008 issue of Bridges, a Community Development newsletter published by the Federal Reserve Bank of St. Louis.

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Forging a Green Partnership:
An Introduction to the Atlanta Fed's *Green Development Primer*

ANYONE WHO'S BEEN PAYING CLOSE ATTENTION TO THE MEDIA LATELY MIGHT COME TO THE CONCLUSION THAT GREEN IS THE NEW BLACK.

Newspapers, magazines and blogs are swarming with articles about green. But "green" is not just a marketing buzz word or a fashion trend—it's a basic principle that will increasingly inform the future of energy policy, car purchasing, building construction, urban development and lifestyles in general.

Banks, which have always been interested in one particular shade of green, are expanding their palette and experimenting with new shades. Indeed, environmental altruism, shareholder requests and customer preferences are all factors that contribute to financial institutions' embrace of green principles. For example, Bank of America, Wells Fargo, PNC and JP Morgan Chase have committed to investment in environmentally sustainable practices, including their lending, building and operations practices.

Although banks are acknowledging the importance of environmental sustainability—some have even developed innovative, "green" financial products—many opportunities remain for banks, savings and loans, and credit unions to help propel green lending into the mainstream. While many real estate developers and nonprofits have embraced green principles, few financial products exist to support this development and financial institutions, in general, have lagged in their knowledge in this area.

Priming the pump for green

To help financial institutions, community developers and nonprofits understand the myths and realities of green building, the Federal Reserve Bank of Atlanta is publishing a *Green Development Primer* to inform these key players about green development practices. It includes an overview of green building, a review of the different standards used in the industry, analysis of the benefits and costs associated with green development, discussions about the greening of affordable housing, and a roster of opportunities and challenges for financial institutions interested in supporting green development.

"Green development" is any development, whether residential, commercial, industrial or institutional, whether single building or entire neighborhood, that is designed, constructed, maintained and operated so that it reduces energy and resource consumption, enhances the well-being of the community and minimizes the negative impact on the natural environment. The need for green development arises from the realization that an assumption fundamental to traditional building practices is in fact erroneous—namely that energy and materials will always be plentiful and cheap. Green building also seeks to halt the steady degradation of natural environmental systems.

Green development bestows a variety of benefits on individuals and communities. Green buildings that use energy and water more efficiently reward owners and tenants through lower operating costs. The reduced use of toxic chemicals decreases pollution and enhances health by providing better air quality (both indoor and out), while more compact development creates greater opportunities for physical activities like walking and bicycling. According to research from the U.S. Green Building Council, Capital E,

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First Federal Savings Bank in Mishawaka, Indiana, uses wind turbines, geothermal heating and cooling systems, and solar panels to help meet its own energy needs. Natural lighting not only reduces energy consumption; it also provides a positive environment for employees and customers. The bank opens its doors to schools and others to show how, according to First Federal President Richard E. Belcher, "One bank can make a difference. One person can make a difference."

David + Langdon, Romm & Browning, and others, buildings that are both more efficient and healthier yield other bonuses as well, including:

- higher rental rates
- discounted insurance rates
- increased property values
- increased occupancy rates
- increased employee production
- reduced absenteeism
- and tax rebates.

While the advantages of green development are multifold, real and perceived challenges discourage some financial institutions from going green. The most cited obstacle is the lack of data supporting the potential costs savings of green building. Because green building practices are relatively new, time-tested examples of success are relatively few. But as green building practices develop and become standardized, the evidence in its favor is mounting. Studies by Capital E and David + Langdon already demonstrate that the costs of green construction are rapidly falling and nearly equivalent with the cost of traditional development.

But to account fully for the advantages of green building, banks may need to review their current underwriting practices and take more of a life-cycle approach to determining a project's economic viability. While a green building may have higher up-front capital costs, the diminished operating and maintenance costs over the life of a green building often more than offset the initial costs.

Even though green development practices have only recently begun to attract attention, pushed to the forefront by mounting energy prices and the threat of global climate change, several green standards are already well-established in the industry. LEED (Leadership in Energy and Environmental Design) provides the most well-known national standard. Other national standards include the U.S. Environmental Protection Agency's Energy Star, Enterprise Foundation's Green Communities Criteria

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"The founders of One Earth Bank believe their mission will give them a competitive advantage in an increasingly socially and environmentally minded marketplace."

and the National Association of Home Builders' National Green Building Standard. At the state and regional levels, standards are popping up every few months.

Greening banks

The Green Development Primer also features banks that have already played a role in spearheading green development. Banks are tackling the sustainability movement in a variety of ways—by investing in green buildings and businesses, offering more favorable loans for green projects, reducing the paper consumption and transportation costs associated with mailing statements and other documents by bolstering their electronic communication capabilities, and by building environmentally friendly retail branches and offices.

First Federal Savings Bank is among those banks leading the way in green building. In April of this year, First Federal opened the doors on a LEED Certified branch in Mishawaka, Indiana. The 5,800 square foot facility features a roof system that incorporates a drainage system and grasses to reduce storm water runoff, wind turbines and a geothermal heating and cooling system to reduce the building's energy consumption, and interior finishes of recycled or renewable materials that improve indoor air quality. According to Richard E. Belcher, First Federal Savings Bank's president, the Mishawaka branch is a model for other businesses. "[Green building] becomes more advantageous as the price of energy goes up," said Belcher.

PNC Financial Services Group has experience with greening banks. They built their first Green Branch® in 2002, and as of 2007 they had 40 environmentally friendly bank branches. According to PNC, the high-efficiency systems of Green Branch locations reduce energy use by 50 percent or more and reduce water usage by 6,200 gallons a year compared to traditional branches.

A community bank that is truly in the vanguard of green financing is the proposed One Earth Bank, in Austin, Texas. Scheduled to open in late spring 2009, One Earth Bank announced a mission of integrating social and environmental values into the business and lending practices of a traditional community bank model. They intend to work with homeowners, businesses and developers to explore ways to maximize profit by greening their projects. In addition to providing traditional loan and deposit services, One Earth Bank is developing expertise in segments they believe have high growth potential and are also consistent with building sustainable communities:

- locally owned businesses
- real estate projects that integrate green building, smart growth, and environmentally sensitive development
- clean technology and energy companies
- businesses engaged in fair trade and living wage initiatives
- organic food and sustainable agriculture companies.

The founders of One Earth Bank believe their mission will give them a competitive advantage in an increasingly socially and environmentally minded marketplace. Founder, CEO and President, Chip Bray, states that the decision to invest in sustainable products "draws on one of the cardinal rules of banking, a focus on safety and soundness. Working with households and businesses to further the goal of sustainability, whether it's improving energy efficiency or responsible management of waste streams, is completely consistent with the safety and soundness of our business." ■

For a more detailed account of the possibilities and challenges associated with green development and green financing, order a copy of the Federal Reserve Bank of Atlanta's *Green Development Primer* today! To order contact Karen Leone de Nie at karen.leondenie@atl.frb.org.

This article was written by Jared Yarsevich, research assistant in the Atlanta Fed's community affairs division.

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Fed Report Confronts Concentrated Poverty

Hurricane Katrina drew the nation's attention to the acute hardships that afflicted low-income communities caught in the disaster, thus focusing a new light on the persistence of concentrated poverty in the U.S. As government officials, community development workers and neighborhood organizers tried to respond to the devastation wreaked by the storm, it became apparent that replacing the physical infrastructure alone would not move the people of this community out of poverty.

Storefront in Little Haiti neighborhood, Miami

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The reality of concentrated poverty revealed by Katrina is mirrored in many cities and rural areas throughout the country, and it calls for a complex response customized to the particular circumstances of each affected community. In an effort to develop successful approaches to the problem, the Federal Reserve Bank has partnered with the Brookings Institute to report on concentrated poverty in America.

What is concentrated poverty?

The phrase "poverty in America" may conjure images of hunger, homelessness, unemployment, low-paid work or poor health. We may think of specific populations who are more likely to live in poverty, such as racial and ethnic minorities, children and single-parent households.

But we are also likely to think of places associated with poverty—poor inner-city neighborhoods, isolated rural areas, or Native American reservations. Concentrated poverty concerns the tendency, in many areas of the United States, for poor populations to be clustered into impoverished communities.

People who live in areas of concentrated poverty must contend with a whole set of circumstances that make it difficult to transition out of poverty: their neighborhoods may be unsafe, their schools may be failing, their housing is likely to be substandard, public and private services may be lacking, and a sense of diminished hope may pervade the entire community.

A large body of research argues that these areas of concentrated poverty place a double-burden on poor families that live within them, making the hardships imposed by their own individual circumstances even worse. Areas of concentrated poverty can have wider effects on surrounding areas as well, limiting overall economic potential and social unity even further.

Brookings Institution partners with Fed's Community Affairs staff

In 2007, the Federal Reserve System convened Community Affairs staff from around the country to partner with the Brookings Institution, a nonprofit public policy organization based in Washington, D.C. The goal was to learn more about factors that contribute to pervasive poverty in certain communities and to capture best practices that reach residents effectively and spur economic revitalization.

The partnership was designed to combine the expertise of Brookings in researching poverty with the Fed's unique structure, which provides a regional presence in communities across the nation along with the capacity to conduct research at the local level. Sixteen communities across the U.S. were selected for the study, including two in the Fed's Sixth District: East Albany, Georgia, and the Little Haiti neighborhood in Miami, Florida.

While much research has been conducted about poverty in the U.S. over the past few decades, it has tended to focus on inner cities in the Northeast and Midwest or on isolated rural areas. The current study aims to create a more contemporary picture of the diversity of communities affected by concentrated poverty in the U.S. today.

It considers both urban and rural communities, those in the "Rust Belt" and those in the "Sun Belt," those in small cities as well as large cities. The study looks at a variety of races and ethnicities affected by concentrated poverty, including African American, White, Latino and Native American. The 16 case studies include immigrant communities and neighborhoods left behind by economic disinvestment and migration to suburbs.

The final composite report, "Concentrated Poverty in America," reviews research findings that examine the effects of concentrated poverty on individuals and families, their neighborhoods, communities, and the areas that surround them. The study considers similarities among the selected communities, but it also stresses the differences among them. The variety of circumstances, problems and potentials in pockets of concentrated poverty adds to the complexity of addressing needs.

Report highlights need for customized approaches

Community Affairs specialists analyzed demographic and economic data, interviewed neighborhood residents and business owners, and consulted with community organizations and municipal government representatives to determine the specific conditions that contributed to persistent poverty in particular communities.

They also identified the challenges for individuals, neighborhoods and municipalities. These might include reduced local investment and job opportunities, lower-quality schools,

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More than one-third of East Albany households own their homes (compared to 61.8 percent for the larger Albany area), but community leaders are concerned that many of the units are in need of rehabilitation. Greater Second Mt. Olive Baptist Church is responding to this need by renovating 300 housing units on an old military base to provide new homeownership opportunities. The church is the only community housing development organization (CHDO) active in East Albany, and it is the primary recipient of the city's HOME funding, a federal block grant to create affordable housing.

higher crime rates, both physical and mental health problems, extra costs for public services and reduced fiscal capacity, as well as political and societal divisions. In addition they determined what circumstances influenced the capacity to address these issues constructively to bring about lasting improvements.

Rather than seeking the perfect anti-poverty solution, this report highlights the importance of developing strategies that respond to the unique characteristics of each area.

Call for additional research

The project underscored the need for more research to understand and address places of persistent poverty. Studies are especially needed to fully account for the influence of concentrated poverty on residents' economic outcomes and to evaluate the impact of programs and policies aimed at relieving poverty.

While such work will continue throughout the Federal Reserve System through our mission to promote economic development along with fair and impartial access to credit, more partners from various sectors—government, academic, nonprofit, and for-profit—are needed to address this unrelenting and pervasive problem. As this report demonstrates, areas of concentrated poverty are the legacy of previous generations. Therefore, it will likely take comprehensive strategies and many years to successfully address it. Such efforts are imperative as we strive to develop more effective community development interventions.

Impact on the Fed's Sixth District

The Atlanta Fed will use the findings of the report to inform anti-poverty initiatives throughout the Southeast, including our regional Prosperity Campaigns. The study will assist the Atlanta Fed's on-going efforts to collaborate with government, nonprofit and for-profit partners to address challenges in high-poverty communities.

In addition, the Atlanta Fed is working with Brookings' research projects that are already underway to track economic and social development in areas of concentrated poverty, including some Sixth District communities. ■

"The Enduring Challenge of Concentrated Poverty," is available online

at www.frbsf.org/cpreport/index.html. The entire report can be downloaded online, or you may access the subsections for each community. Specific questions regarding case studies focused on communities in the Atlanta Fed's Sixth District can be directed to Ana Cruz-Taura (ana.cruz-taura@atl.frb.org) for Little Haiti and Sibyl Slade (sibyl.slade@atl.frb.org) for East Albany.

This article was written by Ana Cruz-Taura, senior regional community development director at the Atlanta Fed's Miami Branch.

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Community Response to the Foreclosure Crisis: Thoughts on Local Interventions

In the wake of the ongoing national mortgage crisis, preventing foreclosures and facilitating recovery from the damage they cause have presented challenges for community developers, policymakers, and a wide range of other actors in cities and metropolitan areas. While many of these players have, to various extents, developed policies and solutions to address these issues, the myriad responses and their merits and weaknesses may provide useful insight for others attempting to develop or hone their foreclosure recovery strategy. "Community Response to the Foreclosure Crisis: Thoughts on Local Interventions" examines these players and their responses to today's foreclosure challenge.

Mortgage regulation and foreclosure laws are generally the domain of federal and/or state government, yet local governments and organizations have also responded to rising foreclosures in various ways. Sometimes this has meant forming coalitions to change state laws, or banding together with groups in other parts of the country to advocate for a federal policy response. At the same time, however, local governments, nonprofits and even some local banks have not been able to rely solely upon their ability to effect higher-level policy change. Rather, their responses have also included direct, local action, often in collaboration with other groups.

"Community Response to the Foreclosure Crisis" analyzes the range of responses to the foreclosure crisis. It provides a scheme for thinking about local responses to the crisis and the actors and organizations involved. Visit www.frbatlanta.org/filelegacydocs/dp_0108.pdf to access the paper.

About the author

"Community Response to the Foreclosure Crisis" was written by Dan Immergluck, a visiting scholar in Community Affairs at the Federal Reserve Bank of Atlanta and an associate professor of City and Regional Planning at the Georgia Institute of Technology. In addition to his work on foreclosures and mortgage markets, Immergluck conducts research on housing markets, fair lending, community development finance, neighborhood change and segregation, and related public policies.

Immergluck publishes regularly in scholarly journals and has testified before Congress, the Federal Reserve Board, and state and local legislatures. His work has been widely cited in research related to the foreclosure and mortgage crisis, and he has been quoted or cited in the *New York Times*, the *Wall Street Journal*, *TIME Magazine*, *USA Today*, the *Boston Globe*, the *Chicago Tribune*, the *Associated Press*, and many others. ■

Introducing the New Discussion Paper Series

"Community Response to the Foreclosure Crisis" is the first publication of the new Community Affairs Discussion Paper Series at the Atlanta Fed. The series will address emerging and critical issues in community development. Our goal is to provide information about topics that will be useful to the many individuals and groups involved in community development—governments, nonprofits, financial institutions and beneficiaries.

The December 2008 Discussion Paper will examine the accumulation of lender-owned homes, often called REO or Real Estate Owned properties, in metropolitan areas across the country.

To access the Discussion Paper Series visit www.frbatlanta.org/comm_affairs/dp_index.cfm.

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North Florida

NEW NETWORKING COALITIONS HELP ASSETS GROW

It's no surprise that current conditions are negatively impacting low- and moderate-income communities in a number of ways. In an effort to build and preserve financial assets in such communities, two new Florida coalitions have been formed.

The Florida Assets and Prosperity Collaborative, an outgrowth of the State Prosperity Campaign, will implement a networking strategy among members to provide free tax preparation and other asset-building services. Led by Tuskegee University, Florida organizations will also participate in a second statewide network as part of a regionally based project.

Florida Assets and Prosperity Collaborative

The Florida Assets and Prosperity Collaborative evolved from an earlier statewide coalition of local, county and regional initiatives–a loose confederation of 12 groups committed to sharing practices, promoting state legislation and increasing access to prosperity services. The new collaborative will bring formal structure for these and other participants to share their knowledge and expertise.

Over 50 members representing diverse cultural and geographic perspectives met in Orlando last July to organize the new collaborative. The goal was to convene political leaders, private sector representatives, community-based organizations, financial institutions and governmental entities to maximize access to asset-building and preservation. A follow-up September meeting in Tampa included about 100 participants.

The collaborative—led by the Federal Reserve Bank of Atlanta, Broward Children's Services Council, the Human Services Coalition of Miami, and Northeast Florida Real Sense Prosperity Campaign—aims to expand asset-building opportunities, offer community tax preparation services, engage constituencies through leadership development, and provide access to financial services for low- and moderate-income individuals throughout the state of Florida.

Florida organizations join regional asset-building program

In addition, Florida asset-building organizations are participating in a newly formed regional strategy also led by Tuskegee University. With technical assistance provided by the Center for Social Development at the Brown School of Social Work at Washington University in St. Louis, Tuskegee is mobilizing stakeholders in Southern Black Belt States and the Gulf Coast regions of Florida, Louisiana, Alabama and Mississippi to participate in an asset-building coalition.

The Florida Family Network and Florida A & M University, along with Alabama Arise, the Federation of Southern Cooperatives and the Mississippi Association of Cooperatives, have convened meetings in support of the plan. With support of the Ford Foundation, these organizations have created asset-building coalitions in their respective states to focus on areas affected by hurricanes and on traditional land-based communities and farmers with limited resources. The key Florida conveners of the regional coalition are also involved in the Florida Assets and Prosperity Collaborative.

During this period of economic uncertainty, building and preservation of assets are critical needs. Organizations and partners throughout the state are working to provide essential services in their communities—volunteer tax preparation, financial education, access to mainstream financial services and Individual Development Account (IDA) programs. These two new collaboratives enhance existing services and act as a catalyst for other organizations to serve their communities. ■

This article was written by Janet Hamer, senior regional community development manager at the Atlanta Fed's Jacksonville Branch.

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Louisiana - Mississippi

GULF COAST RENAISSANCE WITHIN REACH

Though Hurricane Katrina left behind a wake of unprecedented destruction and tragedy, it also created new opportunities for Gulf Coast leaders to collaborate strategically and establish visionary organizations that will build stronger, healthier communities. The Gulf Coast Renaissance Corporation is one of the shining results of that collaboration.

Established in 2007 by the Gulf Coast Business Council, the corporation's vision is to be the "capstone organization in the rebuilding of the Mississippi Gulf Coast by removing obstacles to redevelopment, creating partnerships, and stimulating investment in order to create vibrant, diverse, sustainable communities that offer residents the highest quality of life."

Employers pitch in for affordable housing

Renaissance Corporation's ambitious but focused goals include providing workforce housing in close proximity to employment centers in the three coastal counties as well as removing existing barriers through an aggressive plan of gap funding. Regional Employer Assisted Collaboration for Housing (REACH) is one of the organization's key programs. Launched four days before the first anniversary of Hurricane Katrina, it is designed to promote housing development, stabilize families and attract employees back to the coast.

Through REACH, qualified workers can receive down payment and closing cost assistance to purchase a home through an employer contribution and a significant match by REACH. REACH Mississippi will triple participating employers' contributions for qualified employees—giving workers up to a total of $40,000 in forgivable loans. Employer contributions must be from $5,000 to $10,000, resulting in a total employee benefit of $20,000 to $40,000.

"This program will help put working families into homes by making homeownership affordable again. It will give employers needed help to stabilize and grow the workforce by addressing the critical issue of housing," said Renaissance Chairman Anthony Topazi. "The program has far-reaching benefits to the economy of the entire region. By giving employers the keys they need to rebuild and prosper, we will all prosper. Another widely felt benefit of REACH will be to help relieve a local real estate market straining under a high inventory of homes for sale."

Northrop Grumman Shipbuilding, the state's largest employer, has adopted the REACH program and will soon start offering housing benefits. The Corporation is engaging in an aggressive campaign to educate and enroll other employers in the region.

The Renaissance Corporation is also building a strong homebuyer preparation network, with homeownership counseling as a integral part of the REACH program. Education and counseling partners, such as DASH for the Gulf Coast, Enterprise Corporation for the Delta, Hancock Housing Resource Center and International Relief and Development will guide employees step-by-step through the home-buying process and help them improve their credit scores when necessary.

The REACH program is supported by $40 million in Community Development Block Grant funds as part of the State's Long Term Workforce Housing Program. The program was developed with the help of contributions from the John S. and James L. Knight Foundation and the Southern Company Charitable Trust. ■

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

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